AIG Israel Insurance Company Ltd
Private Company No. 51-230488-2
("The Company)

Chapter A: Description of corporate business
For the year ended December 31, 2013

March 18, 2014

Description of corporate business for the year ended December 31, 2013

This report constitutes a description of the Company's business as of December 31, 2013, and reviews the Company and the development of its business as occurred in 2013 ("the reported period"). The information in this report as updated as of December 31, 2013 ("the report date"), unless otherwise is explicitly indicated.

Under Regulation 8C of the Israel Securities Regulations (Periodic and Immediate Reports), 1970 ("the Securities Regulations"), the guidance in regulations 8(b), 8A and 8B of the Securities Regulations do not apply to the information in the periodic report of an insurer.

The Company is an insurer as this term is defined in the Supervision of Financial Services Law (Insurance), 1981 ("the Insurance Supervision Law" or the "Supervision Law"). Therefore, this report is prepared based on 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"), including Insurance Circular 2014-1-3 dated January 20, 2014 as well as the letter of the Supervisor of Insurance 2013-3026 dated February 18, 2013 "Shortening of Financial Statements".

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.

The financial information included in this report is reported amounts. All information in this report are in thousands 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. The description in this report on insurance products and coverage types is for the purpose of this report only, and may not serve for the interpretation of the products and coverage, and the full and binding terms in the insurance programs.

Please read the all parts of this periodic report as one unit.

3. Part C – Additional Information about general segments that are not included in lines of business

4. Part D – Additional Cross-Company Information

4.1 Restriction and supervision applicable to the activity of the Company

4.2 entry and exit barriers

4.3 Key success criteria

4.4 Investments

4.5 Reinsurance

4.6 Human capital

4.7 Marketing and distribution

4.8 Suppliers and service providers

4.9 Fixed assets

4.10 Seasonal

4.11 Intangible asset

4.12 Risk factors

4.13 Material agreements and cooperation agreements

4.14 Other forecast and assessments on the business of the Company

5. Part E – Corporate governance information

5.1 Information about independent directors

5.2 Internal auditor

5.3 Independent auditors

5.4 Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company

5.5 Preparation to implement Solvency II

1. Part A: the activity of the Company and the development of its business

1.1 The activity of the Company and the development of its business

The Company was incorporated in Israel on March 27, 1996, as a private limited liability company. The company does not hold any subsidiaries or related companies. The Company has no activity outside of Israel through branches and associates.

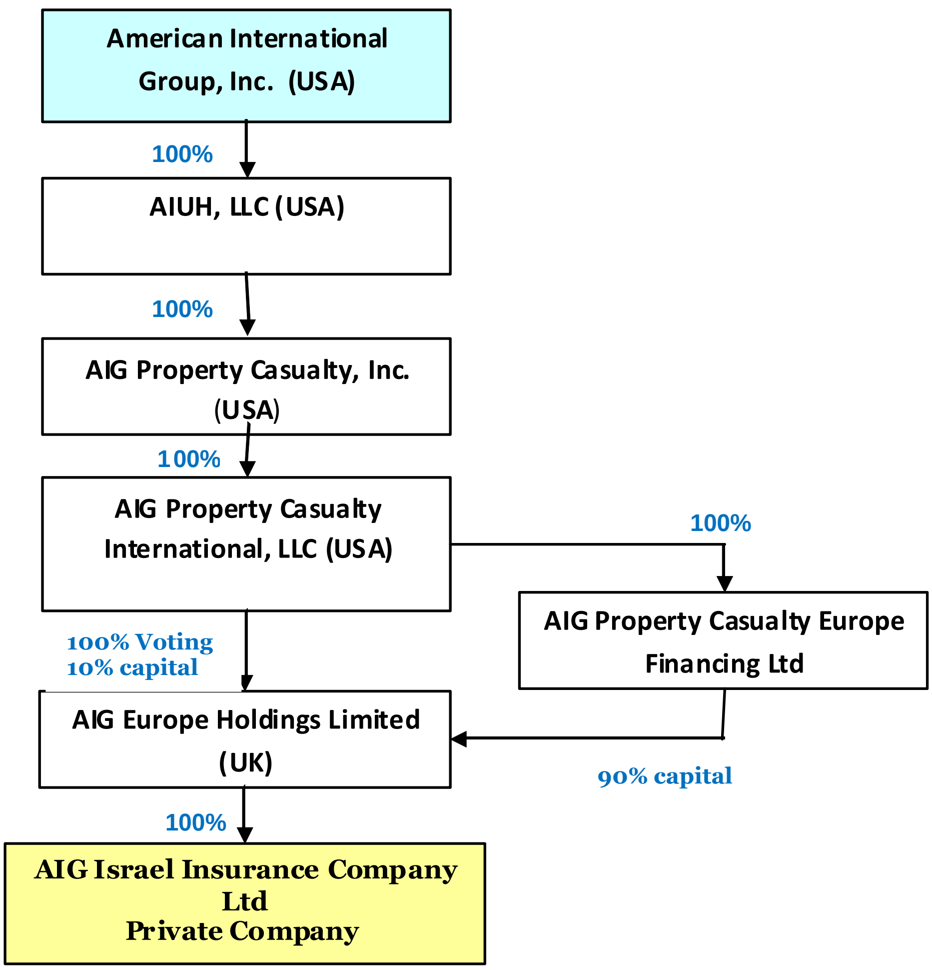
The ultimate parent of the Company is American International Group Inc. ("AIG"). The AIG corporation is a leading global insurance and financial services corporation, rated A- as of report date by leading rating agencies Moody's, Fitch and Standard & Poor's ("the rating agencies").

On May 13, 2013, Aurec Gold Investments ("Aurec") – a former shareholder of the Company that previously held 49% of the issued share capital of the Company – transferred all its shares to American International Overseas Ltd ("AIOL") according to a share purchase agreement that was signed between the parties in January 2013.

In early December 2013, as part of a reorganization move in the AIG corporation, AIOL transferred all its equity interest to AIG Property Casualty International LLC, which in turn transferred the shares to AIG Europe Holdings Limited ("AEHL").

As of the report date, the sole shareholder of the Company is AEHL, which holds all issued and paid-up share capital of the Company. AEHL is a company in 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, 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 and 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 two smaller offices in the Haifa area and Ashdod.

1.2 Areas of activity

Most activity of the Company is to retail customers. The main activities of the Company are as follows:

1.2.1 General insurance - property vehicle

General
The Company began its activity in this segment in 1997. Property vehicle insurance is also known as comprehensive vehicle insurance or "third-party insurance" and is voluntary. Property vehicle insurance is included in the general insurance business, and is focused on property damage to vehicles of the customer and those caused to a third party.

The language of a property vehicle insurance policy is subject to the standard policy terms in the Insurance Business Supervision Regulations (Terms of Private Vehicle Insurance Contract), 1986 ("the standard policy").

The standard policy include coverage against loss or damage caused to the insured vehicle as a result of the following risks: fire, thunderbolt, explosion, accidental collision, capsizing, accident of any type, theft and any damage caused by theft, while theft or attempted theft was occurring; flood; storm; snow; volcano eruption; deliberate damage; and liability coverage to third party due to property damages.

The language of the standard policy is mandatory, and it is only possible to extend its coverage in terms of scope, risks, and covered property and persons.

Property vehicle insurance is divided into two main categories:
a. Insurance to private vehicles of up to 3.5 ton – Vehicles in this category are insured under the standard policy.
b. Insurance to vehicles of more than 3.5 tons – the policy for vehicles in this category is not subject to the terms in the standard policy.

Differential rates
Insurance rates are actuarially calculated and differential (variable and risk-adjusted), subject to approval by the Supervisor of Insurance. The rate is determined based on a number of factors, including: vehicle model, engine size, production year, number of drivers, age and gender, years of driving experience, claim history, etc.

As of the date of this report, the Company price its insurance coverage based on the following criteria: vehicle characteristics, ownership and use, number of drivers, demographic information of drivers, years of experience of drivers, claim history and source of engagement.

1.2.2 **General insurance - compulsory vehicle**

General
The Company began its activity in this segment in 1997. Compulsory vehicle insurance, also known in Israel as compulsory insurance is mandatory. The Motor Vehicle Insurance Ordinance (New Version), 1970 ("the Motor Vehicle Ordinance") obligate a vehicle user or anyone who permits another person to use a vehicle to purchase compulsory insurance for bodily injuries only that may be inflicted to the driver and/or passengers and/or pedestrians hit by the insured vehicle. The Motor Vehicle Ordinance states, among other things, that no person can use, or cause or allow another person to use a motor vehicle unless an insurance policy in effect exists in the name of his name or the other person's name.

The language of a compulsory vehicle policy is subject to the terms of the standard policy that are present in the Financial Services Supervision Regulations (Insurance) (Terms of Motor Vehicle Compulsory Insurance Contract), 2010 ("compulsory vehicle standard policy").

The compulsory vehicle standard policy covers, under the Motor Vehicle Ordinance, the owner of the vehicle and driver for liabilities they may face under the Compensation to Victims of Road Accidents Law, 1975 (CVRAL). CVRAL states that the user/driver of a motor vehicle must compensate a victim for a bodily harm caused to him/her in an accident in which the vehicle is involved and also sets a liability that is absolute and complete, independent of guilt.

Reserves
Since the time required for a notice on damage, for assessing the damage and determining the amount of compensation to the insured person in this segment may take several years ("long claims tail"), the Company uses actuarial assessments to determine the amount of pending claims in the financial statements.

In this respect, it is noted that as part of new regulatory approach on computation of general insurance reserves, the following know regulations were released in 2013: Supervision on Financial Services Regulations (Insurance) (Computation of General Insurance Reserves), 2013 and Insurance Circular "Computation of General Insurance Reserves". In early 2014, the circular was amended (the regulations, the circular and the amendment are hereinafter referred to together: "the new regulations"). Under the new regulations, the reserve for excess of income over expenses ("accrual") will be eliminated, among other things beginning from the financial statements as of December 31, 2014. The amount of accrual retention as of the 2013 year-end in compulsory vehicle and liabilities insurance is NIS 87.7 million.

Differential rates – information and supervision
A database of compulsory vehicle insurance rates is maintained for information and supervision purposes, and is authorized by law to collect information about compulsory vehicle insurance. Under the Motor Vehicle Insurance Regulations (Creation and Management of Databases), 2004, insurance companies are legally obligated to transfer to the database and regulators information about premium rates, payments and pending claims in scale and dates specified in those regulations.

The Supervisor of Insurance gave a franchise to a service provider to manage that database, to issue reports that will be used, among other things, to assess the risks in the compulsory vehicle insurance sector, and determine the pure cost of risk that underlies the rate, known as the base rate, the serves as basis to derive compulsory insurance rates.

The Supervisor of Insurance sets the principles for determining compulsory vehicle insurance rates and regulates them through circulars that he issues from time to time. Those circulars specify the factors that an insurance company can use for determining premiums, the procedures that insurers need to comply with to approve premiums, maximum rates per customer and the process for approval by the Supervisor of Insurance.

The factors for differential rate determination include, among other things engine size; sex and/or the age of the youngest regular driver; years of driving experience of the youngest regular driver; number of past claims and/or number of license suspensions in the previous three years of all regular drivers; airbags installed.

Insurance companies may determine the premium using the risk premium and risk classification criteria set by the information and regulation rate database to align premiums to the covered risk.

In this context, note that on July 4, 2013, the Supervisor of Insurance issued Insurance Circular 2013-1-3 titled "Factors in the Compulsory Vehicle Insurance Sector", which is aimed at adding factors and categories for determining the compulsory vehicle insurance rates.

As of the date of this report, the Company determined insurance rates using the following criteria: age of the youngest regular driver, type of vehicle, engine size, year of experience of youngest regular driver, number of past claims and/or license suspensions in the previous three years of all regular drivers and whether airbags are installed in the vehicle.

Residual insurance ("the Pool")

The Israeli Vehicle Insurance Pool is an entity that insures the risks of vehicles that are rejected by compulsory vehicle insurers (residual insurance). This arrangement is provided by Motor Vehicle Insurance Regulations (Residual Insurance Arrangements and Mechanism for Setting Rate), 2001 ("the Pool Regulations"). The Pool operates as a normal insurance company and its rates are higher than that of other insurers in the market. All insurance companies active in compulsory vehicle insurance are partners in the Pool, and each bears losses and gains from its income proportionally to its share in the compulsory vehicle insurance market. The share of the Company in residual insurance in 2011, 2012 and 2013 was 205%, 2.4% and 2.5%, respectively.

The Road Accident Victims Compensation Fund ("Karnit")

Karnit is a corporation created under the CVRAL and is tasked with compensating victims who are eligible to compensation under that law and may not claim compensation from an insurer due to the following cases: the hitting driver is unknown, the hitting driver has no vehicle insurance or the insurance does not cover the liability, the insurer of the vehicle is in liquidation or the insurer was appointed a special manager. Under the provisions of Compensation of Road Accident Victims Order (Financing of the Fund)(Amendment), 2003, insurance companies are required to transfer to Karnit 1% of net compulsory vehicle insurance premiums from policies they underwrite since that date.

In addition, according to the Road Accident Victim Compensation Order (Funding the Cost of Rendering Services), 2009, an insurer needs to give Karnit 9.4% of premium for each of the policies issued against the transfer of liability to any medical expenses included in the government healthcare funding to health funds.

Arrangements for distributing the compensation burden among insurance companies

According to CVRAL, in a multiple-vehicle accident in which a person located outside the vehicles is hit, the rivers are liable to the passenger of the respective vehicle.

Arrangement for a victim outside a vehicle – in case of a victim is located outside a vehicle in a multiple-vehicle accident, the drivers are liable to that person together and separately, and are required to divide that burden in equal parts among them.

Car-Motorcycle arrangement – In a road accident that involves one or more motorcycles and one or more non-motorcycle vehicles, the non-motorcycle insurers to the insurers of the motorcycle 75% of bodily injury compensation that the insurers of the motorcycle are liable to pay due to the accident, except for compensation to victims outside the vehicle. The insurers of the non-motorcycle vehicle are liable together and separately towards the insurer of the motorcycle, and are required to divide the liability burden among them in equal parts.

Light-heavy vehicle arrangement – According to the Road Accident Victims Compensation Order (Arrangements for Dividing the Compensation Burden Among Insurers), 2001, in the event of a road accident involving one or more heavy trucks (over 4 tons) and one or light vehicles, the insurers of the heavy must pay the insurers of the light vehicle 50% of bodily injury compensation as those defined in the CVRAL, while the insurers of the light vehicle are required to pay their liability for the accident, except a payment under the car-motorcycle arrangement or compensation payment to victims outside a vehicle. The insurers of the heavy vehicle are liable together and separately towards the insurers of the light vehicle and among themselves, and are required to bear this liability in equal parts.

1.2.3 **<u>General insurance – home insurance</u>**

<u>General</u>
The Company began its activity in this sector in 1997. Comprehensive home insurance, also known as home insurance, is a key insurance product of the individual insurance business, and is part of the general insurance.

The language of the home insurance policy is subject to the standard policy in Insurance Business Supervision Regulations (Terms of Insurance Contract for Homes and Their Contents), 1986 ("the home insurance standard policy"). The home insurance standard policy includes coverage against loss or other damages that may result from factors such as fire, lightning, smoke, explosion, storm including rain, snow and hail; aircraft crash, object falling from an aircraft and supersonic boom from an aircraft, contact or crash of a vehicle with the apartment, certain malicious actions, theft, robbery and break-in, illegal gathering and rioting, earthquake and flooding.

The standard policy is a minimum policy. Its language is binding, and it is only possible to add more coverage in terms of coverage amount, risks and the assets and liabilities covered. Rates of the standard home insurance policy are regulated and approved by the Supervisor.

1.2.4 **<u>General insurance – commercial insurance</u>**

<u>General</u>
The Company commenced its operations in this sector in 2000. The commercial insurance segment of the Company includes the following segments: employers' liability insurance, third-party liability insurance, product liability insurance, property loss insurance, engineering insurance and business comprehensive insurance.

The Company manages this insurance business in two main categories:

<u>Liabilities insurance</u>
Liabilities insurance covers the legal liability of the customer for damage that may be caused to any third party. The main liability types marketed by the Company are: third-party liability insurance, professional liability insurance, employers' liability insurance, officers and directors liability insurance and product liability insurance.

For the most part, the period of the insurance is one year, but the time for processing the claim is on average longer than property insurance. The main determining factors are: the complexity of factual and legal procedures, the timeframe for the liability and damage and filing the claim, longer statute of limitations relative to property insurance. Therefore, liability insurance is considered to have a longer claim trail.

This has two main consequences:

- Impact of capital market and presence of capital gain from investing reserves and of pending claims on the capital of the Company.
- Impact of legal presence and case law on the exposure of the Company in every individual claim.

In some liability insurance products, such as third-party and employers' liability, coverage is event-based. That is, coverage is given to events that occurred during the insurance period and the claim can be filed after the end of the insurance period, subject to the statute of limitations in the law.

In professional and directors and officers liability insurance products, coverage is based on the date of filing the claim. That is, coverage is given to claims that are filed during the insurance term, even if the reason to the coverage was created before the beginning of the insurance period.

According to the Insurance Contract Law, the statute of limitations on insurance compensation is three years after the occurrence of the insured event. However, in liability insurance, claiming for compensation is not

subject to statute of limitations as long as a third-party claim against the insurer is not subject to statute of limitations.

It is a strategic objective of the Company to increase its share in all those commercial insurance segments. To achieve this objective, the Company utilizes the expertise and financial robustness of the AIG corporation, which is a global leader in this industry. Additionally, the Company is constantly seeking to provide appropriate coverage to its customers and to develop new customized products.

Property loss and engineering insurance
Property loss insurance and engineering insurance is intended to provide customers coverage against physical damage to property. The main insurance products marketed by the Company are: contractors' insurance, mechanical failure insurance and electronic equipment insurance.

The main risks covered in those policies are fire, explosion, break-in, earthquake and other natural calamities. The policy covers damages directly caused to property as well as indirect damages (loss of income, etc.) For the most part, the term of those policies is one year, and claims are processed close to the time of the insurance event, and for that, such policies are considered to have a short claim tail.

1.2.5 **Health insurance**

General
The Company began its activity in this segment in 1998. Healthcare insurance in the Company includes the following sub-segments: personal injury insurance and disease and hospitalization insurance.

Health insurance policies are subject, among other things, to the provisions of the Insurance Contract Law, 1981, the Supervision Law and the regulations thereunder, including the Supervision of Insurance Businesses Regulations (Terms in Insurance Contract) (Provisions About Preexisting Medical Conditions), 2004, and the Financial Services Supervision Regulations (Insurance) (Group Health Insurance), 2009, as well as the directives and guidance issued by the Supervisor from time to time.

The Company manages segment in two main categories:

Personal injury insurance
A personal injury insurance policy provides a predetermined monetary compensation in case of hospitalization, disability and death resulting from an accident. Contrary to policies in disease and hospitalization policies, which provide coverage for illness, personal injury insurance covers only the results of an accident. Usually, the insurance term in those policies is not limited in time.

Disease and hospitalization insurance
A policy that covers the diagnosis of serious illness as defined by the policy. Insurance benefits are paid as a lump sum in case of diagnosing a serious illness or a medical event, without the customer having to prove any expense.

1.2.6 **Life insurance – risk only**

General
The Company began its activity in this segment in 1999. The Company provides policies to individual customers who are interested in life insurance, including to private customers who are interested in such product, including private lenders who take housing mortgages and to collective customers.

Life insurance
Life insurance promises a lump sum policy to beneficiaries in case of death of the customer. Usually in such policies, the policy expires when the customer dies or when he/she reach a certain age. Extensions offered to such policies are total permanent disability, accident disability, accident death, heart disease and cancer.

Mortgage life insurance
A life insurance policy provides the mortgage bank a reimbursement of outstanding loan in the event of death of the customer (the mortgage customer). Those policies can be extended to include permanent total disability, heart disease and cancer.

Complementary health insurance
Policies that complement or extend the coverage and services provided under complementary health coverage of health funds, to complete the coverage that is missing due to legislation, regulations, plan terms and health fund instructions. The policies include, among other things, insurance coverage for medical expenses that are caused to the customer as a result of requiring surgery, non-government sponsored medicine, transplants and ambulatory services.

1.3 Investments in capital and share transactions

For information about investment in capital and transactions involving shares of the Company during the reported period, see note 12 in the financial statements and paragraph 1.1 above.

In 2012, no investments have been made in the capital of the Company and no transactions in its shares were made.

1.4 Dividend distribution

As of the date of the report, the Company has no policy for dividend distribution.

In 2012-2013, the Company did not distribute dividend to its shareholders.

As of December 31, 2013, the company has surplus equity over the level of equity required by the Business Control Regulations (Minimum Capital Required by an Insurer) 1998, ("**minimum capital regulations**") by a total of NIS 126.1 million.

According to the minimum capital regulations, the Company is prohibited from distributing dividend if their capital is lower than the capital established in those regulations. In addition, there is an additional restriction on dividend distribution in the Companies Law, 1999 ("**the Companies Law**") and in letters of the Supervisor to insurance companies dated March 3, 2010 and December 29, 2011 that list the criteria for, and limits on dividend distributions by an insurer and the terms required by the Supervisor for approving a dividend distribution.

2. Part B – Description and information on activity segments of the Company

2.1 Activity segment 1 – Property vehicle insurance

2.1.1 Products and services

The Company sells a whole range of standard insurance products, including: comprehensive insurance (including against theft or accident), comprehensive insurance without theft coverage, comprehensive insurance without accident coverage, third-party insurance and two-wheel vehicle insurance (third party). On top of those standard policies, customers can buy more coverage and/or related services such as towing services, replacement care, window breakage, radio and tape/CD player and VIP services.

In 2013, the Company did not develop material new products and services in this segment.

2.1.2 Competition

According to data made public by insurance regulators, 13 companies are active in this segment, and the market is highly competitive. According to the financial statements for the first nine months of 2013, the main competition in this segment, by premium turnover are Harel Insurance Company Ltd ("**Harel**") (14.9%), the

Phoenix Insurance Company Ltd ("**the Phoenix**") (12.6%), Menorah Insurance Company Ltd ("**Menorah**") (11.8%), Clal Insurance Enterprises Holdings Ltd ("Clal") (11.7%), IDI Insurance Company Ltd ("**Direct Insurance**") (9.4%). The market share of the Company in this segment in total premiums during that period is 3.4%.

The approach taken by the Company to address this fierce competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating restructuring and ongoing improvement of customer service.

2.1.3 Customers

a. The Company sells the product mainly to individual private customers through direct marketing. The Company has a number of collective customers, but the premium charged from them is not a material part of the premium turnover in this segment.
b. The distribution of premium in this segment is as follows:

	2013	**2012**	**2011**
Direct marketing	177,287	158,205	150,571
Through insurance agents	50,351	42,272	31,933
Total	**227,638**	**200,477**	**182,504**

c. The Company is not dependent on any single customer.
d. No customer contribute 10% or more of total revenue of the Company
e. Renewals rate in 2013 in terms of premiums for policies that were in effect in the previous year is 78%.
f. The rate of customers who are also insured in compulsory vehicle insurance in 2013 is 82%.
g. The following information shows customers in property vehicle insurance in terms of premium in 2013 in percents by years of first engagement:

First year of the first policy with the Company	%
2013	35%
2012	14%
2011	9%
Through 2010	42%
Total	**100%**

2.2 Activity segment 2 – Compulsory insurance

2.2.1 Products and services

This segment has only one product – standard compulsory insurance policy. As indicated above, under CVRAL, this is "total liability" coverage. Accordingly, road accident victims are entitled to compensation from the insurer of the vehicle, without a requirement to prove guilt of any of the persons involved. However, the CVRAL presents a number of limits and exceptions that revoke the right for compensation (e.g. a person who caused an accident intentionally). The amount of insurance coverage under compulsory motor vehicle insurance is unlimited, except for non-monetary damage that is limited to a fixed amount specified in CVRAL and compensation for lost income and disability income that are limited at three times the average salary in the Israeli economy.

Those claims are characterized by a long claims tail.

In 2013, the Company did not develop any new material products in that insurance segment.

2.2.2 Competition

Most insurance companies in Israel are active in the compulsory vehicle insurance market, which results in fierce competition. More competition comes from Direct Insurance and the direct marketing arms of other insurance companies. The competition is mainly reflected in cutting insurance rates and providing long-term credit to customers.

The largest insurance companies in the segment, by premium base are: Migdal Insurance Company Ltd ("Migdal"), Harel, Menorah and Ayalon Insurance Company Ltd ("Ayalon"). According to the information for the first nine months of 2013, their total share in gross insurance premiums in this segment is 55.5%. The share of the Company of the gross total insurance premiums in the reported period is 2.8%.

Since the insurance coverage offered by all insurance companies is identical, and since it is possible to compare the insurance rates charged by insurance companies on the website of the Supervisor of Insurance, customers are very sensitive to change in insurance premiums. The approach taken by the Company to address this fierce competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating restructuring and ongoing improvement of customer service.

2.2.3 Customers

a. The Company sells the product mainly to individual private customers through direct marketing. The Company has a number of collective customers, but the premium charged from them is not a material part of the premium turnover in this segment.
b. The distribution of premium in this segment is as follows:

	2013	2012	2011
Direct marketing	111,563	100,615	94,266
Through insurance agents	23,452	14,632	9,808
Total	**135,015**	**115,247**	**104,074**

c. The Company is not dependent on any single customer.
d. No customer contribute 10% or more of total revenue of the Company
e. Renewals rate in 2013 in terms of premiums for policies that were in effect in the previous year is 79%.
f. The rate of customers who are also insured in property vehicle insurance in 2013 is 82%.
g. The following information shows customers in compulsory vehicle insurance in terms of premium in 2013 in percent by years of first engagement:

First year of the first policy with the Company	%
2013	36%
2012	15%
2011	9%
Through 2010	40%
Total	**100%**

2.3 **Activity segment 3 - home insurance**

2.3.1 Products and services

Home insurance is designed to give customers coverage for damage or loss caused to the home and/or its contents. This type of insurance includes extensions such as third-party liability and liability to home workers. As part of a home insurance it is possible to buy additional coverage and/or services such as piping and water damages, appliance repair, emergency services and physician home visits.

Home insurance policies are sold to asset owners who are interested to insure their home and/or contents. When the insurance is bought for mortgage purposes, the insurance mostly covers the structure only and the mortgage bank is registered as a nonrecourse beneficiary.

In 2013, the Company did not develop any material new products in this insurance segment.

2.3.2 Competition

According to information released by insurance regulators, 13 insurance companies are active in this segment, resulting in fierce competition. According to data in the financial statements for the first nine months of 2013, the main competitors in this segment, by premium turnover are Clal (17.3%), the Phoenix (13.8%), Harel (13.8%), Migdal (13.2%) and Menorah (12.7%). The share of the Company in the total premium turnover in the reported period is 6.6%.

The approach taken by the Company to address this fierce competition in this segment is using advanced pricing and actuary methods, marketing campaigns, operating restructuring and ongoing improvement of customer service.

2.3.3 Customers

a. The Company sells its products in this segment mainly to private customers through direct marketing.
b. The Company is not dependent on any single customer.
c. Renewals rate in 2013 in terms of premiums for policies that were in effect in the previous year is 92%.
d. The following information shows customers in home insurance in terms of premium in 2013 in percent by years of first engagement:

First year of the first policy with the Company	**%**
2013	17%
2012	14%
2011	14%
Through 2010	55%
Total	**100%**

2.4 Activity segment e - commercial insurance

2.4.1 Products and services

a. Liability insurance

Those types of insurance contracts cover the liability of the insurance customer to damages caused to a third party. Those insurance contracts are divided into a number of segments, and the main ones are:

- Directors and officers insurance – Coverage for directors and officers for an action, a failure or illegal action they performed while in office. Generally, the policy covers the liability of an officer under the Companies Law and other legislation (in Israel and overseas), which impose a duty of care and fiduciary duty and other

  duties that apply to directors and/or officers that impose personal responsibility. This segment is high on reinsurance, among other factors, because of the large scale of claims.

- Professional liability insurance – Coverage to professionals to protect them against claims filed against them for damages caused to third parties as a result of mistakes and professional negligence.

- Employers' liability insurance – Covers employees from bodily injury claims (accident or illness) caused to an employee during work due to negligence of the employer. Usually, the policy covers the liability of the employee under the Torts Ordinance [New Version], 1968 ("**the Torts Ordinance**") in any amount not covered by the Israel National Insurance Institute.

- Third-party liability insurance – Coverage against bodily injury or property damage caused to a third party, excluding vehicle coverage and employers' insurance. The liability covered by this insurance is for the most part pursuant to the Torts Ordinance.

- Defective products liability insurance – Insurance coverage against injury or damage resulting from a defect in a product that was manufactured, marketed, assembled or maintained by the customer. Such policy is pursuant to two main pieces of legislation: (1) Warranty for Defected Products Law, 1980 which imposes liability on the manufacturer (as defined by the law) and apples to bodily injury only; (2) the Torts Ordinance, which makes a manufacturer liable to bodily injuries and property damages.

b. Property insurance, contractors, mechanical failure and electronic equipment

- Property insurance – coverage to customers in case of damage to property as a result of fire or lightning. Customers can buy additional coverage such as break-in, natural disasters, earthquake, explosion and insurance for loss income as a result of the insurance event.

- Contractors insurance – Coverage against unexpected damage to the insured assets during the construction of projects and buildings. The customer buys under the policy coverage for liability to third parties and employees as part of performing the construction works.

- Mechanical breakage – Coverage of damages caused by breakage in machines and other engineering equipment.

- Electronic equipment – Coverage against loss of or damage to electronic equipment, including external information storage equipment.

In April 2013, the Company was given an approval by the Supervisor of Insurance to market a new cyber risk policy. This policy provides coverage to enterprises against financing damages caused to them or a third-party following a cyber event. The Company began marketing the policy in the second part of 2013.

2.4.2 Competition
This segment is characterized by high competition from leading companies in this market. According to information in the financial statements for the first nine months of 2013, the main competitors in this segment by premium turnover are Harel (21.2%), Clal (15.0%), the Phoenix (12.2%), Migdal (10.4%) and Menorah (10.3%). The share of the company in the professional liability and other liability from total premium turnover in the reported period is 3.0%, and the share of the Company in the property and engineering insurance by premium turnover in that period is 1.7%.
The Company addresses this competition by utilizing the expertise and financial robustness of the global AIG corporation, which is a global leader in this segment. In addition, the Company is constantly aspiring to align coverage to customers' needs and develop customized new products.

2.4.3 Customers
a. In the reported year, the Company marketed its products in this segment mainly to small and medium business customers. Beginning in 2014, the Company decided to focus on medium to large companies only.
b. The company is not dependent on any single customer.

2.5 **Activity segment 5 – health insurance**

The Company was granted a license to operate in this segment in 1998.

2.5.1 Products and services
Health insurance is designed to compensate or indemnify customers for medical expenses in case of injury and/or medical conditions and to provide various healthcare services through contracted providers. The Company sells a variety of personal injury products, both to individual and collective customers. Health insurance products include personal accident policy, personal accident insurance to people over 50, serious illness policy, women cancers insurance, overseas travel and group accident insurance.

2.5.2 Competition
This segment is characterized by intense competition from the leading insurance companies in the segment. According to the financial statements for the first nine months of 2013, the leading insurers in this segment by premium turnover are Harel (29.4%) and the Phoenix (21.0%). The share oof the Company of total segment premium turnover in the reported period is 4.1%.

The share of the Company in personal accident segment of the total premium turnover in the segment in the reported period is 18.1% and the share of the Company in the serious illness and overseas travel of total premium turnover in this segment is negligible.

The Company faces the competition in this segment by constantly considering new products and new, innovative tools.

2.5.3 Customers

a. The following is the distribution of premiums by customer type in this segment:

	2013	2012	2011
Private customer – personal accidents insurance	164,980	154,574	132,174
Private customers – serious illness insurance	18,810	17,962	14,133
Overseas travel insurance	14,356	15,107	14,366
Group policies	5,476	9.562	11,247
Total	**203,622**	**197,205**	**171,920**

b. The Company mainly sells its products to privates customers through direct marketing. The sale of personal accident insurance policies is mainly done through insurance agents.
c. The Company is not dependent on any single customer.
d. The sale of overseas travel policies is done through a special call center at the Company's offices and serves mainly Leumi Card credit card customers. Maintaining the present level of this activity in the segment is dependent on this contract, which was renewed in the reported year for a 5-year period.
e. The rate of cancelations in 2013 in health policies that were in effect during the year in terms of premium was 16.3% of gross premiums.

2.6 **Activity segment 6 – life insurance**

2.6.1 Products and services

The Company sells risk only life insurance policies to private customers (including life insurance for mortgage purposes) and collective customers. The policies cover death and include extensions for permanent disability and total permanent disability, accidental disability, accidental death, heart disease and cancer, and complementary health insurance. The Company offers an extension for premium in case of unemployment as part of coverage in mortgage risk policies.

In risk policies, the beneficiaries are those designated by the insurance customer. In risk policies for protecting mortgages and other loans, the lending bank is registered as a nonrecourse beneficiary up to the outstanding amount of the loan on the date of an insurance event plus inflation linkage and interest, early repayment and arrears interest for up to 12 months of repaying the loan.

In 2013, the Company did not develop any new material product in this insurance segment.

2.6.2 Competition

The life insurance segment is characterized by fierce competition. Most insurance companies are active in this insurance segment and 95% of the life insurance market is dominated by the five large insurance companies: Migdal, Clal, Harel, the Phoenix and Menorah. The share of the Company in the life insurance segment out of total premium turnover in the reported period is 0.4%.

The Company faces this competition by ongoing improvement of customer service, branding and highlighting unique features of the Company, and increasing operating efficiency.

2.6.3 Customers

a. The Company is not dependent on any single customer or a limited number of customers. The Company sells the product mainly to private customers through direct marketing.
b. The Company has two collective customers in this segment. The total premium of each collective customer out of total premium in this insurance segment is immaterial.

3. Part C – Additional information about general insurance segments not included among activity segments.

All insurance segments of the Company are included in Part B of this report.

4. Part D – Additional enterprise-level information

4.1 Restrictions and regulation application to the activity of the Company

The activity of the Company is subject to the provisions of different laws that are designed to ensure that insurance companies are run adequately. The following is a summary of main legal provisions:

a. **Insurance Contract Law** – This law governs mainly the relationship between parties to the insurance contract.

b. **The Supervision Law** – Defines the function of the Supervisor of Insurance and the Supervisor's powers of regulating insurance companies. On December 11, 2013, the Law for the Promotion of Competition and Reduction of Economic Concentration, 2013 came into effect ("**the Economic Concentration Law**"). The main objectives of the Economic Concentration Law are to spur more competition. That legislation contains an indirect amendment of the Supervision Law, including the prohibition of holding a substantial real corporation along with holdings in substantial financial institutions. This prohibition may lead to an insurer having decentralized holdings structure without a controlling shareholder. Therefore, the Economic Concentration Law sets new mechanisms to minimize the problems associated with managing an insurer without a controlling shareholder including mechanisms for appointing and dismissing directors in an insurer without decentralized ownership.

c. **Regulations enacted under the Supervision Law – The following is a summary of key regulations enacted under the Supervision Law:**

- Minimum Capital Regulations – Indicate the minimum capital required by an insurer and the mechanism for computation.

- The Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions), 2012 ("**the Investment Rule Regulations**") and the Supervision of Insurance Business Regulations (Mode of Investment of the Capital and Reserves of an Insurer and the Management of its Obligations), 2001 ("**Mode of Investment of an Insurer Regulations**") – for more information on this see paragraph 4.4 of this report.

- The Financial Services Supervision Regulations (Insurance) (Computation of General Insurance Reserves), 2013, govern, among other things, the method and frequency for computing general insurance reserves.

- Details of Report Regulations – Those regulations govern all provisions concerning the contents, information and accounting principles for preparing financial statements of insurance companies.

- The Supervision of Financial Services Regulations (Insurance) (Financial Statements), 2007, require insurance companies, among other things, to prepare annual and quarterly financial statements.

- The Supervision of Financial Services Regulations (Insurance) (The Board of Directors and its Committees), 2007 ("**the board regulations**"), which discuss the Board of Directors and its authorities and set rules for the proper function of the board and its committees, its composition, issues that must be discussed and be decided, attendance and legal quorum, board committees, delegation of powers, etc.

  For more information about corporate governance applicable to those companies, see Part E. of this report.

d. **Regulations, circulars and guidance of the Supervisor:**

Circulars and letter

The following is summary of the key matters concerning the activity of the Company that were addressed by the Supervisor of Insurance in circulars and letters in the reported period and until shortly before the date of issuing this report, and which were not included in the review of lines of business:

- On January 15, 2013, the Supervisor of Insurance issued Financial Institutions Circular 2013-9-2 titled "List of Proprietary Assets of Financial Institutions at the Individual Asset Level", which aims at establishing a format for financial institutions to report how they invest their proprietary investments through a quarterly filing at the individual asset level.
- On February 18, 2013, the Supervisor of Insurance sent a letter (2013-3026) to managers of insurance companies, titled "Shortening of Financial Statements", which guided insurance companies to shorten and simplify their financial statements. The Company is active to the best of its ability to implement the guidance in the letter in preparing its financial statements.
- On July 10, 2013, the Supervisor of Insurance issued an opinion paper titled "Principles for Wording an Insurance Policy", which aims at introducing principles to guide insurers in drafting an insurance plan so it will be free of discriminating terms and will be simple and clear. Among other things, the Supervisor stated in the opinion paper that the coverage in the plan must be meaningful in the sense that it addresses a real need of the plan's target audience; the plan needs to be worded in a way not discriminating the customer or giving the insurer an unfair advantage and will include the required disclosure for understanding the terms of the policy. The Company is currently working to rewrite its insurance policies according to that guidance.

- On July 17, 2013, the Supervisor of Insurance issued Financial Institution Circular 2013-9-8, which contains a number of amendments to circulars that deal with internal control over financial reporting, declarations, reports and disclosures, management responsibilities to the internal control over financial reporting.

- On August 8, 2013, the Supervisor of Insurance issued Financial Institutions Circular 2013-9-11 titled "Business Continuity Management in Financial Institutions". The provisions of the circular outline, among

  other things, a framework for minimum operations in a financial institution to maintain business continuity in a state of emergency. Following that circular, the Supervisor issued on November 24 an opinion paper titled "Findings of a Cross-section Audit on Business Continuity in Financial Institutions in October 2012". The objective of the audit was to test the ability of financial institutions to cope with a disaster. The opinion of the Supervisor of Insurance refers to missing applications and applications that appropriate implementation of provisions that apply to financial institutions to ensure continuous and appropriate functioning in case of emergency.

- On August 8, 2013, the Supervisor of Insurance issued Financial Institutions Circular 2013-9-11, titled "Business Continuity Management in Financial Institutions". The provisions of the circular outline, among other things, a framework for minimum activity in a financial institution to maintain business continuity in an emergency.

- On August 8, 2013, the Supervisor issued Financial Institutions Circular 2013-9-12, titled "Annual Report on Implementation of Statutory Provisions by Financial Institutions". The circular provides that in the reports accompanying the annual financial statements, financial institutions will also disclose information on implementation of statutory provisions on matters such as: risk management, corporate governance, saving plan customer rights, etc. and that such matters will be updated from time to time at the discretion of the Supervisor of Insurance. The circular becomes effective from the 2013 annual financial statements.

- On August 14, 2013, the Supervisor of Insurance issued Financial Institution 2013-9-13 titled "Investment Rules Applicable to Financial Institutions". The objective of the circular was to set detailed rules on the following matters: deviation from investment rates; appointment of directors in a corporation by virtue of the financial institution holding controlling instruments in the corporation; specialized investment plans; extension of loans, securities lending and investment in non-marketable debt assets; transactions with or through a related party; investment in a related, interested and controlling parties and holdings controlling instruments by an insurers.

- On August 19, 2013, the Supervisor of Insurance issued Insurance Circular 2013-1-4 titled "Statute of Limitations in Insurance Contracts Including Disability Insurance Coverage". The purpose of this circular is to provide guidance on treating requests for extending the statute of limitations in disability claims and to set guidance on the disclosure that an insurer has to make in this respect. Following the issuance of this circular, an opinion of the Supervisor was released on August 26, 2013 on the disclosure duty of an insurer, clarifying that when an insurer does not comply with the disclosure requirement in the circular, the Supervisor of Insurance may consider, in the particular circumstances, to deem the customer as if requested to extend the statute of limitations on the times specified in the circular. The effective date of the circular is June 1, 2014.

- On August 22, 2013, the Supervisor of Insurance published an opinion titled "Compensation for Covering Private Surgery". According to the position of the Supervisor of Insurance, beginning from the date of issuing the circular no insurance plan will approved that cover private surgery in Israel and allows a customer to elect between indemnification of surgery costs by the insurer and a monetary compensation for a surgery performed as part of Shaban or in the public health system, to prevent a potential bias of customers to elect the health service based on monetary consideration instead of health-related factors.

- On August 25, 2013, the Supervisor of Insurance issued Financial Institutions Circular 2013-9-16, titled "Outsourcing in Financial Institutions". The purpose of the circular is to establish rules for using, monitoring and controlling outsourcing by financial institutions. The effective date of the circular is July 1, 2014 and its provisions will apply to agreements entered into on the date of issuing the circular and thereafter, or renewed, changed or extended after the date of publication, even if originally entered into before the effective date.

- On August 26, 2013, the Supervisor of Insurance issued Financial Institutions Circular 2013-9-17, titled "Deed of Trust for Issue of Non-Government Bonds – Guidance for Comments". The purpose of the circular is to amend and extend the provisions in Financial Institutions Circular 2010-9-3, issued on July 14, 2010, titled "Provisions for the Purpose of Investments of Financial Institutions in Non-Government Bonds". That circular was accompanied by an appendix presenting example contractual conditions which may be included in deeds of trust of non-government bonds.

- On August 29, 2013, the Supervisor of Insurance issued Insurance Circular 2013-1-6 titled "Preparing Serious Illness Insurance Plans". The purpose of the circular is to revise the definition of serious illness covered by policies as presented in Circular 2003/16, titled "Definitions of Illnesses in Serious Illness Insurance", to base them on up-to-date medical definitions and guide the preparation of serious illness insurance plans. The effective date of the provisions in the circular are June 1, 2014, and they will apply to plans marketed or renewed beginning on that date.

- On October 3, 2013, the Supervisor of Insurance issued Insurance Circular 2013-1-7, titled "Amendment of Provisions in the Consolidated Circular in the Compulsory Vehicle Insurance". The purpose of the provisions in the circular is to revise the procedure for determining the premiums that insurers may charge customers, revise the use of the database for the detection of fraud in compulsory vehicle insurance and to determine a format for documentation of underwriting questionnaire to policy holder. Most provisions in the circular will apply to policies in the compulsory insurance sector with insurance terms beginning on or after May 1, 2014.

- On December 18, the Supervisor of Insurance issued Financial Institutions Circular 2013-9-20 titled "Compliance Risk Management in Institutional Entities". The purpose of this circular is to obligate financial institutions appoint a compliance and internal enforcement officer and to define that officer's role and duties, and to establish compliance and internal enforcement plan. This is done to mitigate the exposure of the institution to compliance risks. However, this circular was issued together with an opinion of the Supervisor of Insurance listing the criteria to assess the effectiveness of the compliance and internal enforcement plan of a financial institution.

- On December 22, 2013, the Supervisor of Insurance issued an opinion paper and clarification titled "Practices of a Financial Institution in Engagement in Material Transaction". The opinion paper lists the expectations of the Supervisor of Insurance around the practices of a financial institution prior to making a decision to engage in a material transaction, such as, an expectation from a financial institution to have adequate processes for characterization, assessment and treatment of material transaction, and that a financial institution will be prepared to identify, assess and manage risks created by such a transaction, and will not take part in a tender for a material transaction if it has no adequate time to assess and prepare for such transaction. The opinion paper indicates that the practices of financial institutions in engagement of this type will be reviewed from time to time, and that in that respect, processes implemented before an engagement and their documentation, data that was available to decision makers, analyses they performed, documents and reports filed, discussions held in the financial institution and other factors, to the extent relevant.

- On December 24, 2013, the Supervisor of Insurance issued a document titled "Introduction to the Consolidated Circular". The document summarizes general provisions on the effective date of the consolidated circular relative to original circulars.

- On December 30, the Supervisor of Insurance issued Financial Institutions Circular 2013-9-23, titled "Implementing Insurance Plan and Articles of a Provident Fund". This circular establishes a procedure for filing a notice to the Supervisor on a new/changed insurance plan or a change in any of its terms.

- On January 14, 2014, the Supervisor of Insurance issued Financial Institutions Circular 2014-9-1, titled "Provisions of Chapter 10, Part 1, Heading 5 of the Consolidated Circular", which contains provisions on risk management in a financial institution. The purpose of the consolidated circular is to create a comprehensive codex to help navigation in the regulations and make easier the compliance of regulated entities.

- On January 20, 2014, the Supervisor of Insurance issued Insurance Circular 2014-1-2, titled "Revision of Guidance on the Structure of Compliance Required in the Financial Statements of Insurance Companies under International Financial Reporting Standards (IFRS)". This circular revises the disclosure structure in annual financial statements of insurance companies and adds new disclosure requirements and other updates ahead of the effective date of the consolidated circular.

- On January 20, 2014, the Supervisor of Insurance issued Insurance Circular 2014-1-3, titled "Revision of Provisions in the Periodic Report of Insurance Companies". The purpose of the circular is to update the report of corporate business and directors' report included in periodic reports of insurance companies, to make them more focused, up-to-date and uniform, and includes, among other provision, guidance on the scale of reports, reporting principles, report period, and the approval and signing of the report.

- On February 12, 2014, the Supervisor of Insurance issued a document titled "Control Policy in Financial Institution". The purpose of the document is to describe the policy of the Supervisor in assessing requests for control permit. The document includes provision relating to the control of a financial institution, including joint control, control structure and holding controlling instruments, minimum holding rate, corporate financing used for holding the financial institution, charges on controlling instruments and financial robustness of the party requesting the permit to control the financial institute.

<u>Drafts</u>

The following is a summary review of drafts released by the Supervisor of Insurance in the reported period and through shortly before the date of issuing this report and that may have material impact on the Company:

- On January 30, 2013, the Supervisor of Insurance issued Draft Insurance Business Supervision Regulations (Terms of Structure and Contents Home Insurance Contract) (Amendment), 2013. The purpose of the proposed amendment is to revise the terms and wording in the standard policy and to establish a number of matters given the considerable experience accumulated over the years and following court decisions on this matter.

- On May 20, 2013, the Supervisor of Insurance issued Draft Financial Institutions Circular 2013-132, titled "The Position of the Supervisor and Clarification of Consideration to Assess the Availability of a Candidate to

Serve as Director in a Financial Institution." This position details the considerations of the Supervisor of Insurance in assessing a notice on the appointment of a director in a financial institution and the Supervisors' expectations on the amount of time that a director in a financial institution should dedicate to that role.

- On June 10, 2013, the Supervisor of Insurance issued Draft Financial Institutions Circular 2013-140, titled "Annual and Quarterly Statement to Fund and Insurance Customers in Financial Institutions". This draft circular establishes, among other things, a mandatory format for periodic statement that financial institutions send to their life insurance customers. The provisions of the draft circular extend the disclosure duties of financial institutions and simplify the presented information to make the statement a useful tool for monitoring and control.

- On July 9, 2013, the Supervisor of Insurance issued Draft Financial Institutions Circular 2013-157, titled "Treatment of Problematic Debt and Actions of Financial Institutions to Collect Debt – Amendment". The purpose of this draft is to complement a previous circular on this issue (circular dated April 6, 2009 on this issue) provisions on the economic feasibility of suggested debt agreement, including the assessment of possible alternatives. In addition, the Supervisor of Insurance issued a clarification on an opinion of an expert appointed by a bankruptcy court, which clarifies the tension existing between different viewpoints of the financial institution and the expert. The opinion paper states that a rejection of an expert opinion is not a breach of fiduciary duty of the financial institution towards its customers.

- On August 28, 2013, the Supervisor of Insurance issued Draft Regulations "Financial Services Supervision Regulations (Insurance) (Financial Reports) (Amendment)", 2013 that concern an amendment of quarterly and annual filings to the Supervisor.

- On December 25, 2013 the Supervisor of Insurance issued Draft Financial Institutions Circular 2013-142, titled "Compensation Policy in Financial Institutions". The purpose of this circular is to determine provisions for the purpose forming a policy for the compensation of executives, key officers and other employees in financial institutions and preventing incentives that may encourage taking risks that are inconsistent with the long-term goals of the financial institution and its risk management policies.

- On January 1, 2014, the Supervisor of Insurance issued Draft Insurance Circular 2013-158, titled "Transfer of Funds to Reinsurer Outside of Israel". The circular states that the terms for transferring funds and the means of receiving collaterals from a foreign reinsurer due to its share in the insurance liability.

4.2 Entry and exit barriers

4.2.1 Key entry barriers

Key barriers on entering the different activity areas of the Company are as follows:

a. Licenses and permits: According to the Supervision Law, practicing in each insurance sector required obtaining an insurer license from the Supervisor of Insurance. In addition, holding more than five percent of a specific type of controlling instrument in an insurance company is conditioned on obtaining a permit to hold controlling instruments from the Supervisor of Insurance, and controlling an insurance company also requires a controlling permit from the Supervisor.

b. Capital: An insurer has to comply with capital requirements in the Minimum Capital Regulations.

c. Infrastructure: Given the complexity of the insurance products and their daily management, an insurance company needs to create an organizational, IT and operating infrastructure and continuously invest in it.

d. Expertise, experience and reputation: Being an insurer requires a focused professional knowledge and understanding of different insurance aspects, mainly involving actuary, underwriting, investment, reinsurance, marketing and risk management. In addition, to set rates and underwriting terms for new policies, it is important to have experience and a broad actuarial database.

e. Minimum revenue: An insurance Company must generate minimum revenue to cover the high operating costs involved in investment in buying, maintaining and upgrading systems and infrastructure, including the need to comply with regulatory change that take place from time to time.

f. Reinsurance: the ability and knowhow to buy adequate protection from reinsurers and to engage in reinsurance contracts with them.

4.2.2 Key exit barriers

The key barriers on exiting the different activity areas of the Company are as follow:

a. Liquidation or dissolution of insurance business: A liquidation or dissolution of an insurer are subject to oversight by the Supervisor of Insurance, who may order the insurer to act in a certain way upon dissolution of its business or to ask a court to order the dissolution to be controlled or overseen by the court.

b. Run-off: The around policies with long claims tail may continue for many years until all claims for policies sold prior to the termination of the activity are settled and until all rights of existing insurance customers are satisfied or until the sale of the insurance activity.

4.2.3 Limitations in control permit

The main limits in a permit to control a company are as follows:

a. Maintaining control over the Company: AIG committed to hold all controlling instruments in the Company and intermediate companies in the Company's chain of control at all times, and that its holding rates in the Company may not change in any way unless the Supervisor has gave an advanced, written agreement and subject to the terms and conditions he set. In addition, the control permit requires an advanced approval by the Supervisor for control over AIG.

b. Prohibition on transferring rights to controlling instruments to a third party: AIG committed to maintain all controlling instruments of the Company free and clear at all times.

c. Capital replenishment: AIG irrevocably committed to replenish the capital of the Company up to the amount required by the Minimum Capital Regulation while controlling the Company.

d. Interested party transactions: AIG, the entities it controls and companies in the control chain of the Company are entitled to management fee from the Company only under a written management agreement that is submitted to the Supervisor of Insurance at least sixty days prior to its effective date, provided that

the Supervisor of Insurance has not opposed that agreement prior to its effective date. The above limitation does not apply to providing services in the ordinary course of business and at arm's length by such companies.

e. Change to articles of association: Any change in the articles of association of the Company that may impact the control over the Company or any term of the controlling permit is subject to an advance, written approval by the Supervisor of Insurance.

4.3 **Key success criteria**

a. Changes in the macroeconomic situation in Israel and globally, including changes in the security situation, inflation, interest rates and foreign exchange rates, unemployment, the average salary, etc, may have material impact on the Company's business results. Changes in the regulatory policy for capital markets and volatility in the capital markets, in general, and bond yields, in particular, may have material impact on the business results of the Company.

b. The political and security situation in Israel affects the fiscal and monetary situation of the Israeli economy and the position of the capital market. In addition, different security arrangement may have impact on the prevalence of car theft in Israel and thus, have material impact on the results in the property vehicle insurance business.

c. The Israeli insurance market is competitive, especially so in retail insurance, which is the main activity of the Company. Raising rates given the competition in this market may impact profitability of the Company. For more information about the competition in the Company's different areas of activity and measures that the Company is taking to deal with this competition, see paragraphs 2.1., 2.2.2, 2.3.2, 2.42, 2.5.2 and 2.6.2 in this report.

d. Frequent changes in regulatory require3ments and case law may have material impact on the business results of the Company.

e. In addition, the Company believes that the key factors for success in its activity include: frequent revision of actuary assumptions that underlies rates; improvement of quality, professionalism and underwriting data reliability; the quality of reinsurance and stability of reinsurers; customer mix and loyalty; customer retention levels; cutting operating costs; marketing and distribution; owning IT and supporting systems; quality of investment portfolio management and investment income; streamlining claims management and settlement costs; achieving a high rate of subrogation; improving the quality of customer service to customers; low frequency of natural disasters; reducing the scale of insurance fraud; recruiting and retaining quality human capital; the ability of the Company to improve agreements with suppliers; quality of collection and creating new distribution channels.

Those success factors have not materially changed in 2013 except for the financial situation that changes frequently and impacts the Company in much the same way as it impacts the entire insurance market.

4.4 **Investments**

The investment policy of an insurer is determined by the Company's board based on recommendations of the proprietary investment committee according to the law. The Company mainly implements a prudent and conservative investment policy including:

- Investment mostly in listed government bonds
- Investment in high-rated corporate bonds
- Investment in bonds with short to long average term to maturity
- Investment in listed shares on leading indices

Credit risks involved with those investments are managed according to the law and the policy of the board through the investments committee and the debt forum of the Company. The Company is not required to have a

specialized credit committee. The risk management policy includes exposure limits, including, limits on exposure to one debtor, a group of creditors, linkage basis, industry, liquidity and credit rate.

For more information about the investment management policy of the Company, please go to:
http://www.aig.co.il/אודות-aig/מדיניות-השקעות

For more information on the composition of Company investments, see notes 10 and 27 to the financial statements. For information about the contribution of investment components on the proprietary portfolio, go to: http://www.aig.co.il/אודות-aig/תיק-הנוסטרו

For more information about the composition of net investment income and net financing income, see note 21 to the financial statements. For information about the distribution of assets that are aligned with the liabilities of the Company, see note 4 to the financial statements.

4.5 **Reinsurance**

a. **General**

Reinsurance engagements of the Company are made on an annual basis according to the activity area. All engagement agreement with reinsurers are discussed annually by the board and reported annually to the Supervisor of Insurance according to the Supervisor's guidance. In each insurance segment, the reinsurance coverage is adjusted to the nature of risk and its level. The types of coverage that the Company commonly uses:

- Proportional reinsurance: Those reinsurance arrangements include quota share and surplus insurance. In quota share insurance, the relative division between the reinsurer and the insurance company is identical for all policies in a given insurance area. That proportion is used for dividing both premiums and claims. In a surplus insurance, the insurance company predefines the risk level it assumes, and the remaining risk in each policy is transferred to the reinsurer, meaning that the share of the reinsurance in the risk can vary from one policy to the other.

- **Non-proportional reinsurance**: Excess of loss insurance ("**XOL**") – this type of reinsurance covers claims or events over a certain amount, i.e., the insurance cover exceptionally high multiple-risk individual claims. Any amount below the predetermined amount is covered by the insurance company only and not by the reinsurance.

- **Facultative reinsurance**: Those reinsurance arrangements cover special risks embedded in specific policies. For the most part, such business is reinsured in this way when the insurance amount exceeds the capacity of reinsurance contracts mentioned above.

The reinsurance exposure policy is established by the risk management committee of the Company in coordination with the reinsurance practice of AIG in general insurance and product managers in AIG headquarters in New York. This policy is based on internal actuarial assessments, various models and claim history. As part of this policy, the sectors in which it is more efficient to transfer the risk to reinsurers based on risk management factors and the size of capital held by the Company. According to the provisions of the Supervision Regulations, the board approves once annually the retention that the Company holds by activity segments and the exposures to reinsurers.

b. AIOA companies:

A major share of reinsurance is made with the following insurance companies (referred to together as: "AIOA companies"):

Company name	Participation (%)
American International Overseas Ltd ("AIOL")	67
New Hampshire Insurance Company	12
National Union Fire Insurance Company of Pittsburgh, PA ("NUFIC")	11
American Home Assurance Company	10

Those four companies are members of the global AIG corporation.

On January 1, 2013, AIOL ceased to be part of the AIOA companies. As a result, the participation share of NUFIC within the AIOA companies increased from 11% to 78%.

As of the date of this report, the three reinsurers are rated A+ by S&P.

For more information about total premiums transferred in 2013 to reinsurers, see note 27 and 5 to the financial statements.

c. **Property vehicle insurance**

The Company engaged in the reported period in this sector in an XOL reinsurance contract with AIOA. The premiums recorded in favor of AIOA in the reported period were NIS 108 thousand. No fees are paid under this contract.

d. **Compulsory vehicle insurance**

The Company engaged in the reported year in this insurance segment in an XOL reinsurance contract with AIOA. The premiums recorded in favor of that company in the reported year was NIS 1,895 thousand. No fees are paid under this contract.

e. **Home insurance**

The Company entered in the reported year into a surplus reinsurance contract with AIOA. Fee is fixed as a share of premium (approximately 25%).

For catastrophe events (e.g. earthquakes and other natural disasters), the Company purchases in addition to a proportional reinsurance coverage also surplus reinsurance contract for home insurance. The exposure in retention in other general insurance segments (net of proportional reinsurance) is immaterial. The assessment of the risk for a catastrophe event, and the expected damage was made by a professional team in the retail insurance profit center at the AIG headquarters. According to updated calculation using special statistical models, the maximum probable loss (MPL) after self retention is 1.34%. The Company protects itself against earthquake events, including one in 250 year magnitude events. The MPL for calculating catastrophe risks in general insurance in calculating minimum required capital is 1.75%.

As of December 31, 2013, the insurance amount covered by proportional reinsurance in relation to earthquakes is $8,789 million, while amounts covered in non-proportional reinsurance amount to $10,444 million.

As of the date of this report, the Company acquired an accumulated coverage of $130 million over the Company's retention, which is $10 million for catastrophe. The reinsurers are AIG Europe Limited ("**AIG Europe**"), which is a company in the global AIG corporation rated A+ by rating agencies as of the date of

issuing this report, and a number of reinsurers that are not companies in the AIG corporation are rated by S&P as of the date of this report from A- to AA.

The following is a list of premiums in home reinsurance:

Home reinsurance premium	**2013**	**2012**	**2011**
Proportional	6,282	4,929	4,969
Proportional - earthquake	6,120	4,363	4,814
Non-proportional - earthquake	9,033	6,391	4,878
Total	**21,435**	**15,683**	**14,661**

Note that this method does not refer to underwriting years but to the general calendar results at the segment level as presented in note 4 to the financial statements and may not indicate the underwriting results of reinsurers by underwriting years.

The premium recorded in favor of the AIOA companies in the reported year is NIS 12,083 thousand, and fees amount to NIS 3,635 thousand. The premiums recorded in favor of AIG Europe in the reported year was NIS 5,574 thousand.

f. **Health insurance**

The Company entered in the reported year into the following reinsurance contracts in this segment:

- A surplus reinsurance contract, with fee as a fixed percent of premium (35%). Reinsurers in this contract are AIOA.
- Three XOL reinsurance contracts from the amount of Company retention up to $40,000,000. Reinsurers in those contracts are not members of the AIG corporation, and are rated BBB+ to A+ by S&P. On January 1, 2014, the Company revised the XOL contract and increased coverage to $50,000,000.

The premiums recorded in favor of AIOA companies in the reported year are NIS 12,599 thousand. Commissions from reinsurance amounted to NIS 4,417 thousand.

g. **Commercial insurance**

The Company engaged in the reported year in quota share and surplus reinsurance contracts in liabilities, property, contractors, mechanical breakage and electronic insurance contract with AIOA. The premiums recorded in the reported year to the related companies amounted to NIS 94,195 thousand. The Company received fees on those contracts at a fixed rate of 25% to 30% from premium.

The Company does not purchase XOL catastrophe coverage in property insurance and commercial insurance due to the lower retentions.

h. **Life insurance**

Through 2011, the Company engaged in surplus reinsurance contracts with Swiss Re, which is rated AA- by S&P and Gen Re, which is rated AA+ by S&P. In early 2011, the Company engaged in a reinsurance contract with Partner Re, which is rated A+ by S&P, instead, the above engagement with Gen Re.

Fees on those contracts are at a fixed rate of premium in the first underwriting years.

The Company engaged with Partner Re in non-proportional catastrophe coverage. No fees are charged under that contract.

The following is information about premiums transferred to reinsurers:

Reinsurer name	Total reinsurance premiums (NIS in thousands)	% of total reinsurance premiums
Swiss Re	16,828	%77
Partner Re	2,703	%12
Gen Re	2,365	%11
Total	**21,896**	**%100**

j. Summary of reinsurance results in general and health insurance

	Property vehicle			Compulsory vehicle			Home insurance		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Reinsurance premiums	108	115	107	1,895	1,616	1,452	21,435	15,683	14,661
Income / (loss)	108	115	107	(15,445)	(18,147)	(15,140)	12,066	11,385	7,869

	Health			Commercial (*)			Total		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Reinsurance premiums	14,234	21,695	18,540	103,815	124,562	113,522	141,487	163,671	148,282
Income / (loss)	(1,032)	7,940	6,866	(40,442)	(20,111)	(9,133)	(44,745)	(18,818)	(9,431)

(*) Reinsurance premiums in commercial insurance are proportional contracts only, and include NIS 8,449 thousand earthquake premium and NIS 10,713 thousand in 2012.

For more information on reinsurance results, see note 27 to the financial statements.

4.6 **Human capital**

a. General

The following is an organizational structure of the Company as of the date of this report:

CEO

Finance Department	Commercial Insurance	Risk manager
Head Actuary	Retail Insurance	Legal Advisor
IT	Sales	Internal Control
Marketing		
Human Resources		
Customer Care		

All Company units are located in Company offices in Petach Tikva, and in two smaller offices in the Haifa region and Ashdod.

As of December 31, 2013, the Company had 923 employees, up from 851 employees at the end of 2012. Some 74% of employees work in sales and services, compared to 70% at the end of 2012.

The Company has no dependence on any single employee.

All Company employees, including executive, are employed on the basis of personal employment agreements, which set terms and conditions and related benefits. The compensation of sales personnel is affected by their performance.

The Company believes in the importance of improving its human capital, and is conducting from time to time professional seminars to managers and other employees about different areas of activity. The Company is investing special efforts to train new employees in sales and customer service centers. In addition, trainings are also provided by AIG outside of Israel on professional matters with the attendance of managers and other employees of the Company.

The Company is constantly reviewing its workforce and an option for improving efficiency in connection with its employees.

The weighted number of employees in the Company based on full-employment equivalent as of December 31, 2013, by organizational structure:

Activity area	2013	2012
Sales and services centres	595	504
Claims	71	71
Headquarters - profit centres	49	65
IT	53	46
Administrative and general	13	27
HR	18	19
Finance	21	18
Marketing	12	11
Total	**832**	**761**

b. Executives:

- Senior management, including the CEO, comprised on the date of issuing this report 13 executive compared to 12 at the end of 2012. In April 2013, Mr. Shai Feldman replaced Ms. Hava Freidman-Shapira as CEO. In addition, the risk manager of the Company was replaced.
- The internal auditor, Mr. Yossi Genosar, the managing partners of Fahn Kanne Control Management Ltd stepped down on August 20, 2013 and was replaced by a new auditor.
- Fore more information about management – see elaboration in Chapter D to the report "Additional Information on the Corporation".
- The board of the Company includes 10 directors, 4 of them are independent directors. For more information

c. Compensation policy of the Company

The officer compensation policy of the Company is comprised of two main elements:

1. An annual bonus – Granted to all employees, including officers, subject to achieving their annual personal goals, which include a personal review, initiative, management skills, personal development and work relations of the officer, and subject to the business results of the Company that include the performance of the unit to which the officer belongs and business results as a result of investments.

2. Long-term compensation – the following are the key terms of the plan:

   - The Company includes officer compensation based on a number of criteria that relate to the performance of the Company and is a long-term compensation plan for three-year bonus periods.

   - In each three-year bonus periods, three different targets are computed for each of the three calendar years in that bonus period. Each annual target for a calendar year is set and approved by the Board of Directors of the Company in December of the following calendar year.

   - At the end of each calendar year, Company officers are presented with their performance relative to the targets set for that year. Additionally, at the end of each three-year bonus period, performance is compared to targets for the bonus period, i.e. for three years.

- The annual compensation for each bonus period is computed as the percentage of meeting the targets for the bonus period multiplied by the amount in the personal target for each officer, which is composed of his/her average salary during the bonus year, times the "salary component" that was set by the Board of Directors of the Company according to his/her role in the Company.
- Officers in the Company are entitled to compensation for the bonus period only if they actively worked for the Company for at least one calendar year during the three-year bonus period.

For more information about the compensation policy of the Company, go to:
http://www.aig.co.il/docs/%20מדיניות-תגמול-נושאי-משרה/כללים.pdf?Status=Master

4.7 **Marketing and distribution**

The Company sells coverage directly to customers without involvement of insurance agents. This methodology is characterized by a direct relationship between the Company and its existing and prospect customers. This relationship is maintained by the main centers of the Company (sales, customer relations and service) through technology, including computer software that allow Company employees using computer system to access detailed information for making decisions on the activity areas.

The call center and website are major marketing and sales resources of the Company. A disruption of those communications resources over time may materially impact the activity of the Company. The Company also sells retail policies (vehicle, home insurance and personal injury) and commercial insurance through insurance agents. Agents receive commissions at a percentage of premiums according to the rate of collection of those premiums.

As part of promoting its marketing efforts, the Company uses, among other things, advanced methods for storing databases allowing automated connectivity as well as decision-supporting systems and auxiliary systems like: a telephone system, recording applications, email, telemarketing, document scanning, fax, sending automated email and more. The Company has a computer system that monitors work flow.

The main marketing channels of the Company are as follows:

- Media advertising (TV, radio and print) – main channels
- Advertising and selling online
- Insurance agents (*)
- Cooperation with large companies in the auto market
- Use of databases of the company for cross-sales and up-sales.

a. Property vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 15.9% of gross premium.

b. Compulsory vehicle insurance

Policies in this segment are marketed mainly through direct marketing. The average commission paid to agents (before VAT) is 4.4% of gross premium.

c. Home insurance

Policies in this segment are marketed mainly through direct marketing. Additionally, the Company sells policies in the segment through customers who are interested to buy life insurance for mortgage lending purposes and contacted the Company thanks to marketing efforts in life insurance.

d. Health insurance

Policies in this segment are marketed mainly through direct marketing. In addition, the Company sells its products in this segment through telemarketing (cross sale), a limited number of insurance agencies and the Company's website (mainly overseas travel).

Part of shares of group personal injury policies is done through insurance agents. The average commission paid to agents (before VAT) is 21.0% of gross premium.

e. Commercial insurance

Policies in this segment are marketed exclusively through insurance agents. As of the date of this report, the average commission paid to agents (before VAT) is 15% of gross premium in liabilities and 13% in property and engineering.

f. Life insurance

The Company sells most policies to customers directly without involvement of insurance agents.

4.8 Suppliers and services providers

a. General

The Company buys products and services from numerous suppliers including advertising and marketing providers, equipment and maintenance providers, legal services providers, appraisers, investigators, healthcare institutions, software and hardware providers, auto repair and parts services, towing services, auto glass repair, damage repair, car leasing, etc. The cost of some of those purchases is recognized within cost of claims in the different insurance segments, and mainly in compulsory and property insurance.

The Company selects its suppliers according to cost, quality, quality, availability and expertise. Usually, engagement with providers is for a predefined period (automatic annual renewal) and do not involve exclusive arrangements.

b. Compulsory vehicle insurance

The Company purchases products and services from different providers, including advertising and marketing providers; legal services providers; appraisers; investigators; vehicle repair and parts services; used car dealers for damaged or retrieved after theft; towing; auto glass repair, etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

c. Compulsory vehicle insurance

The Company purchases products and services in this segment from different providers, including: advertising and marketing providers; legal services providers; hospitalization and other healthcare services; investigators; etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

d. Home insurance

The Company engaged in agreements with different service providers, rendering maintenance and repair services to home appliances and buildings as well as providing healthcare services. A customer holding an extended policy with additional types of coverage is serviced by the relevant provider according to the relevant service contract. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

e. Health insurance

The Company purchases in this segment products and services from various providers, including healthcare service providers, advertising and marketing services, legal services providers, investigators, overseas traveler assistance services, etc. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

f. Commercial insurance

The Company purchases in this segment legal, appraisal and investigation services. A significant part of the cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

g. Life insurance

The Company purchases in this segment products and services from various providers, including healthcare and legal service providers, investigators, advertising and marketing providers, etc. The cost of those purchases is carried to the cost of claims. The Company is not materially dependent on any supplier or services providers.

h. Non-segment specific service providers

- **Computer and software suppliers** – The Company is engaged with a number of software and hardware providers for both purchasing new products and for regular maintenance of its systems. The two main suppliers for maintaining the insurance system are Comtech Ltd and Dortel Software Systems Ltd. The Company is dependent on those suppliers to a certain degree.

  The total payment to those suppliers in NIS millions are as follows:

Provider	2013	2012
Dortel	4.3	1.7
Comtech	2.8	2.5

- **Marketing and advertising service providers** – The Company sells most of its products through direct marketing to customers and therefore its marketing and advertising purchases are material relative to other insurance companies. The primary advertising service provider of the Company in this area in 2013 was Lead Focussed Marketing Ltd. This advertising firm was replaced by McCann Erikson Ltd in late 2013. For more information about the scope of expenses in this area, see note 25 to the financial statements.

4.9 Property, plant and equipment

a. Property, plant and equipment (PPE) of the Company is located at the Company's headquarters at 25 Hasivim St., Petach Tikva, in the emergency site of the Company in the Haifa area and in two smaller offices in the Haifa area and in Ashdod. For more information, see notes 5 and 7 to the financial statements.

b. Computer systems – The Company has an internal information technology (IT) unit, providing automation services to Company units, and is uses the services of suppliers and software companies, as necessary, for ensuring the required computing services. The main development and production site is located at Company headquarters in Petach Tikva, and there is also a backup site for emergencies in the Haifa area.

The main core systems of the Company include the insurance systems and financial systems that are installed on an IBM AS-400 computer.

In 2013, the Company invested NIS 9.0 million in hardware and software. The balance of depreciated cost of computer systems (including computer software) in the Company as of December 31, 2013 was NIS 22.3 million. Additionally, in 2011-2012, the Company continued to invest in comprehensive information security activity to upgrade its abilities in this important aspect and to comply with the requirements of the Inspector of Insurance.

4.10 Seasonality

a. Activity in the property vehicle and comprehensive vehicle business has a greater rate of activity in the first quarter every year, resulting from relatively greater activity of sales and renewals of policies in January.

b. The following table presents gross premiums (general insurance and life insurance) by quarters:

2013 Quarter	**1**	**2**	**3**	**4**	**Total**
Property vehicle insurance	61,706	54,914	58,203	52,815	227,638
Compulsory vehicle insurance	36,832	31,664	34,553	31,966	135,015
Home insurance	27,551	22,841	28,312	23,148	101,852
Commercial insurance	39,269	25,712	28,200	25,077	118,258
Health insurance	49,135	49,319	53,843	51,325	203,622
Life insurance	24,403	25,039	26,113	26,939	102,494
Total	**238,896**	**209,489**	**229,224**	**211,270**	**888,879**

2012 Quarter	**1**	**2**	**3**	**4**	**Total**
Property vehicle insurance	200,477	47,052	52,063	48,222	53,140
Compulsory vehicle insurance	115,247	28,812	29,967	26,199	30,269
Home insurance	96,381	21,968	26,760	21,720	25,933
Commercial insurance	141,669	25,591	46,394	24,966	44,718
Health insurance	197,205	48,612	52,114	49,668	46,811
Life insurance	89,476	23,774	22,800	21,734	21,168
Total	**840,455**	**195,809**	**230,098**	**192,509**	**222,039**

c. The mechanism for computing reserves for unexpired risk in general insurance is mitigating the impact of seasonality on income turnover.

4.11 Intangible assets

a. is the registered trademark of the global AIG corporation.

b. The Company has permission to use the eight registered trademarks of the AIG group – trademarks number 143541, 143542, 143544, 148118, 148119, 148120, 151905, 184361.

c. The Company is the owner of the 185670 trademark relating to the work combination in Hebrew "אופק לחיים" (literally: a horizon for life).

d. The telephone number 1-800-400-400 for communication with the sales centre of the Company is a major brand of the Company and an intangible asset. This telephone number is protected, among other things, through trademark no. 184361.

e. The Company has six databases – claims information, suppliers and agents, employees, job candidates, customers and prospect customers. Those databases store, among other things, information given by customers when buying policies and more information provided in relation to services it provides (such as processing claims). The databases use the Company in the ongoing operation of its business and for marketing insurance policies.

f. For more information on intangible assets - see note 5 to the financial statements.

4.12 **Risk factors**

There are a number of risk factors affecting the profitability and stability of the Company. The following table presents risk factors and their impact on the Company:

	Risk factors	Significant impact	Moderate impact	Small impact
Macro risks	Economic slowdown in Israel		√	
	Interest		√	
	Inflation		√	
	Share and bond prices		√	
	Credit spreads		√	
	Exchange rates			√
	International market risks			√
	Credit risk		√	
	Asset/liability alignment risk			√
Industry risks	Insurance risks	√		
	Portfolio retention		√	
	Competition		√	
	Earthquake	√		
	Terrorism			√
	Epidemic		√	
	Regulation and compliance	√		
	Theft, accidents and fire		√	
	Reinsurance stability		√	
Company-specific risks	Legal risks		√	
	Model, parameters, underwriting risks		√	
	Operating risks		√	
	IT risk	√		
	Liquidity risk			√
	Reputation risk	√		
	Stability of global AIG		√	

The impact of the above risk factors is based on the discretion of management based on the judgment of management based on the existing assessment as of the date of this report. This assessment is general and it is possible that different factors may have indirect impact if occurring concurrently.

For more information on the overall risk exposure of the Company – see note 27 to the financial statements.

4.13 **Material agreements and cooperation agreement**

No agreements were signed not in the ordinary course of business in the reported year.

4.14 **Other forecast and assessments on the business of the Company**

This section, by nature, includes forward-looking information, as defined by the Israel Securities Law, which is uncertain and based on assessments and intentions of the Company as of the date of the report. Company assessments may not materialize or partially materialize or in a different way than assessed by the Company.

The business strategy of the Company and its main targets for each line of business are as follows:

- Maximizing profit from all sources of income of the Company, while focusing on maximizing underwriting profit in each line of business separately.
- Exercising business discipline in underwriting and investment operation
- Maintaining the strength of Company brand
- Focusing on customer retention
- Increasing sales in each insurance line of business, both in the direct channel and through agents
- Balancing between the insurance lines of business without relying on any given line of business
- Constantly exploring new means of distribution
- Constant awareness to customer needs, and accordingly, developing new stand-alone and bundled products
- Providing high-quality customer service
- Control over the extent of Company expenses
- Improving operating efficiency of anything related to decision-support systems
- Nurturing excellence in all Company units.

5. Part E – Corporate governance information

5.1 Information about independent directors

As of the date of the report, the Company's Board of Directors has 10 directors, of which four are independent directors. In the reported period, the Board held 12 meetings.

No changes have occurred in the service of independent directors in 2013.

5.2 Internal auditor

a. Information about the internal auditor and beginning of service:

The internal auditor of the Company is Mr. Thomas Lowe. Mr. Lowe is an accountant (holds a South African license) and has ten years experience in the AIG corporation, including seven years of different rolls in the internal audit system of AIG and three years in financial positions in Europe. He began his services in this roll on September 1, 2013.

b. Securities holding and conflict of interest:
The internal auditor has no business relations with the Company or a related entity. The internal auditor holds two ordinary shares in a related AIG company. This share holding may not affect his work in any way.

c. Work relations and additional roles
The internal auditor is a Company employee who has no other rolls outside the Company. The internal audit work is performed through the personnel of the internal control function, and through an external service provider – Fahn Kanne Control Management Ltd – that is overseen and directed by the internal auditor.

d. Internal auditor replacement:

The previous internal auditor, Mr. Yossi Genosar, the managing partner of Fahn Kanne Control Management Ltd, stepped down on August 20, 2013, and becoming effective on September 1, 2013. The reason for this move was a decision by the Company to appoint an internal auditor who is a Company employee.

e. Scale of employment

The internal auditor scale of employment in 2012 was 4,450 hours, and he spends this number of hours in practice. In 2013, the number of hours was 4,500 hours.

In addition to the internal audit perform by the internal auditor, the internal auditor performs other audits in the Company as follows:

- Performing periodic audits by the internal audit function of AIG. Those audits mainly focus on the financial, risk management and IT aspects.
- Performing audits by profit centers of AIG in the Company, mainly in underwriting and claims.

f. Compensation

The present internal auditor, Mr. Thomas Lowe is an employee of the Company and receives a monthly salary for his work. The former internal auditor, Mr. Yossi Genosar, was compensated based on a fixed hourly rate. The total compensation for the internal auditor in 2013 (including VAT) was NIS 1,554 thousand (2012 - NIS 1,132 thousand).

The board believes that the compensation terms of the internal auditor should not give rise to concern over his professional judgment.

5.3 Independent auditors

The independent auditors of the Company are Kesselman & Kesselman Certified Public Accountant. The partner responsible for the internal audit services is Noam Hadar CPA.

The date of being appointed as independent auditor is March 1996.

The following is the independent auditors' fee in NIS (excluding VAT) for services provided in 2013 and 2012 and the number of hours invested:

2013					
	Fee for audit and tax services	Audit related services	Special tax services	Other services	Total
NIS thousand	796	162	17	118	1,093
Hours	4,736	600	25.5	498	5,860

2012					
	Fee for audit and tax services	Audit related services	Special tax services	Other services	Total
NIS thousand	796	167	73	252	1,288
Hours	5,320	620	117	740	6,797

5.4 <u>Effectiveness of internal controls and the procedures over financial reporting and disclosure of the Company</u>

Controls and procedures related to disclosure:
A financial institution management, in cooperation with CEO and CFO of that financial institution assessed as of the end of the reported period the effectiveness of the controls and procedures in relation to the disclosure of the financial institution. Based on this assessment, CEO and CFO of the financial institution concluded that as of the end of that period, the controls and procedures related to disclosure of the financial institution are effective in order to record, process, summarize and report the information that the financial institution is require to disclose in the annual financial statements according to the provisions of the law and the reporting requirements set by the Supervisor of Capital Markets, Insurance and Savings and on the times indicated in such regulations.

Internal control over financial reporting:
During the covered period ended December 31, 2013, no change has occurred in the internal control of the financial institutions over financial reporting that has had a material impact, or is likely to have a material impact on the internal control of the financial institutions over financial reporting.

5.5 Preparation to implement Solvency II

The following is a disclosure on the preparations made by the Company to implement the Solvency II directive ("**the directive**").

General:
Given a concern for a marked delay in applying the directive in Europe, the Supervisor of Insurance sent a letter to insurance companies in late 2012 titled "Israel Solvency Regimen", in which he continues forming the solvency regimen for Israeli insurers independently from the European process, and announcing that he intends to develop an Israeli solvency regimen.

The letter presents milestones for implementing that Israeli solvency system based on risk in the spirit of the directive, including, among other things, alignment of the regulatory system, filing a quantitative impact study (QIS), future reporting in the IQIS format, and self risk assessment (ORSA).

AIG Israel Insurance Company Ltd

Shay Feldman	Ralph Mucerino
CEO	Chairman of the Board

March 18, 2014

Chapter B: Directors Report of Company's Business for the Year Ended December 31, 2013

Table of Contents

Chapter B: Directors Report

1. Condensed description of the company:

Organizational structure

The company is a private insurance company and does not hold any subsidiaries or related companies. The company has no activities abroad which are conducted through branches and investees

For further details as to the organizational structure of the company, including its holdings structure, its operations and the description of the development of its business – see Section 1.1 in Chapter A (description of company's business) in the company's periodic report.

Lines of business

For details regarding the company's lines of business and changes therein in the course of the reported period, see Section 1.2 and 2.1-2.6 in Chapter A (description of company's business) in the company's periodic report.

For details regarding the composition of premiums in the lines of business, see Section 4 below.

Dependence on clients or marketing entities

For details regarding dependence on clients or marketing entities, see Sections 2.1.3, 2.2.3,. 2.3.3, 2.4.3, 2.5.3, 2.6.3, and 4.7 in Chapter A (description of company's business) in the company's periodic report.

Developments or material changes in agreements with reinsurers

For details regarding developments or material changes in agreements with reinsurers see Section4.5 in Chapter A (description of company's business) in the company's periodic report.

Event or matter outside the ordinary course of company's business

For details regarding the transaction for the acquisition of the shares of Aurec by AIGS Overseas Ltd. ("AIOL") and regarding the transaction for the transfer of AIOL's holdings in the company to AIG Europe Holdings Ltd., see Section 1.1 in Chapter A (description of company's business) in the company's periodic report.

For details regarding material changes in company's management, see Section 4.6 in Chapter A (description of company's business) in the company's periodic report.

For details regarding the setting up of an employees' committee in the company, see Section 8 below.

2. Description of business environment:

Trends in the insurance sector, their effect on company's business in the reported period and on its financial statements data

General

In accordance with data published by the division of Capital Market, Insurance and Savings at the Israel Ministry of Finance, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. In accordance with these data, as of September 30, 2013, insurance fees arising from the general insurance business amounted to NIS 14,956 million (excluding Karnit); the share of the 5 largest insurance companies – Harel, Clal, Phoenix, Migdal and Menorah – amounted to NIS 9,586million, which constituted 64% 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.

Set forth below are data on the changes in the marketable securities indexes in the stock exchange:

	2013	2012	2011
Government bonds indexes			
General government bonds	3.5%	7.9%	5.0%
Linked government bonds	3.0%	9.4%	4.3%
NIS government bonds	4.0%	7.0%	5.2%
Corporate bonds indexes			
Tel Bond 60	6.4%	8.5%	-0.3%
Tel Bond NIS	5.9%	7.4%	5.0%
Shares indexes			
Tel-Aviv 100	15.1%	7.2%	-20.1%

For details regarding the composition of the company's investments see notes 10 and 27 to the financial statements.

Chapter B: Directors Report

For details regarding 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 periodic report.

Characteristics and developments in principal insurance lines of the company

For details about characteristics and developments in principal insurance lines 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 effect of new laws, regulations and provisions on company's business in the reported period and on financial statements data

For details about the effect of the provisions of the law on company's business, Section 4.1 in Chapter A (description of company's business) in the company's periodic report.

Penetration into new fields of operation and marketing thereof

In the course of the reported period, the company did not penetrate into new fields of operations.

3. Financial information regarding the company's lines of business

Set forth below are principal comprehensive income data (in thousands of NIS):

	2013	2012	2011
Gross premiums earned	882,315	827,158	735,053
Premiums earned by reinsurers	(173,387)	(185,701)	(157,712)
Premiums earned – retained amount	708,928	641,457	577,341
Investment income, net and financial income	75,241	97,239	25,333
Income from commissions	42,617	47,628	41,457
Total income	826,786	786,324	644,131
Payments and changes in liabilities in respect of insurance contracts – gross	(587,544)	(403,690)	(429,949)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	170,053	152,790	119,413
Payments and changes in liabilities in respect of insurance contracts – retained amount	(417,491)	(250,900)	(310,536)
Total other expenses	(302,392)	(291,656)	(266,289)
Income before taxes on income	106,903	243,768	67,306
Taxes on income	(41,003)	(86,431)	(22,943)
Income for the year and total comprehensive income for the year	65,900	157,337	44,363

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

	December 31, 2013	December 31, 2012
Other assets	326,383	240,440
Deferred acquisition expenses	140,520	130,191
Financial investments and cash	1,472,481	1,432,882
Reinsurance assets	647,666	585,532
Total assets	**2,587,050**	**2,389,045**
Shareholders' equity	643,004	577,104
Liabilities in respect of insurance contracts	1,569,722	1,409,340
Other liabilities	374,324	402,601
Total equity and assets	**2,587,050**	**2,389,045**

Shareholders' equity and capital requirements

As of December 31, 2013, company's shareholders' equity exceeds the shareholders' equity required as of that date under the Minimum Equity Regulations NIS 126.1 million.

To the best of the company's knowledge, as of balance sheet date no events have taken place that might indicate of financial difficulties or a deficiency in minimal required s equity. Also, in the opinion of the company, it shall not be required to raise funds in the forthcoming year for the purpose of meeting the minimal equity requirement.

For details regarding the amounts of equity required from the company and the existing amounts in accordance with the minimum equity regulations and the said amendment, see note 12 to the financial statements.

4. Results of operations

In 2013 the company continued to increase its gross premiums (an increase of 5.8% compared with gross premiums in 2012. Total gross premiums in the reported period amounted to NIS 888.9 million, compared with NIS 840.5 million in 2012.

Set forth below are principal data regarding premiums by principal operating segments (in thousands of NIS)

2013	Auto Property insurance	Compulsory motor vehicle insurance	Personal property insurance	Health insurance	Commercial insurance	Life insurance	Total
Gross premiums	227,638	135,015	101,852	203,622	118,258	102,494	888,879
Premiums – retained amount	227,530	133,120	80,417	189,388	14,443	80,598	725,496
total gross as % of total	25.6	15.2	11.5	22.9	13.3	11.5	100.0
total Net as % of total	31.4	18.3	11.1	26.1	2.0	11.1	100.0

2012	Auto Property insurance	Compulsory motor vehicle insurance	Personal property insurance	Health insurance	Commercial insurance	Life insurance	Total
Gross premiums	200,477	115,247	96,381	197,205	141,669	89,476	840,455
Premiums – retained amount	200,362	113,631	80,698	175,510	17,107	68,476	655,784
total gross as % of total	23.8	13.7	11.5	23.5	16.9	10.6	100.0
total Net as % of total	30.6	17.3	12.3	26.8	2.6	10.4	100.0

2011	Auto Property insurance	Compulsory motor vehicle insurance	Personal property insurance	Health insurance	Commercial insurance	Life insurance	Total
Gross premiums	182,504	104,074	87,437	171,920	131,565	77,792	755,292
Premiums – retained amount	182,397	102,622	72,776	153,380	18,043	58,976	588,194
total gross as % of total	24.2	13.8	11.5	22.8	17.4	10.3	100.0
total Net as % of total	31.0	17.4	12.4	26.1	3.1	10.0	100.0

In the commercial insurance lines, the reinsurers' component exceeds 85%.

Set forth below are principal comprehensive income data by principal operating segments (in thousands of NIS):

	2013	2012	2011
Income from the Auto Property insurance line	15,911	24,146	11,859
Income from the compulsory motor vehicle line	18,341	121,185	25,640
Income from the personal property insurance line	12,416	25,697	18,987
Loss from the commercial insurance line	(10,657)	(5,290)	(11,525)
Income from the health insurance line	40,284	40,027	15,910
Income (loss) from the life insurance line	(3,849)	3,924	10,963
Other – income (loss) not charged to insurance lines	34,457	34,079	(4,528)
Income before taxes	106,903	243,768	67,306
Taxes on income	(41,003)	(86,431)	(22,943)
Income for the year and total comprehensive income for the year	65,900	157,337	44,363

Set forth below are explanations of the development of some of the above presented data:

a. Company income before tax in the reported period was NIS 106.9 million compared to a NIS 243.8 million income in the corresponding period of 2012. In 2012, and according to an approval obtained from the Supervisor, the Company changed the period for keeping the accumulation in compulsory vehicle business from five to three years. This change significantly increased income before tax in 2012 by NIS 79.3 million and increased the income and total comprehensive income in the corresponding period by NIS 51.3 million.

b. Company income from net investment in the reported period was NIS 75.2 million compared to a NIS 97.2 million in income in the corresponding period of 2012. The decrease in income from investments is mainly attributed to lower yields on Israeli capital market investments in 2013 compared with 2012 (see section 2 above).

c. Company's income from property motor vehicle insurance was NIS 15.9 million compared to a NIS 24.1 million in income in the corresponding period of 2012. The decrease in income is mainly attributed to an increase in the claims ratio, and a significant part of this increase is attributed to damages caused by the floods in December and January 2013.

d. Company income from compulsory vehicle insurance was NIS 18.3 million in the reported period compared to a NIS 121.2 million in income in the corresponding period of 2012. The significant decrease in income arose from the decision of the company in 2012 to keep an "accumulation" for three instead of five years. See paragraph a. above. The significant decrease is also attributed from a decrease in the "accumulation" amount released in the reported period.

e. Company income from Personal property insurance in the reported period was NIS 12.4 million from NIS 25.7 million in the corresponding period of 2012. The decrease in income was mainly due to an increase in claims ratio and a substantial portion of this increase is attributed to damages caused by floods in December and January 2013.

f. Company loss from professional liability insurance in the reported period was NIS 9.3 million from NIS 3.7 million in the corresponding period of 2012. The increase in loss was due to an increase in claims ratio and a decline in investment profits.

g. The loss of the Company from other property lines was NIS 1.5 million during the reported period, compared with a profit of NIS 36 thousands in the corresponding period of 2012. The increase in profits is mainly attributed to a decrease in the claims ratio and the expenses ratio.

h. Company loss from other liabilities business was NIS 2.8 thousand in the reported period compared with a loss of NIS 1.6 million in the corresponding period of 2012. The increase in loss was mainly due to an increase in expenses ratio and a decrease in investments profits.

i. Company income from health insurance was NIS 40.3 million in the reported period compared to a NIS 40.0 million in income in the corresponding period of 2012.

j. Company loss from life insurance was NIS 3.8 million in the reported period compared to a NIS 3.9 million in income in the corresponding period of 2012. The increase in loss was mainly due to an increase in the claims ratio.

Set forth below are the results of operations in the property insurance lines:

a. Underwriting profits (in thousands of NIS)

	2013	2012	2011
Auto Property	10,795	16,855	7,691
Personal property	8,921	20,917	16,007
Other Property lines	805	(953)	(2,075)

b. Principal data regarding the loss ratio ("LR")[1] and the combined ratio ("CR")

	2013		2012		2011	
	LR%	CR%	LR%	CR%	LR%	CR%
Property motor vehicles						
Gross	71%	95%	66%	91%	69%	96%
Retained amount	71%	95%	66%	91%	69%	96%
Personal Property						
Gross	41%	79%	27%	66%	36%	71%
Retained amount	45%	89%	30%	73%	38%	77%
Other insurance lines						
Gross	123%	151%	77%	108%	118%	155%
Retained amount	84%	59%	123%	167%	268%	312%

c. Compulsory vehicle insurance

The "pool" losses in open years are offset against the "accumulation' amount and had no effect on income in the reported period. "Pool" losses in closed years reduced the reported income for 2013 by NIS 7.3 million compared with a decrease of NIS 9.4 million in 2012.

[1] As to gross data, the loss ratio and expenses ratio are computed on the basis of gross premium earned. With regard to retained amounts data, loss ratio and expenses ratio is computed on the basis of premium earned – retained amount.

Chapter B: Directors Report

5. Cash flows and liquidity

Net cash used in operating activities in 2013 amounted to NIS 16,825 thousands, compared with net cash arising from operating activities in 2012, which amounted to NIS 3,762 thousands in 2012.

Net cash used in investing activities in 2013 amounted to NIS 9,387 thousands, compared with NIS 14,118 thousands in 2012.

As a result of the above, the balance of cash and cash equivalents in the reported period decreased by NIS 25,924 thousands and amounted to NIS 67,616 thousands as of December 31, 2013 (after neutralization of the effect of exchange rate fluctuations on the balance of cash and cash equivalents).

6. Sources of funding

All of the company's operations are funded using self resources and equity. The company does not use any external funding sources.

7. The effect of external factors

For details see section 2 above.

8. Material events subsequent to balance sheet date

In January 2014, after it received an application relating to this matter, the Company informed that it intends to recognize the Histadrut – General Federation of Labour in Israel as the organization representing company's employees and act according with the law in connection thereof.

AIG Israel Insurance Company Ltd
Date: March 18, 2014

Shay Feldman	Ralph Mucerino
CEO	Chairman of the Board

March 18, 2014

Declaration

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the year ended December 31, 2013 (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

March 18, 2014

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the year ended December 31, 2013 (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

March 18, 2014

AIG

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 December 31, 2013, 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 December 31, 2013 the internal control of the Insurance Company over financial reporting is effective.

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

Date of approval of financial statements: March 18, 2014

The Hebrew version of the financial statements issued by the company on December 31, 2013 is the most up-to-date for all intents and purposes.

This translation is for convenience purposes only.

AIG ISRAEL INSURANCE CO. LTD.

2013 ANNUAL REPORT

AIG ISRAEL INSURANCE CO. LTD.

2013 ANNUAL REPORT

TABLE OF CONTENTS

AUDITORS' REPORT
To the shareholders of AIG ISRAEL INSURANCE COMPANY LTD
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the internal control over financial reporting of AIG Israel Insurance Company Ltd (hereinafter - the Company) as of December 31, 2013 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying directors' report on internal control over financial reporting. Our responsibility is to express opinions on the internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating the risk of material weakness, and testing and evaluating the design and operating effectiveness of internal control. Our audit also included performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) and the disclosure requirements in the Supervision of Financial Services Law (Insurance), 1981 and the regulations thereunder. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and the disclosure requirements in the Supervision of Financial Services Law (Insurance), 1981 and the regulations thereunder, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework issued by the COSO.

We have also audited, in accordance with generally accepted financial principles, the financial statements of the Company as of December 31, 2013 and 2012, and for each of the three year in the period ended December 31, 2013, and our report, dated March 18, 2014, included an unqualified opinion on those financial statements.

Tel Aviv, Israel
March 18, 2014

Kesselman & Kesselman
Certified Public Accountants
Member of PricewaterhouseCoopers International Limited

AUDITORS' REPORT

To the shareholders of

AIG ISRAEL INSURANCE CO. LTD.

We have audited the attached statements of financial position of AIG Israel Insurance Co. Ltd. ("the Company") as of December 31, 2013 and 2012 and the statements of comprehensive income, changes in equity and cash flows for each of the three-year period ended December 31, 2013. These financial statements are the responsibility of the Board of Directors and management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Auditors' (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, formulated on the basis of our audits, the financial statements referred to above present fairly, in all material respects and in accordance with the provisions of international financial reporting standards and the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder, the financial position of the Company as of December 31, 2013 and 2012 and the results of its operations, the changes in its equity and its cash flows for each of the three years in the three-year period ended December 31, 2013.

We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) of the United States on auditing internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel, the internal control over financial reporting of the company as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). And our report dated March 18, 2014 expressed an unqualified opinion on the Company's effectiveness of internal control over financial reporting.

Tel-Aviv, Israel
March 19, 2014

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

Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,
P.O Box 50005 Tel-Aviv 6150001 Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, www.pwc.com/il

AIG ISRAEL INSURANCE CO. LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2013	December 31 2012
		ILS in thousands	
Assets			
Intangible assets	5	14,799	15,732
Deferred acquisition expenses	6	140,520	130,191
Property and equipment	7	15,248	16,885
Reinsurance assets	13, 28	647,666	585,532
Premiums collectible	9	186,414	174,155
Current tax assets	18	70,879	-
Other receivables	8	39,043	33,668
		1,114,569	956,163
Financial investments:	10		
Marketable debt instruments		1,174,216	1,099,646
Non-marketable debt instruments		128,704	77,925
Marketable shares		77,352	68,284
Other		24,593	93,487
Total financial investments		1,404,865	1,339,342
Cash and cash equivalents	11	67,616	93,540
TOTAL ASSETS		2,587,050	2,389,045

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

Date of approval of financial statements by Board of Directors March 18, 2014.

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE CO. LTD.

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2013	December 31 2012
		ILS in thousands	
Equity and liabilities			
EQUITY:	12		
Share capital		6	6
Share premium		250,601	250,601
Other capital reserve		11,084	11,084
Retained earnings		381,313	315,413
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS		643,004	577,104
LIABILITIES:			
Liabilities with respect to insurance contracts and non-profit participating investment contracts	13	1,569,722	1,409,340
Liabilities with respect to deferred taxes, net	18	26,889	8,877
Liabilities with respect to employee rights upon retirement, net		2,445	2,326
Liabilities towards reinsurers	28	256,185	254,484
Liabilities with respect to current taxes	18	-	48,549
Payables	19	88,805	88,365
TOTAL LIABILITIES		1,944,046	1,811,941
TOTAL EQUITY AND LIABILITIES		2,587,050	2,389,045

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE CO. LTD.

STATEMENTS OF COMPREHENSIVE INCOME

	Note	2013	2012	2011
		Year ended December 31		
		ILS in thousands		
Gross premiums earned		882,315	827,158	735,053
Premiums earned by reinsurers		(173,387)	(185,701)	(157,712)
Premiums earned - retained amount	20	708,928	641,457	577,341
Investment income, net and financing income	21	75,241	97,239	25,333
Commission income	22	42,617	47,628	41,457
TOTAL INCOME		826,786	786,324	644,131
Payments and movement in liabilities with respect to insurance contracts, gross		(587,544)	(403,690)	(429,949)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts		170,053	152,790	119,413
Payments and movement in liabilities with respect to insurance contracts, retained amount	23	(417,491)	*(250,900)	(310,536)
Commission, marketing expenses and other acquisition expenses	24	(167,520)	** (163,551,)	** (147,958)
General and administrative expenses	25	(133,847)	** (125,899)	** (119,711)
Financing (income) expenses	26	(1,025)	(2,206)	1,380
TOTAL EXPENSES		(719,883)	(542,556)	(576,825)
INCOME BEFORE TAXES ON INCOME		106,903	243,768	67,306
Taxes on income	18	(41,003)	(86,431)	(22,943)
INCOME FOR YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		65.900	157,337	44,363
BASIC EARNINGS PER SHARE:				
Basic earnings per share		11.71	27.95	7.88
Number of shares used in computation of basic earnings per share		5,630	5,630	5,630

* As for reducing the period of "surplus reserve" compulsory vehicle sector, see note 2.q.1.a.

** Certain amounts were reclassified, see note 2.s.

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE CO. LTD.

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Other surplus	Retained earnings	Total
	ILS in thousands				
BALANCE AS OF JANUARY 1, 2013	6	250,601	11,084	315,413	577,104
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2013:					
Total comprehensive income fortheyearended December 31, 2013				65,900	65,900
BALANCE AS OF DECEMBER 31, 2013	6	250,601	11,084	381,313	643,004
BALANCE AS OF JANUARY 1, 2012	6	250,601	11,084	158,076	419,767
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2012:					
Total comprehensive income fortheyearended December 31, 2012				157,337	157,337
BALANCE AS OF DECEMBER 31, 2012	6	250,601	11,084	315,413	577,104
BALANCE AS OF JANUARY 1, 2011	6	250,601	10,898	113,713	375,218
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2011:					
Total comprehensive income for the year ended December 31, 2011				44,363	44,363
Benefit component in respect of grant of share-based payments to employees by controlling shareholder			186		186
BALANCE AS OF DECEMBER 31, 2011	6	250,601	11,084	158,076	419,767

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE CO. LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2013	**2012**	**2011**
	ILS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash (used in) provided by operating activities (Appendix A)	84,298	(15,557)	43,858
Interest received	39,693	40,660	36,198
Dividend received	2,234	3,680	3,488
Income taxes paid	(143,050)	(25,021)	(31,274)
Net cash (used in) provided by operating activities	(16,825)	3,762	52,270
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in asset cover for equity and noninsurance liabilities:			
Acquisition of property and equipment	(4,516)	(2,916)	(1,524)
Acquisition of intangible assets	(4,871)	(11,202)	(5,352)
Net cash used in investing activities	(9,387)	(14,118)	(6,876)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26,212)	(10,356)	45,394
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	93,450	103,562	59,879
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	288	334	(1,711)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	67,616	93,540	103,562

The accompanying notes are an integral part of the financial statements.

AIG ISRAEL INSURANCE CO. LTD.

STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2013	**2012**	**2011**
	ILS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before taxes on income	106,903	243,768	67,306
Adjustments with respect to:			
Income and expenses not involving cash flows:			
Increase in liability with respect to nonprofit participating insurance contracts	98,248	(35,688)	43,223
Increase in deferred acquisition expenses	(10,329)	(11,533)	(18,353)
Benefit component in capital instruments granted to employees and other benefits	-	-	186
Increase in liability for employee rights upon retirement, net	119	279	(65)
Depreciation of property and equipment	6,153	4,775	5,371
Depreciation of intangible assets	5,804	5,453	4,322
Losses (gains), net on realization of financial investments:			
Marketable debt instruments	(14,121)	(40,324)	(3,379)
Nonmarketable debt instruments	(939)	(1,072)	(2,606)
Marketable shares	(10,062)	(2,823)	19,966
Marketable basket certificates	(9,511)	(9,341)	160
Influence of fluctuation in exchange rate on cash and cash equivalents	(288)	(334)	1,711
	171,977	153,160	117,842
Changes in operating assets and liabilities:			
Liabilities towards reinsurers	1,701	43,074	13,920
Investments in financial assets net	(30,891)	(160,121)	(41,491)
Premiums collectible	(12,259)	(17,942)	(7,158)
Receivables	(5,375)	(2,813)	(1,651)
Payables	437	13,425	2,082
Current tax liabilities	635	-	-
	(45,752)	(124,377)	(34,298)
Adjustments with respect to interest and dividend received:			
Interest received	(39,693)	(40,660)	(36,198)
Dividend received	(2,234)	(3,680)	(3,488)
Net cash (used in) provided by operating activities	84,298	(15,557)	43,858

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

The accompanying notes are an integral part of the financial statements.

NOTE 1 - GENERAL

AIG Israel Insurance Company Ltd (hereinafter "the company") was incorporated in Israel on March 27, 1996 as a private, limited liability company. The company commenced its insurance activity in May 1997. The company does not hold any subsidiaries or related companies.

The ultimate parent is American International Group Inc. (hereinafter - "global AIG" or "AIG"), which holds all ordinary and voting shares of the Company. The AIG corporation is a global leading insurance and financial institution.

On May 13, 2013, Aurec Gold Investment Ltd ("Aurec"), a former shareholder of the Company, which had held 49% of the issued interest of the Company, transferred ownership of all shares of the Company to American International Overseas Ltd ("AIOL") under a share acquisition agreement entered into by the parties in January 2013.

In early December 2013, as part of restructuring in the AIG corporation, AIOL transferred all its equity interest in the Company to AIG Property Casualty International LLC, which in turn transferred the equity interest to AIG Europe Holdings Limited ("AEHL"). As of the date of date of the financial statements, the sole shareholder of the Company is AEHL, which holds the entire issued and paid up share capital of the Company. AEHL is a company in the global AIG corporation.

The registered office of the company is 25 Hasivim St., Petach Tikva, Israel.

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) Surplus reserve* - The accumulated surplus of income over expenses (comprising premiums, acquisition costs, claims and part of the incomes from investments, all net of the reinsurers' share for the relevant underwriting year), as calculated in accordance with the Regulations for Calculation of General Insurance Funds, less a provision for unexpired risks and less outstanding claims.

    (*) The balance sheet includes the surplus reserve under the "liabilities in respect of nonyield dependent insurance contract and investments".

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

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

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

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

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

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

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

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

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

23) Premium - Premium including fees.

24) Premiums earned - Refers to premiums that relate to the period under review.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation of financial statements

The Company's financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, are in compliance with International Financial Reporting Standards, which are standards and interpretations issued by the

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

a. Basis of presentation of financial statements (continued):

International Financial Reporting Interpretations Committee (IASB) (hereafter – IFRS) and include the disclosure requirements set in accordance with the Supervision Law and regulations promulgated thereunder.

Unless otherwise stated, the significant accounting policies described below have been applied on a consistent basis in relation to all the years presented.

The financial statements have been prepared under the historical cost convention according to International Accounting Standard No. 29, 'Financial Reporting in Hyperinflationary Economies' ("IAS 29" , subject to such adjustments as were required with respect to the revaluation of severance pay plan assets and financial assets and liabilities at fair value through profit or loss for the purpose of presenting those assets and liabilities at fair value, and subject also to the comments set out below with respect to the period during which the Israel economy was affected by hyperinflation.

The preparation of financial statements under IFRS, and especially the financial statements of an insurance company, requires management to make certain significant accounting estimates. It is also required that management exercise discretion in the process of applying the accounting policies of the Company. The principal assumptions used in the preparation of the Company's financial statements are based on actuarial estimates. Actual results could differ significantly from those derived from the use of estimates and assumptions by management. For information relating to those areas where management is required to make significant accounting estimates or exercise a significant degree of discretion in relation to accounting matters, see Note 3.

b. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decisionmaker in the Group. The chief operating decisionmaker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the company management that makes strategic decisions.

c. Translation of balances and transactions denominated in foreign currency:

1) Functional currency and presentation currency

Items reflected in the financial statements of the Company are measured in New Israel Shekels, which is the currency of the principal economic environment in which the Company operates ("the functional currency"). The financial statements of the Company are also presented in New Israel Shekels, since this is also the presentation currency of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Translation of balances and transactions denominated in foreign currency (continued)**:**

1) Functional currency and presentation currency (continued):

The table below sets out the changes in the exchange rate of the U.S. dollar and the Consumer Price Index during the course of the periods under review:

	Exchange rate of dollar	Consumer Price Index (last known index)	Consumer Price Index (index for particular month
		%	
Year ended December 31, 2013	(7.0)	1.9	1.8
Year ended December 31, 2012	(2.3)	1.4	1.6

As of December 31, 2013, the exchange rate of the U.S. dollar was $1 ILS 3.471.

2) Transactions and balances

Transactions denominated in currencies other than the functional currency ("foreign currency") are translated into the functional currency by means of the exchange rate prevailing on the date of the transaction. The statement of income is charged or credited with exchange rate differentials stemming from the settlement of accounts relating to the above transactions and from the translation of monetary assets and liabilities denominated in a foreign currency at the rates of exchange prevailing at the end of the period.

Translation differences with respect to financial assets which are not monetary items, such as equity securities (examples of which are shares and options), and which are classified as financial instruments at fair value through profit or loss, are recognized in the statement of comprehensive income as part of the gain or loss arising on changes in their fair value under "net investment income and financing income".

Income or loss arising from change in exchange rate and related to deposits and nonmarketable securities are also recognized in comprehensive income under "net investment income and financing income".

Income or loss arising from other changes in exchange rates are presented in comprehensive income under "financing expenses".

d. Property and equipment

Property and equipment is initially reflected in the accounting records at the cost of acquisition. Subsequent costs incurred are either added to the carrying value of the asset in question or recognized as a separate asset, as appropriate, only if it may be expected that the future economic benefits attributable to the item will flow to the Company and that the cost of the asset may be reliably measured. If part of the item of property and equipment is replaced, the carrying value of that part is eliminated from the accounting records. All other repair costs, as well as maintenance expenses, are charged against income as incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Property and equipment (continued):

Property and equipment are presented at cost after deduction of accumulated depreciation and impairment losses. The historic cost includes costs directly attributable to the purchase of the asset.

Writedowns and impairments of value relating to property and equipment presented at cost are charged to the statement of comprehensive income.

Depreciation is computed by means of the straightline method in order to arrive at a residual value after depreciation of the cost or revalued amount of the asset over its estimated useful life, as follows:

	Annual depreciation rate
	%
Computers and communications equipment	20 - 33
Furniture and office equipment	7 - 15

Improvements to leasehold premises are amortized by means of the equal depreciation method over the shorter of the contractual period of the lease and the estimated life of the improvements.

The residual values and useful lives of assets are subject to review, and if necessary, adjustments as of each balance sheet date.

Should the carrying value of an asset be greater than its estimated recoverable value, the resultant impairment of value stemming from the reduction of the carrying value to the level of the recoverable value is recognized immediately (see paragraph (f) below).

Gains or losses on the realization of assets are determined by means of a comparison between the carrying value of the asset and the consideration received for it, and are recognized in other income in profit or loss.

e. Intangible assets (software)

Software licenses acquired are capitalized on the basis of the actual costs incurred in the acquisition of the specific software and in the preparation of that software for use. These costs are amortized under the straightline method on the basis of the estimated useful life of the asset (from three to five years).

Costs relating to the development or maintenance of software are recognized as expenses as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company which meet the conditions for recognizing intangible assets as specified below are recognized as intangible assets. Those costs include the software development employee costs and an appropriate portion of the relevant overheads.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

e. Intangible assets (software) (continued):

Expenditure on software development (see below) shall be capitalized as intangible assets when the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use exists;
- Management intends to complete the intangible asset and use or sell it;
- It would be possible to use or sell the intangible asset;
- The way the intangible asset will generate probable future economic benefits is demonstrable;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability of management to measure reliably the expenditure attributable to the intangible asset during its development.

Other software development costs that do not meet the above criteria are recognized as cost as incurred. Software development costs previously recognized as an expense are not recognized as an asset on a subsequent period. Capitalized development costs are presented as intangible assets and amortized as from the time the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management in accordance with the straight-line method and over its useful live (which does not exceed 5 years).

f. Impairment in value of nonmonetary assets

If an event or change in circumstances occurs that indicates that the carrying value of a depreciable asset exceeds the recoverable value of that asset, the Company undertakes a review of the decline in value of the asset in question. The amount of the recognized impairment loss is equivalent to the amount by which the carrying value of the asset exceeds the recoverable value thereof. The recoverable amount of an asset is the higher of the fair value of that asset, after deduction of selling costs, and the usage value of the asset. For the purpose of impairment reviews, assets are grouped by reference to the lowest possible level at which separate cash flows can be identified (cashgenerating units). At each balance sheet date, nonmonetary assets which have suffered impairments in value are reviewed for the purpose of determining whether or not any previously recognized impairments of value can be reversed.

g. Financial assets:

1. Classification

The Company classifies its financial assets as either financial assets at fair value through profit or loss or as loans and receivables. The classification is determined by reference to the purpose for which the assets were acquired. Management determines the classification of financial assets on the date of their initial recognition.

a) Financial assets at fair value through profit or loss

This category is comprised of two subcategories - financial assets held for trading purposes and financial assets designated to be measured at fair value through profit or loss. A financial asset is placed in this category if it has been acquired principally for the purpose of sale in the short term or if management has specifically placed the asset in the category, otherwise they are classified as noncurrent assets.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Financial assets (continued):

1. Classification

a) Financial assets at fair value through profit or loss

Derivative financial instruments are also categorized as assets held for trading purposes, unless they are designed for hedging purposes. Assets are classified to current assets in cases where they are held for trading or expected to be disposed of within one year from the date of statement of financial position.

b) Loans and receivables

Loans and receivables are nonderivative financial assets, marked by payments that are either fixed or capable of being fixed and which are not quoted in an active market. The loans and receivables of the Company are reflected in the balance sheet items, other receivables, premiums collectible, nonmarketable debt instruments and cash and cash equivalents.

2. Recognition and measurement

Ordinary purchases and sales of financial assets are recorded on the date of completion of the transaction, this being the date on which the asset is transferred either to or by the branch. The investment in all financial assets that are not presented at fair value through profit or loss is initially recognized in an amount equivalent to the sum of the fair value of the assets and the related transaction costs. Financial assets that are presented at fair value through profit or loss are initially recognized at fair value, with transaction costs being charged against proft or loss. Financial assets are eliminated from the balance sheet when the rights to the related cash flows have either expired or been transferred, and the Company has, in addition, transferred all the risks and rewards stemming from the ownership of those assets. Financial assets at fair value through profit or loss are presented in subsequent periods at fair value. Loans and receivables are presented at amortized cost as computed by means of the effective interest method.

Gains or losses stemming from changes in the fair value of financial assets at fair value through profit or loss are presented under investment income (loss), net in the statement of comprehensive income for the period in which the gains or losses accrued. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of comprehensive income under investment income, net and financing income insofar as the Company is entitled to this income.

The fair value of financial instruments quoted in an active market is based on the current selling price of those instruments. If the financial asset is traded in a market that is not active, or if the instrument is not listed for trading, the Company uses a variety of valuation methods for determining the fair value. These methods include a reliance on recent transactions carried out under market conditions, a reliance on other instruments the principal characteristics of which are similar to those of the instrument being valued, an analysis of capitalized cash flows, and the use of option pricing models that are based primarily on market data and as little as possible on data specific to the Company itself.

As to the fair value of financial assets measured at fair value, see note 10.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3. Offsetting financial instruments

   Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

4. Impairment of assets presented at amortized cost

   The Company assesses at the each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

   Objective evidence of impairment or a financial asset or a group of financial assets may include observable data that were brought to the attention of the group regarding loss events such as indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows and other indications.

   The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan or heldtomaturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

   If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

h. Premiums collectible

The balance of collectible premiums relates to amounts receivable from the company's insureds for insurance policies granted in the ordinary course of business.

Premiums collectible are initially recognized at fair value and subsequently measured at amortized cost as computed by means of the effective interest method after deduction of the provision for doubtful debts. A provision for doubtful debts is created when objective evidence exists to the effect that the Company is unable to collect all the outstanding debts receivable under the original terms. Significant financial difficulties of the debtor, a likelihood that the debtor will declare bankruptcy or undertake a restructuring exercise, and insolvency or arrears in payments are all regarded as indicators of an impairment of value of a debt. The carrying value of the debt is reduced by means of a provision account, with the amount of the loss being recognized in the statement of income. When the debt of a customer is not collectible, that debt is written off against the provision for doubtful debts.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Premiums collectible (continued):

The payment in a subsequent period of a debt that was previously written off is credited to the statement of income.

i. Cash and cash equivalents

Cash and cash equivalents include cash in hand, shortterm bank deposits, and other shortterm highlyliquid investments with maturity dates not exceeding three months from the date of the investment.

j. Share capital

Ordinary shares and preferred shares of the company are classified as share capital.

k. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

Outstanding trade payables are initially recognized at fair value and subsequently measured at amortized cost as computed by means of the effective interest method.

l. Liabilities towards reinsurers and payables

Outstanding liabilities towards reinsurers and outstanding payables are initially recognized at fair value and subsequently measured at amortized cost as computed by means of the effective interest method.

m. Current and deferred taxes

The tax expense for the period is comprised of current taxes, deferred taxes and taxes relating to prior years. Taxes are recognized in the statement of comprehensive income, except for taxes related to items charged to other comprehensive income or directly to equity, which are also recognized in the statement of comprehensive income, respectively together with the item in respect of which they were created. The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date in the counties where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates the tax aspects applicable to its taxable income, in accordance with the relevant tax laws and establishes provisions where appropriate.

The Company recognizes deferred taxes by means of the liability method for all timing differences as between the amounts of assets and liabilities as presented in the financial statements and the equivalent amounts as computed for tax purposes. The above notwithstanding, deferred taxes are not recognized if the timing differences are created upon initial recognition of an asset or liability, if, upon the date of the transaction, the asset or liability did not affect the profit or loss, either for accounting purposes or for tax purposes.

The deferred tax provision is computed by reference to the rates of tax expected to be in force at the time of realization of the deferred tax asset or at the time of settlement of the deferred tax liability, insofar as the legislation with respect to these tax rates and other taxing legislation has, as at the date of the balance sheet, already passed into law.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

m. Current and deferred taxes (continued)

The above notwithstanding, the deferred tax provision will be similarly computed if the legislative procedures in relation to proposed legislation have, as at the date of the balance sheet, been substantially completed.

Deferred tax assets are recognized for timing differences that may serve to reduce the tax expense, provided that the deferred tax assets may be expected to be capable of being utilized against future chargeable income.

Deferred income tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- When the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

n. Employee benefits:

1) Liability for severance and pension payments

Pension plans

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan.

The company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered pension funds. In accordance with their terms, the said pension schemes qualify as defined contribution plans.

In accordance with the provisions of Israel labor laws and agreements, and in accordance with the Company’s prevailing practice, the Company is required to make severance payments to employees who are dismissed or who retire from their employment in certain circumstances. The Company’s obligation to make severance payments is covered, for some employees, by a defined benefit plan and, for other employees, by a defined contribution plan.

In relation to the Company’s obligation to those employees covered by a defined benefit plan, the benefits receivable by an employee entitled to severance pay upon retirement are based upon the number of years of service and the final salary.

The Company’s obligation with respect to the remainder of its employees who are covered by a defined contribution plan is met by regular deposits with a separate and independent entity. If the assets of a fund do not cover the payments due to all employees in respect of accrued benefits for the present and earlier periods. The contributions are recognized as employee benefit expense commensurate with receipt from employees of the service in respect of which they are entitled for the contributions. Prepaid contributions are recognized as an asset to the extent that a refund of the excess amounts or a reduction in the future payments is available.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Employee benefits (continued):

1) Liability for severance and pension payments

The severance pay liability presented in the balance sheet is the present value of the defined benefit liability as of the date of the balance sheet, after deducting the fair value of the plan assets. The defined benefit liability is measured on an annual basis by independent actuaries by means of the projected unit credit method.

The present value of the defined benefit liability is computed by discounting expected future cash flows, after taking into consideration the expected rate of salary increases. The computation is based on the prevailing interest rates for government debentures denominated in the currency in which the benefits are to be paid, insofar as the period prior to the date of repayment of those debentures resembles the period remaining before actual payment of the severance pay liability is due.

Under the provisions of International Accounting Standard No. 19, 'Employee Benefits' ("IAS 19"), the discount rate used in the computation of the actuarial liability is determined by reference to the market returns as of the balance sheet date of high quality corporate debentures. The above notwithstanding, IAS 19 notes that, in those countries where there is no deep market in debentures of this kind, use should be made of the market returns on government debentures as of the date of the balance sheet.

As stated above, the interest rate used by the Company for the purpose of discounting anticipated future cash flows in order to compute the actuarial liability is based on the prevailing interest rates of highlyrated government debentures, because, in the opinion of management, there is no deep market in industrial debentures in Israel.

Under IAS 19 Remeasurements of the net defined benefit liability (asset) are charged by the company to other comprehensive income in the period in which they arise. These remeasurements arise as a result of changes in actuarial assumptions, changes in past assumptions and actual results and differences between the return on plan assets and amounts included in net interest on net defined benefit liability (asset).

Costs relating to past services are recognized in the statement of income on a regular basis.

Severance pay funding is measured by reference to fair value.
The funding referred to above constitutes plan assets as that term is defined by IAS 19, and is accordingly offset against the liability for employee rights upon retirement for balance sheet presentation purposes.

2) Vacation and rest and recreation pay

Every employee is entitled by law to paid days of vacation and rest and recreation pay, both calculated on an annual basis. The degree of entitlement is based on the length of service. The Company makes provision for vacation and rest and recreation pay on the basis of the accumulated entitlement of each employee.

The company expects that the vacation benefit shall be fully settled in the course of the 12 months period after the end of the reporting period in which the employees provide the relating services. Accordingly, the liability in respect of this benefit is measured in accordance with the additional amount the company expects to be required to pay for the unutilized entitlement accrued as of the end of the reporting period.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Employee benefits (continued):

3) Bonus schemes

The Company recognizes bonuses as a liability and an expense if required to do so by virtue of a contractual obligation or where previous practice with respect to the payment of bonuses has created an implied obligation to make such payments and at least one of the following conditions is met:

(a) The formal terms and conditions of the plan include a formula for determining the benefit;
(b) The company sets the amounts to be paid prior to approving the financial statements for publication;
(c) A pattern of past activity provides clear evidence for the amount of implied obligation of the company.

o. Provisions

Provisions are made for legal claims that are not recognized insurance claims when the Company has an existing legal or constructive obligation arising out of past events, when it is expected that Company resources will be required in order to settle the obligation, and when the amount of the obligation can be reliably estimated. The Company does not recognize provisions for future operational losses.

Should a number of similar obligations exist, the likelihood that Company resources will be required in order to settle the obligations is assessed by means of a consideration of the group of obligations as a whole. A provision is recognized even if the likelihood of Company resources being required to settle each of the individual obligations in the group is low.

Provisions are measured by reference to the present value of the projected cash flows required to settle the obligation. The present value is computed through the use of such pretax discount rate as reflects current market evaluations of both the time value of the money involved and the specific risks associated with the obligation. An increase in the provision that is caused by the passage of time is treated as an interest expense.

As to insurance claims, see r below.

p. Revenue recognition:

1) Premiums

Premiums stemming from general insurance business are recorded as income as and when they appear on monthly yield reports. Premiums stemming from life assurance business are recorded as income as and when they fall due under the terms of the relevant policy.

Revenues from gross premiums together with related changes in unearned premiums are recorded under premiums earned, gross.

Premiums stemming from policies that commence after the date of the balance sheet are recorded as prepaid income.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

p. Revenue recognition (continued):

The income reflected in the financial statements takes account, subject to the provisions of any law, of policies that have been cancelled by policyholders and of cancellations and provisions stemming from the nonpayment of premiums, and include payments for related services (towing, repairs etc.).

Premiums, commission and claims arising from underwriting pools and joint insurance are recorded on a proportionate basis in accordance with the rate of the Company's participation in the relevant contracts. Compulsory vehicle insurance premiums are recognized upon paying the premium since coverage is conditioned on paying the premium.

2) Income from commissions

Income from commissions received from reinsurers are charged on the basis of the dates of entitlement to receive the commissions under the agreements, net of change in deferred purchase expenses in respect of reinsurers.

3) Income from investments, net and financing income:

Gains and losses from net investments and finance income include interest income in respect of amounts invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and gains and losses from exchange differences on assets. Interest income is recognized when they arise using the effective interest method. Dividend income is recognized when the right to receive payment is established. If dividend is received in respect of marketable shares, the company recognizes this income on the Ex dividend day.

q. Insurance contracts

International Financial Reporting Standard No.4, 'Insurance Contracts' ("IFRS 4"), exempts an insurer from the requirement to apply the provisions of International Accounting Standard No. 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' ("IAS 8"), with five exceptions, when formulating its accounting policy with respect to insurance contracts. IAS 8 determines, inter alia, the manner in which accounting policy shall be formulated in relation to transactions or events not covered by specific provisions of international financial reporting standards.

The significant accounting policies and methods of computation relating to general insurance business and life assurance business used in the preparation of these financial statements were as follows:

1. General insurance:

a) Unexpired risk reserves, deferred acquisition expenses and pending claims are computed and presented in accordance with the general insurance reserve computation regulations.

In accordance with the instructions of the Supervisor of Insurance, the pending claims reflected in the financial statements in relation to particular insurance sectors (comprehensive household insurance, car damages insurance, compulsory car insurance, employer's liability insurance, third party, professional liability, product warranty, loss of property and engineering insurance) are valued by an actuary, Ms. Avital Kohler, who has reported that she has valued the pending claims in accordance

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Insurance contracts (continued):

1. General insurance (continued):

with the provisions of the supervision law, the instructions of the Supervisor of Insurance, and generally accepted actuarial principles as of the date of the financial statements, and that, to the best of her knowledge and in accord with her best assessment, the provision for pending claims constitutes a provision that is sufficiently adequate for the purpose of covering the Company's liabilities with respect to the claims pending in the abovementioned sectors, both in total and in relation to each sector considered separately.
The actuarial valuations relate to claims in gross terms and to claims as they relate to the retained portion of the insurer's operations.

In addition, in accordance with the general insurance reserve computation regulations, in the compulsory motor vehicle and other liability sectors, the accumulation must be maintained for the period of three years commencing with the year in which the policies were issued and it must be computed in the manner prescribed by the regulations and circulars of the Supervisor of Insurance.

In accordance with a circular of the Supervisor of Insurance, as of 2007, the accumulation must incorporate investment income at a fixed annual real rate of 3%, without reference to the actual returns obtained, this being a change from the manner in which investment income was reflected in the accumulation in years prior to 2007. The above notwithstanding, the above circular also determined that the opening balance of the accumulation as of January 1, 2007, as reflected in the Company's accounting records and computed in accordance with the method prevailing prior to 2007, should not be changed.

According to an approval by the Supervisor, prior to 2012, the company has maintained in the compulsory vehicle business an surplus reserve of five years compared to three years, as is the practice in the industry. Beginning in 2012, in accordance with an agreement with the Supervisor of Insurance and in view of the company's experience with actuary computations in this sector, the company maintains a three-year surplus reserve, according to practice in the industry. This change has reduced the payment and change in liabilities for gross insurance contracts in 2012, and increased the pre-tax income by ILS 79.3 million, and increased profit for the period and comprehensive income for the period by ILS 51.3 million.

In accordance with instructions received from the Supervisor of Insurance, if, in any particular sector, the balance of the accumulation before the share thereof attributable to reinsurers is lower than the above accumulation balance after adjustment with respect to the share thereof attributable to reinsurers, then the share of the above accumulation attributable to reinsurers shall be reflected in the balance sheet under 'liabilities with respect to insurance contracts and nonprofit participating investment contracts' instead of under 'reinsurance assets.'

b) Provision for indirect costs incurred in the settlement of pending claims-

In accordance with the provisions of IFRS 4, the provisions for pending claims also incorporate a provision for indirect costs incurred in the settlement of claims.

c) In relation to sectors discussed in subparagraph 1a above, except for sectors with no statistical significance, IBNR and IBNER provisions have been computed on an actuarial basis. In relation to other sectors, IBNR and IBNER provisions have been computed by reference to past experience and in accordance with statistical computations prescribed by the Supervisor of Insurance.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Insurance contracts (continued):

d) The total of the subrogated claims appearing in the balance sheet does not exceed the amount which, in the opinion of management, is collectible.

e) As to revenue recognition, see p above.

f) That part of the commission and other acquisition expenses which relates to unearned premiums stemming from the retained portion of the Company's business is transferred to succeeding reporting periods as deferred acquisition expenses. These expenses are computed, for each individual sector, by reference to the lower of, on the one hand, the actual expenses incurred and, on the other hand, the percentage of the unearned premium, the percentage in question being determined by the standard rates specified by the supervision regulations.

g) The acquisition costs of policies, the underwriting periods for which have not yet commenced, are recognized in the statement of income for the year in which their underwriting period commences and not in the statement of income for the year under review.

h) The unexpired risk reserve, presented under 'liabilities with respect to insurance contracts and nonprofit participating investment contracts, is comprised of unearned premiums which are not actuarially computed and which are not subject to any assumptions whatsoever. This reserve reflects insurance premiums relating to the period of insurance commencing after the date of the balance sheet.

i) In accordance with the instructions of the Supervisor of Insurance, the reserve shall contain, if so required, a provision for anticipated losses (premium shortfall), computed on the basis of an actuarial valuation.

2. Life assurance:

a) In accordance with the provisions of the life assurance segregation of accounts regulations, the Company manages its life assurance business as a separate operation and segregates the assets relating thereto.

b) As to revenue recognition, see p above.

c) Life assurance reserves, the portion of those reserves attributable to reinsurers, and deferred acquisition costs have been computed by the Company's actuary, Ms. Michal Burger, who has reported that the amounts in question ("the amounts") were based on Company data, the accuracy and completeness of which she has reviewed. Ms. Burger has also reported that the amounts were computed in accordance with accepted actuarial methods and the data utilized by the Company in connection with its insurance plans. The computational principles involved were consistent with those of the previous year. As to actuarial methods used to calculate the insurance liabilities, see section e1) to note 27.

In accordance with the provisions of the 'details of report' regulations, the deferred acquisition costs of new life assurance policies include those general and administrative expenses that relate to the acquisition of new policies. Under these provisions, the deferred acquisition costs are amortized in equal annual installments over the shorter of fifteen years and the period of the policy. In addition, a special amortization expense is recorded in order to ensure that the deferred acquisition costs

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Insurance contracts (continued):

2. Life assurance:
do not exceed the amount that may be covered by future income. In accordance with the Company's actuarial declaration, the deferred acquisition costs for policies issued since May 1999, treated as an asset in the Company's accounting records, are expected to be covered by future income.

r. Earnings per share

As a general rule, the computation of basic earnings per share is based on the profit distributable to Ordinary shareholders. The profit is divided by the weighted average number of Ordinary shares in issue during the course of the period.

s. Reclassifications

Certain comparative figures which are presented only in the statement of income were reclassified. These reclassified amounts are not material to the company's financial statements.

t. Details of the provisions of new standards and of amendments to existing standards, which came into effect and are mandatory for reporting periods starting January 1, 2013:

a) IFRS 13 "Fair Value Measurements"

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of "fair value" and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other IFRSs.

The Company will apply IFRS 13 for annual periods beginning on January 1, 2013. IFRS 13 is applied prospectively as of the beginning of the above annual period. The disclosure requirements of the new guidance do not need to be applied in comparative information for periods before initial application of IFRS 13. The first time implementation of IFRS 13 is not expected to have material impact on the consolidated financial statements of the Company.

b) IAS 19 Amendment "Employee Benefits" (hereinafter - IAS 19 Amendment)

IAS 19 Amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits discussed in IAS 19. The key changes are as follows:

"Actuarial gains and losses" are renamed "remeasurements of the defined benefit liability (asset)" (hereinafter - remeasurements), which includes in addition to actuarial gains and losses, certain elements defined in IAS 19 Amendment. Remeasurements are immediately recognized in "other comprehensive income" (OCI). This eliminates the option for recognition of actuarial gains and losses and also eliminates the option to use of the corridor approach.

Past-service costs will be recognized immediately in the period of a plan amendment and no longer be spread over a future-service period to vesting.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Details of the provisions of new standards and of amendments to existing standards, which came into effect and are mandatory for reporting periods starting January 1, 2013 (continued)**:**

b) IAS 19 Amendment "Employee Benefits" (hereinafter - IAS 19 Amendment)

Expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate currently used under IAS 19 to the net defined benefit asset or liability. This will replace the "finance charge" and "expected return on plan assets" methods as used in the previous version of IAS 19.

The distinction between short- and long-term benefits for measurement purposes is 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.

Additional disclosures are required over the current version of IAS 19.

IAS 19 Amendment Required to be applied retrospectively on January 1, 2013 for all period except for:

a) Changes to the carrying value of assets (outside scope of IAS 19) that include employee benefit costs in the carrying amount prior to the earliest period presented in the first financial statements in which the entity adopted IAS 19 Amendment.

b) In financial statements for periods beginning before January 1, 2014, comparative information does not need to be presented for disclosures for the sensitivity of defined benefit obligation.

The effect of first time application of the revised IAS 19 was not material both in terms of comparative figures and in terms of the reported year's figures.

c) IAS 1 (Amendment) "Financial Statements Presentation" (hereinafter - IAS 1 Amendment")

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.

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 Group intends to adopt IAS 1 for annual period beginning on January 1, 2013. The amendment will be applied retrospectively to all reported periods.

The implementation of IAS 1 Amendment had no material impact on the financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Details of the provisions of new standards and of amendments to existing standards, which came into effect and are mandatory for reporting periods starting January 1, 2013 (continued)**:**

d) IFRS 7 Amendment "Disclosures – Offsetting Financial Assets and Financial Liabilities" (hereinafter - IFRS 7 amendment)

IFRS 7 Amendment introduces additional disclosure requirements focused on quantitative financial instruments that have been recognized and set off in the statement of financial position, as well as financial instruments that have been recognized and are subject to certain netting arrangements (either if set off in the statements of financial position or not).

The Company implemented IFRS 7 Amendment for the first time on January 1, 2013. The adoption of IFRS 7 had no material impact on the financial position of the Company.

u. Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company

a) IFRS 9 - "Financial Instruments" (hereafter - IFRS 9).

When completed, IFRS 9 will replace IAS 39 "Financial Instruments: Recognition and Measurement".

The first part of IFRS 9, dealing with the classification and measurement of financial assets, was issued in November 2009 (hereinafter first part of IFRS 9) and the second part of IFRS 9, which includes guidance on financial liabilities and derecognition of financial instruments was issued in 2010.

IFRS 9 requires that financial assets will be classified into one of the following two categories: financial assets measured after initial recognition at fair value and financial assets measured after initial recognition at amortized cost. The decision on classification is made on the date of initial recognition, based on the entity's business model and the characteristics and the projected contractual cash flows from the asset. As to financial liabilities, IFRS 9 retains most guidance of IAS 39, with the main change being that entities with financial liabilities designated at fair value through profit or loss (FVTPL) recognize changes in the fair value due to changes in the liability's credit risk (own credit risk) directly in other comprehensive income (OCI), unless this creates an accounting mismatch. As to amounts recognized as above in other comprehensive income, the income or loss will not be recycled. However, it is possible to transfer accumulated income or loss between equity items.

The second part of the standard, dealing with impairment of financial assets, has not been published.

The IASB published in November 2013 the third phase of IFRS 9, which addresses general hedge accounting. The new hedge accounting model changes different aspects of the existing model in IAS 39 and is intended to allow companies to better reflect their risk management model, including by adjusting the hedge effectiveness range in IAS 39 (80%-125%) to the effectiveness range that management is using in practice in managing risk and for hedging groups of financing instruments, provides more flexibility than in the past, and in certain conditions, hedging the risk of non-financial

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

u. Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company (continued)**:**

a) IFRS 9 - "Financial Instruments" (hereafter - IFRS 9).

component. However, the strict documentation requirements remain unchanged, and additional disclosure requirements were introduced.

In November 2013, additional amendments of IFRS 9 were released, as follows:

An amendment allowing companies to apply the above to recognizing changes in the fair value of financial liabilities resulting from the entity's own credit risk in other comprehensive income without having to early adopt the other provisions of IFRS 9.

An amendment was issued removing the January 1, 2015 mandatory effective date for IFRS 9, without specifying an alternative date. A new mandatory date should be decided upon when the entire IFRS 9 project is closer to completion. However, early adoption of IFRS 9 parts already published is allowed.

The Company has not adopted any part of IFRS 9, and at this stage assesses the expected impact on its financial statements and the timing of implementation.

b) Amendment to IAS 32 - "Offsetting of Financial Assets and Financial Liabilities" (hereafter - Amendment to IAS 32)

The Amendment to IAS 32 does not change the existing model as part of IAS 32 - "Financial Instruments: Presentation" regarding offsetting of financial assets and financial liabilities (hereafter - offsetting); however, it clarifies that the right to setoff must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy of the entity or any of the counterparties. The Amendment to IAS 32 also clarifies the cases where offsetting using gross settlement mechanisms will satisfy the criteria for offsetting by gross net settlement.

The Amendment to IAS 32 will be applied retrospectively for annual reporting periods commencing on January 1, 2014 or thereafter; early adoption is permitted.

The first-time implementation of the amendment is not expected to have material impact on the financial statements of the Company.

c) **IAS 19 Amendment "Employee Benefits" (hereinafter - IAS 19 Amendment)**

IAS 19 Amendment clarifies the application on plans that require employees or third parties to contribute towards the cost of benefits, when they are related to employee service. The amendment provides guidance as to how to deduct the contributions from the cost of benefits, distinguishing between employee contributions related to service and those not linked to service.

IAS 19 Amendment was applied retrospectively for annual periods beginning on or after July 1, 2014. Early adoption is permitted. The first-time implementation of IAS 19 is not expected to have a material impact on the financial statements of the Company.

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND AREAS OF DISCRETION

Estimates and areas of discretion are subject to constant reassessment on the basis of past experience and a consideration of the manner in which they are affected by the influence of other factors, these factors including expectations with regard to future events that are deemed to be reasonable in the light of existing circumstances.

Significant accounting estimates and assumptions

The Company formulates estimates and assumptions with respect to the future. By their very nature, it is rare for accounting estimates to be identical to actual results. Significant risk attaches to the implementation of material adjustments to the carrying value of assets and liabilities during the course of the coming financial year through the use of estimates and assumptions, as follows:

1) Actuarial estimates with respect to insurance liabilities

An actuarial evaluations is based on statistical estimates that contain an element of uncertainty. The statistical estimates are based on various assumptions that may not necessarily be realized. The assumptions employed for the purposes of the actuarial forecasts affect the final level of the provision for insurance liabilities.

Accordingly, the actual cost of claims may be higher or lower than the statistical estimate. Previous assumptions may change in the light of new information that may be received. In cases like this, the provision will change in accordance with the change in assumptions and in the light of actual results, with the differences arising during the year under review being reflected in the statements of insurance business.

Had the actuarial results been different by 10% compared with the estimates of the Company's actuary, the amount of the gross insurance liabilities would have been higher or lower by app. 119 million ILS.

2) Provisions for lawsuits

Several legal claims and applications to approve claims as class actions are pending against the company. In evaluating the chances of legal claims that were filed against the company, it relied on opinions prepared by its legal counsels. These legal opinion are based on the legal counsels' best professional judgment, considering the stage at which the proceedings are at, and the accumulated legal experience with the various issues, this given that the outcomes of the claims as decided by the courts may differ from the estimates. See note 29 for additional information

3) Testing for impairment of deferred purchase expenses in life insurance

As discussed in note 2r, the company is testing whether the amount of DAC is more than the amount that can be covered by estimated future income from existing insurance contracts, and amortize DAC accordingly. This test requires the use of estimates on the amounts of expected revenue from existing insurance contracts, including an estimation of the useful life of the existing insurance policy portfolio.

4) Deferred taxes

The company recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The company regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the company is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND AREAS OF DISCRETION (continued):

4) Deferred taxes

differences become taxable or deductible, the company could be required to eliminate a portion of the deferred tax asset or increase the deferred tax liabilities resulting in an increase in its effective tax rate and an adverse impact on operating results.

NOTE 4 - OPERATING SEGMENTS

The Company operates in a number of sectors, as follows: general insurance, health insurance and life assurance, as described below. The activity which is not allocated to segments includes equity, liabilities which are not related to the insurance businesses and the assets held against these liabilities.

1. Life assurance sector

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

2. Health insurance sector

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

3. General insurance sector

The general insurance sector encompasses the property and liability branches. In accordance with the directives of the Supervisor, the sector is divided into the following branches, viz. the compulsory car insurance branch, the car damages insurance branch, the apartment insurance branch, other property branches, other liability branches and the professional liability branch.

- Compulsory car insurance branch

  The compulsory car insurance branch 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 consequence of the use of a motor vehicle.

- Car damages insurance branch

  The car damages insurance 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 branch

  The professional liability branch 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, as well as cover to company directors and officers in relation to any unlawful act or omission committed or occurring whilst they were carrying out their duties, and Embezzlement loss coverage.

NOTE 4 - OPERATING SEGMENTS (continued):

- Property branches and miscellaneous

  Other property branches operate in sectors 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 branches

  Liability branches 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 branches are third party liability, employer's liability and product warranty.

NOTE 4 - OPERATING SEGMENTS (continued):

	For year ended December 31, 2013				
	Life assurance	Health insurance	General insurance	Not allocated to operating segments	Total
	ILS in thousands				
Gross earned premiums	102,738	204,204	575,373		882,315
Premiums earned by reinsurers	(22,094)	(14,234)	(137,059)		(173,387)
Premiums earned retained amount	80,644	189,970	438,314		708,928
Investment income, net and financing income	104	6,619	35,212	33,306	75,241
Commission income	3,335	4,417	34,865		42,617
Total income	84,083	201,006	508,391	33,306	826,786
Increase in insurance liabilities and payments with respect to insurance contracts, gross	(42,978)	(91,795)	(452,771)		(587,544)
Share of reinsurers of increase in insurance liabilities and payments with respect to insurance contracts	11,121	10,935	147,997		170,053
Increase in insurance liabilities and payments with respect to insurance contracts relating to nonceded business	(31,857)	(80,860)	(304,774)		(417,491)
Commissions and other acquisition expenses	(26,110)	(43,001)	(98,409)		(167,520)
General and administrative expenses	(29,965)	(36,776)	(67,106)		(133,847)
Financing income (expenses)	-	(85)	(2,091)	1,151	(1,025)
Proffit (loss) before tax	(3,849)	40,284	36,011	34,457	106,903

	For year ended December 31, 2012				
	Life assurance	Health insurance	General insurance	Not allocated to operating segments	Total
	ILS in thousands				
Gross earned premiums	89,467	198,231	539,460		827,158
Premiums earned by reinsurers	(20,017)	(21,696)	(142,988)		(185,701)
Premiums earned retained amount	68,450	176,535	396,472		641,457
Investment income, net and financing income	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
Increase in insurance liabilities and payments with respect to insurance contracts, gross	(30,624)	(79,215)	(293,851)		(403,690)
Share of reinsurers of increase in insurance liabilities and payments with respect to insurance contracts	10,107	6,946	135,737		152,790
Increase in insurance liabilities and payments with respect to insurance contracts relating to nonceded business	(20,517)	(72,269)	*(158,114)		(250,900)
Commissions and other acquisition expenses**	(21,933)	(50,339)	(91,279)		(163,551)
General and administrative expenses **	(25,607)	(30,515)	(69,777)		(125,899)
Financing income (expenses)	-	(187)	(3,255)	1,236	(2,206)
Proffit before tax	3,924	40,027	165,738	34,079	243,768

* As for reducing the period of "surplus reserve" compulsory vehicle sector, see note 2.q.1.a.

** Reclassification, see note 2.s.

NOTE 4 - OPERATING SEGMENTS (continued):

	For year ended December 31, 2011				
	Life assurance	**Health insurance**	**General insurance**	**Not allocated to operating segments**	**Total**
	ILS in thousands				
Gross earned premiums	77,718	170,317	487,018		735,053
Premiums earned by reinsurers	(18,794)	(18,532)	(120,386)		(157,712)
Premiums earned retained amount	58,924	151,785	366,632		577,341
Investment income (Loss), net and financing income	(550)	*5,119	*31,021	*(10,257)	*25,333
Commission income	3,157	6,017	32,283		41,457
Total income	61,531	162,921	429,936	(10,257)	644,131
Increase in insurance liabilities and payments with respect to insurance contracts, gross	(14,340)	(75,842)	(339,767)		(429,949)
Share of reinsurers of increase in insurance liabilities and payments with respect to insurance contracts	5,016	5,860	108,537		119,413
Increase in insurance liabilities and payments with respect to insurance contracts relating to nonceded business	(9,324)	(69,982)	(231,230)		(310,536)
Commissions and other acquisition expenses	(14,883)	(47,520)	(85,555)		(147,958)
General and administrative expenses	(26,361)	(29,298)	(64,052)		(119,711)
Financing income (expenses)	-	*(211)	*(4,138)	*5,729	*1,380
Proffit (loss) before tax	10,963	15,910	44,961	(4,528)	67,306

* Reclassification, see note 2.s.

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2013				
	Life assurance	Health insurance	General insurance	Equity and other liabilities	Total
	ILS in thousands				
Assets					
Intangible assets	-	-	-	14,799	14,799
Deferred acquisition expenses	-	1,306	57,396	81,818	140,520
Financial investments:					
Marketable debt instruments	-	121,534	683,050	369,632	1,174,216
Nonmarketable debt instruments	-	-	74,253	54,451	128,704
Shares	-	-	-	77,352	77,352
Other	-	-	-	24,593	24,593
Total financial investments	-	121,534	757,303	526,028	1,404,865
Cash and cash equivalents	9,288	11,699	14,629	32,000	67,616
Reinsurance assets	10,325	9,091	628,250	-	647,666
Premiums collectible	139	13,959	172,316	-	186,414
Other assets	1,128	-	108,794	15,248	125,170
TOTAL ASSETS	20,880	157,589	1,738,688	669,893	2,587,050
Liabilities					
Liabilities with respect to insurance contracts and nonprofit participating investment contracts	37,566	135,796	1,396,360	-	1,569,722
Other liabilities	12,588	10,955	323,892	26,889	374,324
TOTAL LIABILITIES	50,154	146,751	1,720,252	26,889	1,944,046

NOTE 4 - OPERATING SEGMENTS (continued):

	December 31, 2012				
	Life assurance	Health insurance	General insurance	Equity and other liabilities	Total
	ILS in thousands				
Assets					
Intangible assets	-	-	-	15,732	15,732
Deferred acquisition expenses	-	1,510	55,217	73,464	130,191
Financial investments:					
Marketable debt instruments	-	120,241	715,068	264,337	1,099,646
Nonmarketable debt instruments	-	-	20,331	57,594	77,925
Shares	-	-	-	68,284	68,284
Other	-	-	53,802	39,685	93,487
Total financial investments	-	120,241	789,201	429,900	1,339,342
Cash and cash equivalents	6,929	16,795	19,816	50,000	93,540
Reinsurance assets	8,658	5,752	571,122	-	585,532
Premiums collectible	66	13,553	160,536	-	174,155
Other assets	895	-	32,773	16,885	50,553
TOTAL ASSETS	16,548	157,851	1,628,665	585,981	2,389,045
Liabilities					
Liabilities with respect to insurance contracts and nonprofit participating investment contracts	25,433	126,525	1,257,382	-	1,409,340
Other liabilities	11,457	12,081	370,186	8,877	402,601
TOTAL LIABILITIES	36,890	138,606	1,627,568	8,877	1,811,941

NOTE 4 - OPERATING SEGMENTS (continued):

Additional information relating to general insurance segment

	For year ended December 31, 2013						
	Compulsory car insurance	**Car damages insurance**	**Apartments**	**Professional liability**	**Property branches and Miscellaneous (*)**	**Other liability branches (*)**	**Total**
				ILS in thousands			
Gross premiums	135,015	227,638	101.852	43,007	39,552	35,699	582,763
Reinsurance premiums	(1,895)	(108)	(21,435)	(35,842)	(37,650)	(30,323)	(127,253)
Premiums relating to nonceded business	133,120	227,530	80,417	7,165	1,902	5,376	455,510
Change in balance of unearned premiums relating to nonceded business	(7,609)	(10,582)	(546)	155	73	1,313	(17,196)
Premiums earned on nonceded business	125,511	216,948	79,871	7,320	1,975	6,689	438,314
Investment income, net and financing income	16,359	5,116	3,555	4,198	831	5,153	35,212
Commission income	-	-	3,180	10,838	10,881	9,966	34,865
Total income	141,870	222,064	86,606	22,356	13,687	21,808	508,391
Increase in insurance liabilities and payments with respect to insurance contracts	(107,786)	(155,018)	(40,439)	(64,945)	(46,115)	(38,468)	(452,771)
Share of reinsurers of increase in insurance l liabilities and payments with respect to insurance contracts	17,340	-	4,559	52,925	44,453	28,720	147,997
Increase in insurance liabilities and payments with respect to insurance contracts relating to non ceded business	(90,446)	(155,018)	(35,880)	(12,020)	(1,662)	(9,748)	(304,774)
Commission, marketing expenses and other acquisition expenses	(18,317)	(32,476)	(18,651)	(11,653)	(7,687)	(9,625)	(98,409)
General and administrative expenses	(14,766)	(18,659)	(19,599)	(7,162)	(2,702)	(4,218)	(67,106)
Financing expenses	-	-	(60)	(827)	(169)	(1,035)	(2,091)
Total expenses	(123,529)	(206,153)	(74,190)	(31,662)	(12,220)	(24,626)	(472,380)
Profit (loss) before taxes on income	18,341	15,911	12,416	(9,306)	1,467	(2,818)	36,011
Gross liabilities with respect to insurance contracts as of December 31, 2012	632,567	146,404	62,622	234,943	65,438	254,486	1,396,360
Liability for retention insurance contracts as of December 31, 2013	477,611	146,404	55,283	45,546	2,946	40,320	768,110

(*) Property lines and other include mainly results from the property insurance sector, the operations of which constitute 84% of total premiums in these sectors. Other liability sectors include mainly results from the product liability insurance sector, the operations of which constitute 40% of total premiums in these sectors.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional information relating to general insurance segment

	For year ended December 31, 2012						
	Compulsory car insurance	Car damages insurance	Apartments	Professional liability	Property branches and Miscellaneous (*)	Other liability branches (*)	Total
	ILS 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 nonceded business	113,631	200,362	80,698	7,637	1,456	8,014	411,798
Change in balance of unearned premiums relating to nonceded business	(5,992)	(6,736)	(3,273)	1,093	(24)	(394)	(15,326)
Premiums earned on nonceded business	107,639	193,626	77,425	8,730	1,432	7,620	396,472
Investment income, net and financing income	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
Increase in insurance liabilities and payments with respect to insurance contracts	(1,966)	(127,957)	(25,399)	(22,602)	(28,183)	(87,744)	(293,851)
Share of reinsurers of increase in insurance l liabilities and payments with respect to insurance contracts	19,763	-	2,052	13,526	26,424	73,972	135,737
Increase in insurance liabilities and payments 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***	(15,625)	(29,478)	(14,817)	(13,026)	(8,307)	(10,026)	(91,729)
General and administrative expenses***	(17,036)	(19,336)	(20,967)	(6,354)	(2,981)	(3,103)	(69,777)
Financing expenses	-	-	(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
Liability for retention insurance contracts as of December 31, 2012	435,347	126,232	49,095	35,976	3,066	36,544	686,260

(*) Property lines and other include mainly results from the property insurance sector, the operations of which constitute 86% of total premiums in these sectors.
Other liability sectors include mainly results from the product liability insurance sector, the operations of which constitute 54% of total premiums in these sectors.
(**)As for reducing the period of "surplus reserve" compulsory vehicle sector, see note 2.q.1.a.
(***) Reclassification, see note 2.s.

NOTE 4 - OPERATING SEGMENTS (continued):

Additional information relating to general insurance segment

	Compulsory car insurance	**Car damages insurance**	**Apartments**	**Professional liability**	**Property branches and Miscellaneous (**)**	**Other liability branches (**)**	**Total**
	For year ended December 31, 2011						
	ILS in thousands						
Gross premiums	104,074	182,504	87,437	49,173	36,286	46,106	505,580
Reinsurance premiums	(1,452)	(107)	(14,661)	(38,671)	(35,005)	(39,846)	(129,742)
Premiums relating to nonceded business	102,622	182,397	72,776	10,502	1,281	6,260	375,838
Change in balance of unearned premiums relating to nonceded business	(68)	(1,834)	(4,643)	(1,326)	(300)	(1,035)	(9,206)
Premiums earned on nonceded business	102,554	180,563	68,133	9,176	981	5,225	366,632
Investment income, net and financing income	16,627	4,168	*3,095	*3,118	*710	*3,303	*31,021
Commission income	-	-	2,385	10,323	9,226	10,349	32,283
Total income	119,181	184,731	73,613	22,617	10,917	18,877	429,936
Increase in insurance liabilities and payments with respect to insurance contracts	(78,748)	(124,083)	(29,381)	(21,592)	(31,090)	(54,873)	(339,767)
Share of reinsurers of increase in insurance l liabilities and payments with respect to insurance contracts	16,592		3,267	12,740	28,465	47,473	108,537
Increase in insurance liabilities and payments with respect to insurance contracts relating to non ceded business	(62,156)	(124,083)	(26,114)	(8,852)	(2,625)	(7,400)	231,230
Commission, marketing expenses and other acquisition expenses	(15,549)	(29,072)	(11,720)	(13,666)	(7,173)	(8,375)	(85,555)
General and administrative expenses	(15,836)	(19,717)	(16,677)	(6,223)	(2,484)	(3,115)	(64,052)
Financing expenses*	-	-	(115)	(1,733)	(419)	(1,871)	(4,138)
Total expenses	(93,541)	(172,872)	(54,626)	(30,474)	(12,701)	(20,761)	(384,975)
Profit (loss) before taxes on income	25,640	11,859	18,987	(7,857)	(1,784)	(1,884)	44,961
Gross liabilities with respect to insurance contracts as of December 31, 2011	638,301	117,770	53,062	173,348	51,932	208,168	1,242,581
Liability for retention insurance contracts as of December 31, 2011	505,167	117,770	47.475	29,803	2,763	26,712	729,690

(*) Reclassification
(**) Property lines and other include mainly results from the property insurance sector, the operations of which constitute 84% of total premiums in these sectors. Other liability sectors include mainly results from the product liability insurance sector, the operations of which constitute 47% of total premiums in these sectors.

NOTE 5 - INTANGIBLE ASSETS (SOFTWARE):

	Software ILS in thousands
Cost:	
Balance as of January 1, 2012	31,586
Additions in 2012(*)	11,202
Reduction in 2012	(3,214)
Balance as of December 31, 2012	**39,574**
Additions in 2013(*)	4,871
Reduction in 2013	-
Balance as of December 31, 2013	**44,445**
Accumulated amortization:	
Balance as of January 1, 2012	21,603
Additions in 2012	5,453
Reduction in 2012	(3,214)
Balance as of December 31, 2012	**23,842**
Additions in 2013	5,804
Reduction in 2013	-
Balance as of December 31, 2013	**29,646**
Depreciated balance:	
At December 31, 2013	**14,799**
At December 31, 2012	**15,732**

* Additions in respect of computer software include mainly additions in respect of self development: in 2012 – 2,073 thousands and 2013 – ILS 2,244 thousands.

NOTE 6 - DEFERRED ACQUISITION EXPENSES

a. Composition

	December 31 2013	December 31 2012
	ILS in thousands	
Life assurance	81,818	73,464
Health insurance	1,306	1,510
General insurance	57,396	55,217
Total	140,520	130,191

b. Changes in deferred acquisition expenses (life assurance and health insurance):

	Life assurance	Health insurance	Total
	ILS in thousands		
Balance as of January 1, 2012	64,720	1,869	66,589
Additions (acquisition expenses)	29,029	1,510	30,539
Current amortization	(7,919)	(1,869)	(9,788)
Amortization relating to cancellations	(12,366)	-	(12,366)
Balance as of December 31, 2012	73,464	1,510	74,974
Additions (acquisition expenses)	31,125	1,306	32,431
Current amortization	(6,209)	(1,510)	(7,719)
Amortization relating to cancellations	(16,562)	-	(16,562)
Balance as of December 31, 2013	81,818	1,306	83,124

NOTE 7 - PROPERTY AND EQUIPMENT:

a. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2013, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Total
Cost:				
Balance at beginning of year	19,258	5,976	15,739	40,973
Additions during year	4,160	316	40	4,516
Retirements during year	(897)	-	(58)	(955)
Balance at end of year	22,251	6,292	15,721	44,534
Accumulated depreciation:				
Balance at beginning of year	12,757	2,815	8,516	24,088
Additions during year	3,208	446	2,499	6,153
Retirements during year	(897)	-	(58)	(955)
Balance at end of year	15,068	3,261	10,957	29,286
Depreciated balance at end of year	7,453	3,031	4,764	15,248

b. Composition of assets and accumulated depreciation thereon, grouped by major classifications, and changes therein in 2012, are as follows:

	Computers and communications equipment	Office furniture and equipment	Leasehold improvements	Total
Cost:				
Balance at beginning of year	19,323	5,800	15,379	40,502
Additions during year	2,380	176	360	2,916
Retirements during year	(2,445)		-	(2,445)
Balance at end of year	19,258	5,976	15,739	40,973
Accumulated depreciation:				
Balance at beginning of year	12,099	2,365	7,295	21,759
Additions during year	3,103	450	1,221	4,774
Retirements during year	(2,445)	-	-	(2,445)
Balance at end of year	12,757	2,815	8,516	24,088
Depreciated balance at end of year	6,501	3,161	7,223	16,885

NOTE 8 - OTHER RECEIVABLES:

	December 31	
	2013	2012
	ILS in thousands	
Prepayment of expenses:		
Expenses accompanying insurance Transactions	20,020	18,297
Sundry expenses	1,780	2,333
Total prepaid expenses	21,800	20,630
Employees	105	123
Postdated checks	233	209
Insurance companies re subrogation claims	10,348	9,753
Miscellaneous	6,557	2,953
Total other receivables	39,043	33,668

NOTE 9 - PREMIUMS COLLECTIBLE:

a. Composition:

	December 31	
	2013	2012
	ILS in thousands	
Linked to Consumer Price Index	35,121	28,840
Linked to dollar	12,754	15,174
Unlinked	145,436	136,199
	193,311	180,213
Less:		
Provision for doubtful debts	(6,897)	(6,058)
Total (*)	186,414	174,155
(*) Includes transfers, payments by standing order and payments though credit card companies	170,940	156,576

(*)For the balance of premiums to be collected from related parties, see Note 28

NOTE 9 - PREMIUMS COLLECTIBLE (continued):

b. Aging:

	December 31	
	2013	2012
	ILS in thousands	
Unimpaired premiums collectible:		
Not in arrears	183,481	169,258
In arrears:		
Less than ninety days	722	649
Between 90 and 180 days	2,211	4,248
Total unimpaired premiums collectible	186,414	174,155
Impaired premiums collectible	6,897	6,058
	193,311	180,213
Deduct -		
provision for doubtful debts	(6,897)	(6,058)
Total premiums collectible	186,414	174,155

c. The change in the provision for doubtful debts is set out below:

	Year ended December 31	
	2013	2012
	ILS in thousands	
Balance as of beginning of year	(6,058)	(5,144)
Change in provision during year through profit and loss	(839)	(914)
Balance as of end of year	(6,897)	(6,058)

NOTE 10 - FINANCIAL INVESTMENTS:

	As of December 31, 2013		
	At fair value through profit or loss	Loans and receivables	Total
	ILS in thousands		
Marketable debt assets	1,174,216	-	1,174,216
Nonmarketable debt assets	-	128,704	128,704
Listed shares	77,352	-	77,352
Other	24,593	-	24,593
Total	1,276,161	128,704	1,404,865

	As of December 31, 2012		
	At fair value through profit or loss	Loans and receivables	Total
	ILS in thousands		
Marketable debt assets	1,099,646	-	1,099,646
Nonmarketable debt assets	-	77,925	77,925
Listed shares	68,284	-	68,284
Other	93,487	-	93,487
Total	1,261,417	77,925	1,339,342

NOTE 10 - FINANCIAL INVESTMENTS (continued):

a. **Composition of marketable debt instruments** (earmarked upon initial recognition for category of financial assets at fair value through profit or loss)

	December 31	
	2013	2012
	ILS in thousands	
Government debentures	768.336	810,322
Other convertible marketable debt instruments	126	-
Other non-convertible marketable debt assets	405,754	289,324
Total marketable debt instruments	1,174,216	1,099,646

b. **Composition of nonmarketable debt instruments** (presented as loans and receivables):

	Carrying amount		Fair value	
	2013	2012	2013	2012
	ILS in thousands			
Nonmarketable debentures	15,256	20,331	15,886	21,025
Bank deposits	113,448	57,594	114,511	62,455
Total non-convertible debt assets	128,704	77,925	130,397	83,480

c. **Details regarding interest and linkage in respect of debt instruments:**

	*Effective interest	
	2013	2012
	Percentages	
Marketable debt instruments:		
Linkage basis:		
Linked to the CPI	3.35%	3.67%
ILS	3.44%	4.98%
Linked to the dollar	1.93%	2.14%
Nonmarketable debt instruments:		
Linkage basis:		
Linked to the CPI	1.38%	5.29%
Linked to the dollar	2.28%	2.28%

* Weighted average

NOTE 10 - FINANCIAL INVESTMENTS (continued):

d. Shares:

	December 31	
	2013	2012
	ILS in thousands	
Marketable shares - designated upon initial recognition at fair value through profit or loss	77,352	68,284

e. Other financial investments:

	December 31	
	2013	2012
	ILS in thousands	
Marketable shares - designated upon initial recognition at fair value through profit or loss	24,593	93,487

f. Interest rates used in determining fair value

The fair value of financial nonmarketable debt instruments, the data regarding the fair value of which is presented in the financial statements for disclosure purposes only, is determined by discounting the estimated future cash flows in respect of these assets. The discount rates are based on government debentures yields and margins of corporate bonds as measured in the TelAviv Stock Exchange with the addition of premium in respect of nonmarketability, As measured in the TelAviv Stock Exchange Ltd, with the addition of a premium in respect of nonmarketability. The interest used in capitalization are set by "Fair Spread Ltd.", which provides quoted interest rates in proportion to various risk ratings.

	December 31	
	2013	2012
	Percentages	
AA rating or more	0.52%	1.79%
A rating	1.45%	5.23%
BBB rating	-	5.68%
Lower than BBB rating	11.03%	10.06%

g. Hierarchy of fair value of financial assets:

Fair value hierarchy is determined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All of the Company's marketable financial investments (excluding nonmarketable debt instruments) that are measured at fair value through profit or loss constitute level 1 assets.

NOTE 10 - FINANCIAL INVESTMENTS (continued):

h. Rate of troubled debt in marketable and non-marketable debt assets:

	December 31	
	2013	2012
	ILS in thousands	
Debt under special supervision	0.39%	-
Overdue debt	0.03%	-
	0.42%	-

NOTE 11 - CASH AND CASH EQUIVALENTS:

	December 31	
	2013	2012
	ILS in thousands	
Cash and deposits available for withdrawal on demand:		
Denominated in New Israel Shekels	60,230	79,831
Denominated in dollars	5,141	10,889
Denominated in other currencies	2,245	2,820
Cash and cash equivalents	67,616	93,540

As of the date of the balance sheet, cash and cash equivalents deposited with banks were credited with interest at rates based upon the daily bank deposit rate (0.65% - 0.91%).

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS:

a. Composition of share capital

	Number of shares		
	Authorized	Issued and fully paid	
	December 31		
	2013 and 2012	2013	2012
Ordinary ILS 1 shares	45,000,000	5,630	5,630
Preferred ILS 1 shares	100	100	100

b. Rights attached to shares

The rights attached to ordinary shares are comprised of the right to receive dividends, rights attendant upon the liquidation or windingup of the Company, and the right to appoint the directors of the Company.

The rights attached to preferred shares are comprised of voting rights at general meetings of the Company.

NOTE 12 - SHAREHOLDERS' EQUITY AND EQUITY REQUIREMENTS (continued):

c. Capital management and requirements

The following is information about the required and existing capital of the Company under the Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required of an Insurer), 1998 (hereinafter - the capital regulations) and the guidance of the Supervisor.

The amounts of capital held by the Company according to the capital regulations:

	December 31	
	2013	**2012**
	ILS in thousands	
The amount required by the capital regulations and the guidance of the Supervisor (a)	516,896	436,785
The existing amount computed under the capital regulations:		
Initial basic capital	643,004	577,104
Total existing capital, computed according the capital regulations	643,004	577,104
Surplus as of the date of this report	**126,108**	**140,319**

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 Supervisor's instructions constitute surplus that is not distributable.

(a) with regard to the company and in accordance with parameters defined in the amendedequity regulations, the required equity includes, inter alia, capital requirements with respect to the following:

	December 31	
	2013	**2012**
	ILS in thousands	
Operations related to general insurance	118,183	108,966
Exceptional life assurance risks	26,880	22,762
Deferred acquisition expenses in relation to life assurance	81,818	73,464
Investment assets and other assets	58,823	48,058
Catastrophe risk related to general insurance	202,881	158,058
Operating risks	28,311	25,477
Total	516,896	436,785

NOTE 13 - LIABILITIES WITH RESPECT TO NONPROFIT PARTICIPATING INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2013	2012	2013	2012	2013	2012
	ILS in thousands					
Insurance contracts in life assurance sector	37,566	25,433	10,325	8,658	27,241	16,775
Insurance contracts in health insurance sector	135,796	126,525	9,091	5,752	126,705	120,773
Insurance contracts in general insurance sector	1,396,360	1,257,382	628,250	571,122	768,110	686,260
Total liabilities with respect non-profit participating insurance contracts and investment contracts	1,569,722	1,409,340	647,666	585,532	922,056	823,808

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR:

a.1. Liabilities with respect to insurance contracts in general insurance sector by category:

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2013	2012	2013	2012	2013	2012
	ILS in thousands					
Compulsory car insurance and liability branches:						
Provision for unearned premiums	95,887	97,413	29,354	37,022	66,533	60,391
Excess of income over expenses (accumulation)	101,025	105,817	13,371	16,320	87,654	89,497
Pending claims	924,984	816,441	515,694	458,463	409,290	357,978
Total liabilities in compulsory car insurance and liability branches	1,121,896	1,019,671	558,419	511,805	563,477	507,866
Property and miscellaneous branches:						
Provision for unearned premiums	161,050	152,134	20,433	22,573	140.617	129,561
Pending claims	113,414	85,577	49,398	36,745	64,016	48,832
Total liabilities in property and miscellaneous branches	274,464	237,711	69,831	59,317	204,633	178,393
Total liabilities with respect to insurance contracts in general insurance sector	1,396,360	1,257,382	628,250	571,122	768,110	686,259

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR:

a.1. Liabilities with respect to insurance contracts in general insurance sector by category:

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2013	2012	2013	2012	2013	2012
	ILS in thousands					
Compulsory car insurance and liability branches	15,739	16,405	5,484	6,998	10,255	9,407
Property and miscellaneous branches	41,657	38,812	4,491	4,441	37,166	34,371
Total	57,396	55,217	9,975	11,439	47,421	43,778
Liabilities with respect to general insurance contracts, after deduction of deferred acquisition expenses:						
Compulsory car insurance and liability branches (see paragraph b(1) below)	1,106,157	1,003,266	552,935	504,807	553,222	498,459
Property and miscellaneous branches (see paragraph b(2) below)	232,807	198,899	65,340	54,877	167,467	144,022
Total liabilities with respect to general insurance contracts, after deduction of deferred acquisition expenses	1,338,964	1,202,165	618,275	559,683	720,689	642,481

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

a.2. Insurance liabilities with respect to insurance contracts in general insurance sector by method of computation

	As of December 31					
	Gross		Reinsurance		Retained earnings	
	2013	2012	2013	2012	2013	2012
	ILS in thousands					
Actuarial valuations:						
Ms. Avital Koler	1,029,294	893,380	565,090	495,209	464,204	398,171
Total actuarial valuations	1,029,294	893,380	565,090	495,209	464,204	398,171
Additional liability with respect to difference between actuarial valuation and amount reflected in financial statements	9,103	8,638	-	-	9,103	8,638
Provision for unearned premiums	256,938	249,547	49,789	59,593	207,149	189,953
Excess of income over expenses (accumulation)	101,025	105,817	13,371	16,320	87,654	89,497
Total insurance liabilities with respect to insurance contracts in general insurance sector	1,396,360	1,257,382	628,250	571,122	768,110	686,259

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

b. Movement in liabilities with respect to insurance contracts in general insurance sector, after deduction of deferred acquisition expenses:

b1. Compulsory car insurance and liability branches:

	As of December 31					
	Gross		Reinsurance		Retained amounts	
	2013	2012	2013	2012	2013	2012
	ILS in thousands					
Balance as of beginning of year	1,003,266	1,003,861	504,807	450,827	498,459	553,034
Ultimate cost of claims with respect to current underwriting year	181,059	167,006	65,049	72,078	116,010	94,928
Change in balances as of beginning of year as result of linkage to Consumer Price Index and investment income in accordance with capitalization discount reflected in liabilities	24,110	29,499	1,746	5,534	22,364	23,965
Change in estimate of ultimate cost of claims with respect to previous underwriting years	9,965	11,742	28,986	39,028	(19,021)	(27,286)
Total change in ultimate cost of claims	215,134	208,247	95,781	116,640	119,353	91,607
Payments in settlement of claims during course of year:						
With respect to current underwriting year	(2,424)	(2,875)	(350)	(807)	(2,074)	(2,068)
With respect to previous underwriting years	(105,026)	(111,989)	(44,355)	(49,899)	(60,671)	(62,090)
Total payments for period	(107,450)	(114,864)	(44,705)	(50,706)	(62,745)	(64,158)
Accumulation with respect to current underwriting year	18,913	25,115	155	978	18,758	24,137
Accumulation added to profits on closing of underwriting year	(15,011)	(49,102)	(10,210)	(14,218)	(4,801)	(34,884)
Remaining change in accumulation	(8,695)	(69,991)	7,107	1,286	(15,802)	(71,277)
Total change in accumulation for period	(4,793)	(93,978)	(2,948)	(11,954)	(1,845)	(82,024)
Balance as of end of year	1,106,157	1,003,266	552,935	504,807	553,222	498,459

1. The opening and closing balances include pending claims, accumulation, unearned premium, net of deferred acquisition costs.
2. The ultimate cost of claims includes the balance of outstanding pending claims (without accumulation), provision for premium shortfall, unearned premium net of deferred acquisition costs together with the total of payments made in respect of claims including direct and indirect expenses incurred in the settlement of claims.
3. Payment for settlement of claims during the year includes direct and indirect general and administrative costs incurred in, and attributable to, the settlement of claims; the costs are allocated between the various underwriting years.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

b. Movement in liabilities with respect to insurance contracts in general insurance sector, after deduction of deferred acquisition expenses

b2. Property and miscellaneous branches

	As of December 31					
	Gross		Reinsurance		Retained amount	
	2013	2012	2013	2012	2013	2012
	ILS in thousands					
Balance as of beginning of year	198,899	186,650	54,877	50,345	144,022	136,305
Ultimate cost of claims with respect to events occurring in year under review	248,476	193,116	58,141	34,014	190,335	159,102
Change in ultimate cost of claims with respect to events in prior years	(6,905)	(11,576)	(9,130)	(5,540)	2,225	(6,036)
Payments made in course of year in settlement of claims:						
With respect to events occurring in year under review	(171,565)	(136,259)	(27,213)	(14,113)	(144,352)	(122,146)
With respect to events occurring in prior years	(42,169)	(42,240)	(9,148)	(11,675)	(33,021)	(30,565)
Total payments	(213,734)	(178,499)	(36,361)	(25,788)	(177,373)	(152,711)
Change in provision for unearned premiums, after deduction of deferred acquisition expenses	6,071	9,208	(2,187)	1,846	8,258	7,362
Balance as of end of year	232,807	198,899	65,340	54,877	167,476	144,022

1. The opening and closing balances include outstanding pending claims, a provision for premium shortfall and unearned premiums, net of deferred acquisition expenses.

2. The cumulative cost of claims in respect of event in the reported year includes the balance of outstanding pending claims at the end of the reported year with the addition of total payments for claims in the reported period, including direct and indirect expenses incurred in the settlement of claims.

3. Payments for settlement of claims during the year include payments in respect of events that proceeded the reported year with the addition of the change in the balance of outstanding pending claims in respect of events that proceeded the reported year.

4. Payment to settlement of claims during the year includes direct and indirect general and administrative costs incurred in, and attributable to, the settlement of claims; the costs are allocated between the various underwriting years.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c1. Review of development of gross liabilities with respect to insurance contracts, after deduction of deferred acquisition expenses, in compulsory motor insurance and liability branches as of December 31, 2013:

	Underwriting year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	NIS in thousands, as linked to the Consumer Price Index for December 2013 (*)										
Claims paid (on cumulative basis) as of end of year:											
After first year	3,168	3,056	2,922	2,514	3,442	3,553	2,701	2,085	2,930	2,424	
After two years	16,721	15,999	17,909	17,322	14,210	16,431	12,936	20,248	11,112		
After three years	31,748	29,182	30,295	33,100	30,068	35,262	23,699	42,954			
After four years	49,197	40,506	41,008	45,202	43,247	73,317	36,512				
After five years	67,936	46,768	50,037	57,141	58,673	91,497					
After six years	81,246	53,414	56,912	63,762	78,158						
After seven years	87,424	58,466	62,752	74,473							
After eight years	100,569	67,069	68,972								
After nine years	104,520	70,179									
After ten years	105,581										
Estimate of cumulative claims (including payments) as of end of year:											
After first year	169,548	166,563	176,664	192,016	181,333	236,022	207,455	211,389	212,475	215,629	
After two years	188,754	176,498	188,513	203,282	187,234	242,419	202,935	231,585	219,257		
After three years	202,677	180,048	192,160	208,601	189,154	245,060	213,773	233,921			
After four years	165,162	137,647	154,402	174,643	176,661	196,728	162,537				
After five years	167,945	137,715	156,581	184,716	140,663	189,397					
After six years	137,568	104,989	116,396	143,725	141,183						
After seven years	145,173	100,412	115,591	158,250							
After eight years	132,172	101,447	130,344								
After nine years	119,784	94,834									
After ten years	120,021										
Surplus (shortfall) after release of accumulation (**)	17,547	10,154	-13,947	-14,526	-520	7,332					6,041
Rate of deviation after release of accumulation (%)	12.8%	9.7%	-12.0%	-10.1%	-0.4%	3.7%					0.7%
Cost of accumulated claims through December 31, 2013	120,021	94,834	130,344	158,250	141,183	189,397	162,537	233,921	219,257	215,629	1,665,373
Accumulated payments through December 31, 2013	105,581	70,179	68,972	74,473	78,158	91,497	36,512	42,954	11,112	2,424	581,863
Balance of pending claims	14,440	24,655	61,371	83,777	63,025	97,899	126,025	190,967	208,145	213,205	1,083,511
Pending claims for years up to and including the 2003 underwriting year											38,385
Total liability with respect to insurance contracts, car insurance and liability branches after deffered acquisition expenses											15,739
Deffered acquisition expenses as of December 31, 2013											1,106,134

(*) The data presented above have been adjusted in order to reflect the effects of inflation. The use of such adjusted data accordingly allows the development review to be implemented on the basis of real values.

(**) The difference between the evaluation of the accumulated claims in the fourth year and the evaluation of the accumulated claims as of the date of the financial statements.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c2. Review of development of retained amounts of liabilities with respect to insurance contracts, after deduction of deferred acquisition expenses, in compulsory motor insurance and liability branches as of December 31, 2013:

	Underwriting year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	NIS in thousands, as linked to the Consumer Price Index for December 2013 (*)										
Claims paid (on cumulative basis) as of end of year:											
After first year	2,939	2,874	2,802	2,345	3,416	2,560	2,182	1,558	2,108	2,074	
After two years	15,811	15,428	15,842	14,338	12,592	13,625	9,170	9,145	8,081		
After three years	30,124	28,052	26,820	27,790	25,877	24,919	18,671	19,979			
After four years	45,184	39,015	35,676	39,276	37,655	38,149	28,840				
After five years	55,099	44,905	42,468	47,739	45,617	47,982					
After six years	67,973	51,230	48,660	53,780	52,878						
After seven years	72,673	55,893	54,224	59,140							
After eight years	76,901	62,658	59,745								
After nine years	79,476	64,971									
After ten years	80,509										
Estimate of cumulative claims (including payments) as of end of year:											
After first year	113,509	113,125	110,075	114,040	115,388	125,213	122,964	122,314	130,918	145,012	
After two years	119,206	116,822	111,536	116,948	118,574	128,625	115,758	121,004	125,231		
After three years	123,793	118,519	113,719	119,417	121,726	131,857	119,660	124,768			
After four years	121,302	116,873	114,026	120,217	122,295	86,790	84,189				
After five years	123,602	118,811	115,738	122,446	79,248	87,660					
After six years	99,471	83,469	78,136	85,798	81,022						
After seven years	95,547	77,698	76,737	86,962							
After eight years	89,107	76,202	75,620								
After nine years	87,884	74,477									
After ten years	89,381										
Surplus (shortfall) after release of accumulation (**)	10,090	8,992	2,516	-1,164	-1,774	-870					17,789
Rate of deviation after release of accumulation (%)	10.1%	10.8%	3.2%	-1.4%	-2.2%	-1.0%					3.5%
Cost of accumulated claims through December 31, 2013	89,381	74,477	75,620	86,962	81,022	87,660	84,189	124,768	125,231	145,012	974,322
Accumulated payments through December 31, 2013	80,509	64,971	59,745	59,140	52,878	47,982	28,840	19,979	8,081	2,074	424,198
Balance of pending claims	8,872	9,506	15,876	27,822	28,144	39,678	55,349	104,789	117,150	142,938	550,123
Pending claims for years up to and including the 2003 underwriting year											13,354
Total liability with respect to insurance contracts, car insurance and liability branches after deffered acquisition expenses											10,255
Deffered acquisition expenses as of December 31, 2013											553,200

(*) The data presented above have been adjusted in order to reflect the effects of inflation. The use of such adjusted data accordingly allows the development review to be implemented on the basis of real values.

(**) The difference between the evaluation of the accumulated claims in the fourth year and the evaluation of the accumulated claims as of the date of the financial statements.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c3. Review of development of gross liabilities with respect to insurance contracts, after deduction of deferred acquisition expenses, in compulsory motor insurance branch as of December 31, 2013:

	Underwriting year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	NIS in thousands, as linked to the Consumer Price Index for December 2013 (*)										
Claims paid (on cumulative basis) as of end of year:											
After first year	2,885	2,835	2,783	2,300	3,413	2,469	1,892	1,318	1,789	1,876	
After two years	15,605	15,318	15,454	14,006	12,328	12,983	8,332	5,862	7,090		
After three years	29,764	27,902	26,933	27,179	25,871	23,567	17,484	13,914			
After four years	46,100	38,827	35,510	38,762	37,427	34,970	27,205				
After five years	63,815	44,707	43,559	46,775	49,699	49,163					
After six years	76,621	50,978	49,670	52,713	55,335						
After seven years	82,703	55,551	55,217	57,801							
After eight years	90,209	64,206	61,163								
After nine years	93,745	66,413									
After ten years	94,789										
Estimate of cumulative claims (including payments) as of end of year:											
After first year	116,569	114,142	117,189	119,121	120,167	126,181	123,884	119,257	121,481	140,274	
After two years	130,361	119,212	119,101	123,369	122,152	135,562	117,656	115,691	125,491		
After three years	141,728	121,246	120,862	126,358	124,434	137,142	122,891	117,753			
After four years	143,980	123,202	123,411	129,237	132,706	96,523	89,349				
After five years	143,802	124,115	128,862	132,391	89,299	96,544					
After six years	117,153	92,861	89,595	95,446	88,120						
After seven years	120,615	89,085	89,173	92,849							
After eight years	108,053	89,661	86,431								
After nine years	107,163	87,743									
After ten years	106,748										
Surplus (shortfall) after release of accumulation (**)	10,405	5,118	3,163	2,597	1,178	-21					22,441
Rate of deviation after release of accumulation (%)	8.9%	5.5%	3.5%	2.7%	1.3%	0.0%					3.9%
Cost of accumulated claims through December 31, 2013	106,748	87,743	86,431	92,849	88,120	96,544	89,349	117,753	125,491	140,274	1,031,302
Accumulated payments through December 31, 2013	94,789	66,413	61,163	57,801	55,335	49,163	27,205	13,914	7,090	1,876	434,749
Balance of pending claims	11,959	21,330	25,268	35,047	32,786	47,381	62,144	103,839	118,400	138,399	596,553
Pending claims for years up to and including the 2003 underwriting year											36,014
Total liability with respect to insurance contracts, car insurance and liability branches after deffered acquisition expenses											15,739
Deffered acquisition expenses as of December 31, 2013											616,828

(*) The data presented above have been adjusted in order to reflect the effects of inflation. The use of such adjusted data accordingly allows the development review to be implemented on the basis of real values.

(**) The difference between the evaluation of the accumulated claims in the fourth year and the evaluation of the accumulated claims as of the date of the financial statements.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued):

c.4. Review of development of retained amounts of liabilities with respect to insurance contracts, after deduction of deferred acquisition expenses, in compulsory motor insurance branch as of December 31, 2013:

	Underwriting year										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	NIS in thousands, as linked to the Consumer Price Index for December 2013 (*)										
Claims paid (on cumulative basis) as of end of year:											
After first year	2,885	2,835	2,783	2,302	3,413	2,469	1,892	1,318	1,789	1,876	
After two years	15,605	15,318	15,454	14,008	12,328	12,983	8,332	5,862	7,090		
After three years	29,764	27,902	26,333	27,181	25,136	23,567	17,484	13,914			
After four years	44,639	38,827	34,910	38,617	36,497	34,970	27,205				
After five years	54,422	44,707	41,592	46,604	43,982	44,049					
After six years	67,228	50,978	47,703	52,543	49,566						
After seven years	71,912	55,551	53,250	57,631							
After eight years	75,011	62,305	58,739								
After nine years	77,528	64,511									
After ten years	78,556										
Estimate of cumulative claims (including payments) as of end of year:											
After first year	107,862	108,238	104,897	108,125	108,520	115,374	108,918	103,411	112,041	128,942	
After two years	113,140	111,292	105,937	110,350	110,382	117,755	102,399	97,927	105,575		
After three years	117,148	113,190	108,076	112,364	113,213	120,133	105,147	100,350			
After four years	118,735	115,202	110,045	114,853	115,158	75,918	71,863				
After five years	120,203	117,116	112,299	116,585	70,704	76,760					
After six years	96,600	81,980	74,608	80,882	73,332						
After seven years	91,608	76,336	73,349	80,150							
After eight years	85,124	74,898	69,855								
After nine years	85,634	73,726									
After ten years	87,077			\							
Surplus (shortfall) after release of accumulation (**)	9,523	8,254	4,753	732	-2,629	-842					19,792
Rate of deviation after release of accumulation (%)	9.9%	10.1%	6.4%	0.9%	-3.7%	-1.1%					4.1%
Cost of accumulated claims through December 31, 2013	87,077	73,726	69,855	80,150	73,332	76,760	71,863	100,350	105,575	128,942	867,630
Accumulated payments through December 31, 2013	78,556	64,511	58,739	57,631	49,566	44,049	27,205	13,914	7,090	1,876	403,137
Balance of pending claims	8,521	9,214	11,116	22,519	23,767	32,711	44,658	86,436	98,484	127,067	464,493
Pending claims for years up to and including the 2003 underwriting year											13,118
Total liability with respect to insurance contracts, car insurance and liability branches after deffered acquisition expenses											10,255
Deffered acquisition expenses as of December 31, 2013											467,334

(*) The data presented above have been adjusted in order to reflect the effects of inflation. The use of such adjusted data accordingly allows the development review to be implemented on the basis of real values.

(**) The difference between the evaluation of the accumulated claims in the fourth year and the evaluation of the accumulated claims as of the date of the financial statements.

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued)**:**

c.5. Information about underwriting years in compulsory vehicle and liability insurance:

	underwriting year						
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
	ILS in thousands						
Gross premium	210,995	212,965	198,392	195,746	212,291	180,557	190,748
Gain (loss) in retention for underwriting year - accumulated	(930)	(1,740)	(6,275)	36,695	44,173	43,812	38,656
Excess income over expenses in retention	18,760	31,054	37,840	-	-	-	-
Effect of investment revenue on retained income/surplus in retention for the underwriting year	3,096	8,112	12,561	17,243	21,551	24,276	27,530

c.6. Information on underwriting years in compulsory vehicle insurance:

	underwriting year						
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
	ILS in thousands						
Gross premium	136,042	115,173	104,494	107,202	120,280	109,001	106,829
Gain (loss) in retention for underwriting year - accumulated	-	-	-	35,546	46,094	43,774	38.478
Excess income over expenses in retention	15,751	24,005	32,588	-	-	-	-
Effect of investment revenue on retained income/surplus in retention for the underwriting year	2,771	6,938	10,585	15,155	19,573	22,353	25,721

c.7. Composition of income (loss) in retention in compulsory vehicle and liability insurance

	Loss in respect of open years	**Income in respect of underwriting year which was released in the reported year**	**Adjustments in respect of underwriting years which were released in previous years**	**Activity not included in calculation of reserves**	**Income**
	ILS in thousands				
Year Ended					
2013	(3,517)	38,124	4,050	(32,440)	6,217
2012	(5,984)	130,064	9,472	(17,693)	115,859
2011	(1,021)	39,566	15,225	(37,871)	15,899

NOTE 14 - LIABILITIES WITH RESPECT TO INSURANCE CONTRACTS IN GENERAL INSURANCE SECTOR (continued)**:**

c.8. Composition of income (loss) in retention in compulsory vehicle insurance

	Loss in respect of open years	Income in respect of underwriting year which was released in the reported year	Adjustments in respect of underwriting years which were released in previous years	Activity not included in calculation of reserves	Income
	ILS in thousands				
Year Ended					
2013	-	35,546	5,659	(22,864)	18,341
2012	-	128,951	6,265	(14,031)	121,185
2011	-	39,048	15,122	(27,530)	25,640

NOTE 15 - ADDITIONAL DATA CONCERNING LIFE ASSURANCE SECTOR:

a. Details of liabilities with respect to insurance contracts and investment contracts by reference to financial and insurance exposure

Data pertaining to year ended December 31, 2013:

	Policies not containing savings element		Total
	Risk sold as individual policy		
	Private	Group	
Insurance reserves	456	15	471
Pending claims	37,074	21	37,095
Total	37,530	36	37,566

Data pertaining to year ended December 31, 2012:

	Policies not containing savings element		Total
	Risk sold as individual policy		
	Private	Group	
Insurance reserves	701	15	716
Pending claims	24,696	21	24,717
Total	25,397	36	25,433

NOTE 15 - ADDITIONAL DATA CONCERNING LIFE ASSURANCE SECTOR (continued):

b. Details of results by type of policy

Data pertaining to year ended December 31, 2013:

	Policies not containing savings element – Risk sold as single policy		Total
	Private	Group	
Gross risk premiums	102,222	272	102,494
Profits (loss) from life assurance business	(4,038)	189	(3,849)
Graduated premiums with respect to insurance contracts	35,640	-	35,640

Data pertaining to year ended December 31, 2012:

	Policies not containing savings element – Risk sold as single policy		Total
	Private	Group	
Gross risk premiums	89,235	241	89,476
Profits (loss) from life assurance business	3,753	171	3,924
Graduated premiums with respect to insurance contracts	28,504	-	28,504

Data pertaining to year ended December 31, 2011:

	Policies not containing savings element – Risk sold as single policy		Total
	Private	Group	
Gross risk premiums	77,688	104	77,792
Profits from life assurance business	10,995	(32)	10,963
Graduated premiums with respect to insurance contracts	23,667	-	23,667

NOTE 16 – BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN HEALTH INSURANCE

a) Breakdown of liabilities in respect of insurance contracts by insurance and financial exposure

Data pertaining to year ended December 31, 2013 (ILS in thousands):

	Long-term	Short-term	Total
By insurance exposure insurance			
Reserves	-	3,732	3,732
Pending claims	95,415	36,649	132,064
Total	95,415	40,381	135,796

Personal injuries is the most significant item in long-term healthcare coverage, and travel insurance in the short-term

Data pertaining to year ended December 31, 2012 (ILS in thousands):

	Long-term	Short-term	Total
By insurance exposure insurance			
Reserves	-	4,314	4,314
Pending claims	91,465	30,746	122,211
Total	91,465	35,060	126,525

Personal injuries is the most significant item in long-term healthcare coverage, and travel insurance in the short-term

b) Detailed results by type of policy in the healthcare sector

Data pertaining to year ended December 31, 2013 (ILS in thousands):

	Long-term	Short-term	Total
Gross premiums	164,980	38,642	*203,622
Income from healthcare insurance business	33,115	7,169	40,284
Annualized premium - new	35,198	1,164	36,362

* Of which individual premiums at ILS 196,968 thousand and group premiums at ILS 6,654 thousand. Personal injuries is the most significant item in longterm healthcare coverage, travel insurance and collective personal injuries in the shortterm.

NOTE 16 – BREAKDOWN OF LIABILITIES IN RESPECT OF INSURANCE CONTRACTS IN HEALTH INSURANCE (continued):

Data pertaining to year ended December 31, 2012 (ILS in thousands):

	Long-term	Short-term	Total
Gross premiums	154,574	42,631	*197,205
Income from healthcare insurance business	32,954	7,073	40,027
Annualized premium - new	39,255	2,881	42,137

* Of which individual premiums at ILS 186,155 thousand and group premiums at ILS 11,050 thousand. Personal injuries is the most significant item in longterm healthcare coverage, travel insurance and collective personal injuries in the shortterm.

Data pertaining to year ended December 31, 2011 (ILS in thousands):

	Long-term	Short-term	Total
Gross premiums	132,174	39,746	*171,920
Income from healthcare insurance business	18,389	(2,479)	15,910
Annualized premium - new	41,067	3,021	44,088

* Of which individual premiums at ILS 160,673 thousand and group premiums at ILS 11,247 thousand. Personal injuries is the most significant item in longterm healthcare coverage, travel insurance and collective personal injuries in the shortterm.

NOTE 17 - MOVEMENT IN LIABILITIES WITH RESPECT TO LIFE ASSURANCE CONTRACTS AND HEALTH INSURANCE CONTRACTS

	Life assurance	Health insurance
	ILS in thousands	
Balance as of January 1, 2012	21,881	120,828
Increase in premiums treated as liabilities	9	(833)
Changes in pending and IBNR claims	3,543	6,531
Balance as of December 31, 2012	25,433	126,525
Increase in premiums treated as liabilities	(245)	(881)
Changes in pending and IBNR claims	12,378	10,152
Balance as of December 31, 2013	37,566	135,796

NOTE 18 - TAXES ON INCOME:

a. Taxing statutes applicable to Company:

1. General

   AIG Israel Insurance Co. Ltd. is a financial institution, as that term is defined in the ValueAdded Tax Law, 1975. The tax chargeable on the income of financial institutions is comprised of company tax and profits tax.

2. Special tax arrangements for insurance industry - Arrangement with tax authorities

   The Association of Insurance Companies and the tax authorities have entered into a special arrangement ("the tax arrangement"). The arrangement, which is subject to renewal and revision each year, deals with particular tax issues that are unique and which relate to tax years up to and including the 2011 tax year. The arrangement deals, inter alia, with the following issues:

   - Direct expenses of insurance companies for the purpose of acquiring life insurance contracts - (DAC) 1 - deferred policy acquisition costs shall be deductible for tax purposes in equal portions spread over 4 years. Deferred policy acquisition costs related to acquisition of illness and hospitalization insurance contracts are deductible for tax purposes over a six-year period which is similar to the rate of amortization in the books of accounts.

   - Allocation of expenses to preferred income – allocation of expenses shall be applied to income which is subject to reduced tax rates and to tax exempt income received by the insurance companies ("preferred income"). The allocation of expenses means that some of the preferred income is turned into income taxable at the normal tax rate, in accordance with the rate of allocation. The rate of allocation set in the agreement is dependent on the source of the funds from which the preferred income is derived.

   - Taxation of marketable securities – it was agreed that the income and/or expenses from securities shall be reported for tax purposes on realization basis. The said income/expenses do not include linkage differences, interest and amortization of discount in respect of marketable securities that will be reported on accrual basis. Also, the said income/expenses do not include material impairment which is carried directly to income. Such impairment will only be considered as loss for tax purposes on realization basis.

   - The effect of transition to IFRS reporting – it was agreed that the one-off effect on the date of transition to IFRS reporting shall be deducted for tax purposes over three years (from 2008 through 2010). Nevertheless, it was agreed that if the tax authority's position shall not be in agreement with the principles of the agreement, the parties shall discuss the related tax implications; (as to the tax implications of the first time application of IFRS, see also section 3 below).

   The tax agreement for tax years 2012 and 2013 has not yet been signed. The financial statements were drawn up in accordance with the principles of the said agreement.

   It should be indicated that through the end of 2011, the company reported its income from securities in its tax returns as they were reported for accounting purposes in its IFRS financial statements and not on realization basis as made possible under the tax agreement.

NOTE 18 - TAXES ON INCOME (continued)**:**

a. Taxing statutes applicable to Company (continued)**:**

In 2013 company's management decided that in its tax returns for tax year 2012 and thereafter the income on securities shall be reported for tax purposes on realization basis as made possible under the tax agreement.

3. Effect of adoption of IFRS in Israel on tax liability

Commencing January 1, 2008, the company prepares its financial statements in accordance with IFRS.

IFRS vary from Accounting Principles Generally Accepted in Israel and accordingly, preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from the ones presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

In accordance with the law for the amendment of the Income Tax Ordinance (No. 174 – Temporary Order as to Tax Years 2007, 2008 and 2009), 2010 that was passed in the Knesset on January 25, 2010 and published in the official gazette on February, 4, 2010 and in accordance with the Law for Amendment of the Income Tax Ordinance (no. 188), 2012, passed in the Knesset on January 9, 2012 and published in the official gazette on January 12, 2012 (hereafter together – the temporary order), Accounting Standard No. 29 issued by the Israel Accounting Standard Board would not apply upon determining the taxable income for tax purposes in respect of tax years 2007-2011; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements. The meaning of the amendment to the ordinance is that IFRS would actually not be applied upon computation of the income reported for tax purposes for the said tax years.

On October 31, 2011 the Government of Israel published a law memorandum in connection with the amendment to the Income Tax Ordinance (hereafter – the law memorandum) resulting from application of IFRS in the financial statements. Generally, the law memorandum adopts IFRS. Nevertheless, the law memorandum suggests making several amendments to the Income Tax Ordinance, which will serve to clarify and determine the

manner of computation of taxable income for tax purposes in cases where the manner of computation is not clear and IFRS do not comply with the principles of the tax method applied in Israel. At the same time, the law memorandum generally adopts IFRS. The legislation procedures relating to the law memorandum have not yet been completed and it is doubtful whether they shall be completed in the near future.

On January 1, 2013, the Income Tax Authority issued a notice regarding the extension of the term of the temporary order to tax year 2012 (hereafter – "the Tax Authority's notice"). In its notice, the Tax Authority states that it intends to promote legislation to extend the term of the said temporary order by one additional year to 2012 as soon as the Knesset reconvenes. Nevertheless, in practice the no legislative measures came into effect that extend the terms of the temporary order.

Since the legislative procedures relating to the law memorandum have not yet been completed and in light of the Tax Authority's notice, company's management is of the opinion that the term of the temporary order which is applicable to the years 2007-2011 shall eventually be extended to apply to tax years 2012 and 2013. Since the temporary order applied to tax years 2007-2011 as above and since it is expected that the term of the temporary order will be extended to 2012 and 2013, at this stage company's management expects that the new legislation shall not apply to tax year.

Considering the fact that the temporary order applies to tax years 2007-2011 and since the company expects that the term of the temporary order shall be extended to 2012 and 2013, the company computed its taxable income for tax years 2007-2013 based on Israeli accounting standards in place prior to the transition to IFRS reporting, subject to certain adjustments.

NOTE 18 - TAXES ON INCOME (continued)**:**

b. Tax rates applicable to the company

The statutory tax applicable to financial institutions, including the company, is comprised of corporate tax and profit tax.

Under the provisions of the Law for Amendment of the Income Tax Ordinance, 2005, of August 2005, and the Economic Rationalization Law (Legislation Amendments for the Implementation of the Economic Plan for the years 2009 and 2010), 2009 On July 2009, this law determined a further gradual reduction of the corporate tax rate as from 2011, as follows: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%.

On December 6, 2011, the "Tax Burden Distribution Law" Legislation Amendments (2011) was published in the official gazette. Under this law, the previously approved gradual decrease in corporate tax is discontinued. Corporate tax rate will increase to 25% as from 2012.

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for the Achievement of Budgetary Objectives for 2013 and 2014), 2013 was published in Reshumot, stating among other things, that the above change in corporate tax rate will be 26.5% (instead of 25%) in 2014 and thereafter.

In addition to corporate tax, as a financial institution, the Company is required to pay profit tax, which through August 31, 2012 was 16% of annual income. According to Value Added Tax Order (Tax Rate of Non-Profits and Financial Institutions) (Amendment), 2012, beginning on September 1, 2012 profit tax rate on annual income was raised to 17%. The change in profit tax rate will apply in 2012 on a linear basis, such that annual income will be subject to 16.67% profit tax.

According to Value Added Tax Order (Tax Rate of Non-Profits and Financial Institutions) (Amendment), 2013, profit tax rate was raised on June 2, 2013 to 18% of annual income. The change in profit tax will apply in 2013 on a linear basis, such that the annual income will be taxed at 17.58% profit tax.

Note that under Amendment No. 35 to the Value Added Tax Law, 1975, beginning in 2008, the entire profit tax paid by a financial institution is deductible from the income used for profit tax purposes.

In light of the changes in corporate tax rates as above, set forth below are the applicable tax rate; (as to the difference between the theoretical tax and taxes on income as per statement of income – see f. below):

	Rate of corporate Tax	**Rate of Profit Tax**	**Overall Tax Rate for Financial Institutions**
		%	
Year:			
2011	24	16.00	34.48
2012	25	16.33	35.53
2013	2	17.58	36.22
2014 and hereafter	26.5	18.00	37.71

The effect of the above mentioned amendment on the 2013 financial statements of the company, computed on the basis of the deferred tax balances as of December 31, 2013, was a NIS 1,310 thousands net increase in deferred tax liabilities; this amount was expensed in the statement of comprehensive income in 2013.

The effect of the above mentioned amendment on the 2012 financial statements of the company, computed on the basis of the deferred tax balances as of December 31, 2012, was a NIS 128 thousands net increase in deferred tax liabilities; this amount was expensed in the statement of comprehensive income in 2012.

NOTE 18 - TAXES ON INCOME (continued)**:**

The effect of the abovementioned amendment on the 2011 financial statements of the company, computed on the basis of the deferred tax balances as of December 31, 2011 was reflected in a NIS 1,308 thousands increase in net deferred tax liabilities; this amount was charged as an expense to comprehensive income in 2011.

c. Final Tax assessments

The company has been issued final tax assessments through tax year 2010.

d. Taxes on income included in the income statements:

	For the year ended December 31		
	2013	**2012**	**2011**
	ILS in thousands		
For the reported year:			
Current	(38,397)	(85,941)	(21,525)
Deferred, in respect of creation and reversal of temporary differences, see also e. below	(1,951)	(1,501)	(2,595)
In respect of previous years	(655)	1,011	1,177
Adjustment of deferred tax balances due to changes in tax rates	-	-	-
	(41,003)	(86,431)	(22,943)

e. Deferred taxes

Deferred assets and liabilities are offset when there is an enforceable legal right to offset current tax assets against current tax liabilities and when the deferred taxes are in respect of taxes on income levied by the same tax authority. The offset amounts are as follows:

Composition:

	Deferred acquisition costs	Vacation recreation pay	Profit From securities	Provision for doubtful accounts	Property and equipment	Other	Total
	ILS in thousands						
Balance of tax asset (liability) as of January 1, 2012	(11,864)	1,199	-	1,818	(191)	1,662	(7,376)
Changes charged to income	(2,001)	101	-	323	(21)	225	(1,373)
Effect of changes in tax rate	(201)	20	-	33	(3)	28	(128)
Balance of tax asset (liability) as of December 31, 2012	(14,071)	1,320	-	2,174	(215)	1,915	(8,877)
Other changes*	-	-	(16,061)	-	-	-	(16,061)
Changes charged to income	(2,394)	155	1,641	302	438	(783)	(641)
Effect of changes in tax rate	(848)	74	(729)	125	11	57	(1,310)
Balance of tax asset (liability) as of December 31, 2013	(17,313)	1,549	(15,149)	2,601	234	1,189	(26,889)

* Balance sheet classification as of beginning of the year between tax liabilities and deferred tax liability. Due to company's resolution to change the way it recognizes income from securities in its tax returns commencing in the tax returns for tax year 2012 and thereafter – see also section a2 above.

NOTE 18 - TAXES ON INCOME (continued):

e. Deferred taxes

The deferred taxes are presented in the balance sheet among deferred tax liabilities.

	December 31	
	2013	2012
	ILS in thousands	
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months from date of statement of financial position	1,156	835
Deferred tax assets to be recovered within 12 months from date of statement of financial position	4,417	4,575
	5,573	5,410
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months from date of statement of financial position	(17,313)	(14,287)
Deferred tax liabilities to be recovered within 12 months from date of statement of financial position	(15,149)	-
	(32,462)	(14,287)
Deferred tax liabilities/ assets (Net)	**(26,889)**	**(8,877)**

f. Theoretical tax

Following is a reconciliation of the theoretical tax expense, assuming all income and expenses, profits and losses in the statement of income are taxed at the statutory tax rates, and the tax expense charged in the taxes of income (loss):

	Year ended December 31		
	2013	2012	2011
	ILS in thousands		
Income before taxes on income	106,903	243,768	67,306
Overall statutory tax rate applicable to financial institutions (see b. above)	36.22%	35.53%	34.48%
Taxes computed based on the statutory tax rate	38,715	86,611	23,207
Increase (decrease) in taxes arising from:			
Nonallowable expenses for tax purposes	326	(215)	(203)
Difference between the measurement basis of income for tax purposes Deduction in respect of depreciation	(4)	(4)	(8)
Updating of deferred tax balances in respect of change in tax rates	1,310	128	1,308
Taxes in respect of previous years	655	(1,010)	(1,177)
Update deferred tax expense in prior years required	-	933	-
Other	1	(12)	(184)
Taxes on income	41,003	86,431	(11,943)
Average effective tax rate	38.36%	35.46%	34.09%

NOTE 19 – OTHER PAYABLES AND SURPLUS RESERVES:

	December 31	
	2013	2012
	ILS in thousands	
Employees and other payroll related liabilities	20,719	17,547
Suppliers and service providers	36,789	41,958
Commissions payable	8,410	9,238
Premiums paid in advance	16,944	14,546
Other	5,943	5,076
	88,805	88,365

NOTE 20 –PREMIUMS – RETAINED:

	Year ended December 31, 2013		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	102,494	21,896	80,598
Health insurance premiums	203,622	14,234	189,388
General insurance premiums	582,763	127,253	455,510
Total premiums	888,879	163,383	725,496
Less - change in balance of unearned premium	(6,564)	10,004	(16,568)
Total earned premiums	882,315	173,387	708,928

	Year ended December 31, 2012		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	89,476	21,000	68,476
Health insurance premiums	197,205	21,695	175,510
General insurance premiums	553,774	141,976	411,798
Total premiums	840,455	184,671	655,784
Less - change in balance of unearned premium	(13,297)	1,030	(14,327)
Total earned premiums	827,158	185,701	641,457

	Year ended December 31, 2011		
	Gross	Reinsurance	Retained amount
	ILS in thousands		
Life insurance premiums	77,792	18,816	58,976
Health insurance premiums	171,920	18,540	153,380
General insurance premiums	505,580	129,742	375,838
Total premiums	755,292	167,098	588,194
Less - change in balance of unearned premium	(20,239)	(9,386)	(10,853)
Total earned premiums	735,053	157,712	577,341

NOTE 21 – NET REVNEUES FROM INVESTMENTS AND FINANCING INCOME:

	Year ended December 31		
	2013	2012	2011
	ILS in thousands		
Income (loss) from assets held against non profit participating liabilities, shareholders' equity and others:			
Income (loss) from financial investments excluding interest, linkage differences, exchange differences and dividends on assets at fair value through profit or loss	30,210	50,394	(17,781)
Income from interest, linkage differences and exchange differences, exchange differences, on financial assets through profit or loss	37,910	39,865	34,217
Income from interest on deposits and cash and nonmarketable securities	4,898	3,809	5,478
Income from dividends	2,223	3,171	3,419
Total revenues from net investments and financing income	75,241	97,239	25,333

NOTE 22 – REVNEUES FROM COMMISSIONS:

	Year ended December 31		
	2013	2012	2011
	ILS in thousands		
Reinsurance commissions, net of change in deferred acquisition costs relating to reinsurance	42,617	47,628	41,457

As to commissions from related parties , see note 28.

NOTE 23 – PAYMENTS AND CHANGES IN LIABILITIES IN RESPECT OF RETAINED INSURANCE CONTRACTS

	Year ended December 31		
	2013	2012	2011
	ILS in thousands		
Total payments and changes in liabilities in respect of life insurance contracts:			
Gross	42,978	30,624	14,340
Reinsurance	(11,121)	(10,107)	(5,016)
Life insurance contracts - retained	31,857	20,517	9,324
Total payments and changes in liabilities in respect of general insurance contracts:			
Gross	452,771	293,851	339,767
Reinsurance	(147,997)	(135,737)	(108,537)
General insurance contracts retained	304,774	158,114	231,230
Total payments and changes in liabilities in respect of health insurance contracts:			
Gross	91,795	79,215	75,842
Reinsurance	(10,935)	(6,946)	(5,860)
Health insurance contracts retained	80,860	72,269	69,982
Total payments and changes in liabilities in respect of retained insurance contracts	417,491	250,900	310,536

NOTE 24 – COMMISSIONS, MARKETING EXPENSES AND OTHER ACQUISITION COSTS:

	Year ended December 31		
	2013	2012	2011
	ILS in thousands		
Acquisition costs:			
Acquisition commissions	39,381	40,587	37,157
Marketing and other expenses (reclassified from general and administrative expenses)	138,468	*134,497	*129,154
Change in Acquisition costs	(10,329)	(11,533)	(18,353)
Total commissions and other marketing and acquisitions expenses	167,520	147,372	131,406

* Reclassification, see note 2.s.

NOTE 25 – GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2013	2012	2011
	ILS in thousands		
Payroll and related expenses	167,843	163,271	150,651
Depreciation and amortization	11,948	10,228	9,694
Maintenance of offices and communication	24,402	23,642	23,471
Marketing and advertisement	54,070	49,239	47,731
Legal and professional consultation	7,354	7,122	8,748
Other	23,632	22,910	24,178
Total (*)	289,249	276,412	264,473
Less:			
Amounts classified to changes in liabilities and payments in respect of insurance contracts	(16,934)	(16,016)	(15,608)
Amounts classified to commissions, marketing expenses and other acquisition expenses	(138,468)	**(134,497)	**(129,154)
General and administrative expenses	133,847	125,899	119,711
(*)Management and general expenses include expenses relating to mechanization in the total amount of	40,474	37,535	34,844

** Reclassification, see note 2.s.

NOTE 26 – FINANCING EXPENSES:

	Year ended December 31		
	2013	2012	2011
	ILS in thousands		
Interest and exchange differences income (expenses)	1,152	1,237	5,729
Interest expense to reinsurers	(2,177)	(3,443)	(4,349)
Total financing income (expenses)	(1,025)	(2,206)	1,380

* Reclassification

NOTE 27 – RISK MANAGEMENT:

General

The Company operates in the following operative segments: general insurance, health insurance and life insurance (only risk component). The Company's operations expose it to the following risks:

Insurance risks
Market risks
Liquidity risks
Credit risks
Operative risks

a. Description of risk management procedures and methods:

1. The Company manages risk based on the risk management policy approved by the board, which is aligned with rules and guidance of local regulations and the enterprise risk management policies of the AIG global corporation.

2. The risk management policy is designed to support achieving business objectives of the Company and ensure controlled exposure to risks, in tune with changes in the business environment. Monitoring and reporting on the implementation of the policy, including compliance with limits and restrictions are performed according to regulatory requirements and a reporting escalation procedure established by the board and its committees.

3. The risk management process includes an ongoing process of identifying and mapping exposures in different processes, assessment and measurement of exposures and controls, reporting and assessing the alignment to the Company's risk appetite.

4. Risk management in the Company is based on three protection levels:

    - First line of defense – business units – responsible for the risks in the scope of their activity.

    - Second line of defense – support functions – risk management, actuary, control units, accounting, etc. The role of those functions is, among other things, to ensure that consistent processes are in place to detect, control, track and report risks.

    - Third line of defense – internal control.

5. The Company has committees and forums that deal with professional and insurance matters, led by the CEO and senior managers in different Company departments, discussing various business matters, and that leads to making management decisions. Those include the risk, capital management and compliance (RCC) committee; operating risk management committee; insurance risk management committee and new product development committee.

6. The Company is active in applying the principles of Solvency II in Israel, serving as a basis for assessing the economic capital required for the activity of the Company.

b. Legal requirements

On January 15, 2014, the Supervisor of Insurance issued a consolidated circular on risk management (Title 5, Part 1, Chapter 10), which is expected to become mandatory on April 1, 2014. The chapter concerning risk management (chapter 10) will replace the sections in Insurance Circular No. 14-1-2006 on the duties of the risk manager and the relationships he/she has with other officers in the Company. Under the consolidated circular, the main duties of the risk manager are:

1. To ensure that high-quality processes are in place for detection of insurance risks, market risks, cash flow risks and counterparty risks that are material and embedded in assets and liabilities and may have impact on the financial stability of the entity.

NOTE 27 – RISK MANAGEMENT (continued)**:**

b. Legal requirements (continued)**:**

2. To quantify and assess the potential impact of material risks identified on the financial stability of the entity and on its liability towards insurance clients.

3. To assess risks that are embedded in new activities or product.

4. To present to the board and investment committee existing and potential risks in investment assets for establishing an investment policy and updating it.

5. To periodically report to the board, investment committee and CEO on exposures to risks and their potential impact on the financial stability of the entity.

There are other circulars that enact guidance on managing specific exposures on: readiness for disaster recovery, management of exposure to reinsurers, fraud prevention, management of IT security risks, financial reporting control (SOX) and credit risk management. In addition, circulars have been distributed on Solvency II readiness.

c. Market risks

Market risks in the Company related to financial assets and liabilities or insurance liabilities. The asset portfolio of the Company mainly comes from its insurance activity. Proprietary investments are managed in compliance with the law and the investment policy, credit risk policy and risk management policy put in place by the board and the investments committee. Most funds of the Company are invested in Israel and the rest is invested overseas.

Market risks include, among other things, risks resulting from changes in interest rate, share prices, inflation, exchange rates and credit spreads. Market risk comes from unexpected changes in the market environment.

1. **Market Risk Sensitivity Tests**

The following is a sensitivity analysis in relation to the impact of change in those factors on profit (loss) for the year and overall income (equity). The sensitivity analysis refers to financial assets and liabilities.
The sensitivity analysis reflects direct impacts only, without indirect impacts. Note that sensitivity is not necessarily linear.

Data as of December 31, 2013:

	Rate of interest (1)		Investments in capital instruments (2)		Rate of change in the consumer price index		The rate of change in the exchange rate of the foreign currency	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	ILS in thousands							
Profit (loss)	(52,561)	52,434	10,194	(10,194)	3,321	(3,321)	2,984	(2,984)
Comprehensive income (shareholders' equity)(3)	(52,561)	52,434	10,194	(10,194)	3,321	(3,321)	2,984	(2,984)

Data as of December 31, 2012:

	Rate of interest (1)		Investments in capital instruments (2)		Rate of change in the consumer price index		The rate of change in the exchange rate of the foreign currency	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	ILS in thousands							
Profit (loss)	(49,697)	49,524	16,177	(16,177)	2,360	(2,360)	3,953	(3,953)
Comprehensive income (shareholders' equity)(3)	(49,697)	49,524	16,177	(16,177)	2,360	(2,360)	3,953	(3,953)

NOTE 27 – RISK MANAGEMENT (continued)**:**

c. Market risks (continued)**:**

1. Market Risk Sensitivity Tests (continued)**:**

(1) The sensitivity test of the change in interest was made both in respect of fixed interest rates and in respect of variable interest instruments. As to fixed interest instruments - the exposure is in respect of the book value of the instrument; as to variable interest instruments, the exposure is in respect of the cash flow arising from the financial instrument.

(2) Investments in instruments that do not have a fixed cash flow or alternatively, the Company does not have data regarding this cash flow.

(3) The sensitivity tests regarding the comprehensive income also reflect the effect on the income (loss) for the reported period.

2. **Direct interest risk**

The direct interest risk is the risk that a change in the market interest rate will cause a change in the fair value of the financial assets or liability. This risk relates to assets that are paid off in cash. The addition of the word "direct" underscores the fact that change of interest can also affect other types of assets but not directly, such as the impact of a change in the interest rate on share prices.

Set forth below is a breakdown of the assets and liabilities by exposure to interest risks:

	Nonprofit participating assets and liabilities as of December 31	
	2013	**2012**
	ILS in thousands	
Assets with direct interest risk:		
Marketable debt instruments	1,174,216	1,099,646
Cash and cash equivalents	67,616	93,540
Total assets with direct ineterst risk	1,241,832	1,193,186
Total assets without direct interest risk	1,345,218	1,195,863
Total assets	2,587,050	2,389,045
Liabilities with direct interest risk:		
Liabilities in respect of insurance contracts non depending yield	3,803	4,102
Liabilities for employee rights upon Retirements	2,445	2,326
Liabilities in respect of reinsurers	237,018	231,465
Total liabilities with direct interest risk	243,266	237,893
Total liabilities without direct interest risk	1,700,780	1,574,048
Shareholders' equity	643,004	577,104
Total equity and liabilities	2,587,050	2,389,045
Total assets, net of liabilities	643,004	577,104

NOTE 27 – RISK MANAGEMENT (continued):

c. Market risks (continued):

3. **Breakdown of assets and liabilities of the Company by linkage bases**

Assets without direct interest risk include nonmarketable assets, shares, property and equipment, deferred acquisition costs and other assets as well as groups of balance sheet financial assets. Therefore, the interest risk in respect of those assets is relatively low; (collectible premiums, current balances of insurance companies and accounts receivables). Liabilities without a direct interest risk include liabilities in respect of nonprofit participating insurance contracts and investment contracts, liabilities in respect of deferred taxes, net, liabilities in respect of current taxes and other accounts payable.

	As of December 31, 2013				
	In ILS unlinked	**In ILS linked to the CPI**	**In foreign currency (Dollar, Euro and other) or linked thereto**	**Nonmonetary items and others**	**Total**
	ILS in thousands				
Intangible assets				14,799	14,799
Deferred acquisition costs				140,520	140,520
Property and equipment				15,248	15,248
Reinsurance assets	19,343	597,826	30,497		647,666
Premiums to be collected	139,80	35,121	11,813		186,414
Other accounts receivables	13,319	70,968	3,835	21,800	109,922
Other financial investments:					
Marketable debt instruments	375,900	782,427	15,889		1,174,216
Nonmarketable debt instruments		126,248	2,456		128,704
Shares				77,352	77,352
Other			9,448	15,145	24,593
Total other financial investments	375,900	908,675	27,793	92,497	1,404,865
Other cash and cash equivalents	60,230		7,386		67,616
Total assets	608,272	1,612,590	81,324	284,864	2,587,050
Total shareholders' equity				643,004	643,004
Liabilities:					
Liabilities in respect of insurance contracts and investment contracts that are nonprofit participating contracts	246,241	1,280,531	42,950		1,569,722
Liabilities in respect of deferred taxes - net				26,889	26,889
Liabilities for employee rights upon retirement	2,445				2,445
Other accounts payable and surplus reserves	326,477		8,535	9,978	344,990
Total liabilities	575,163	1,280,531	51,485	36,867	1,944,046
Total liabilities and shareholders' equity	575,163	1,280,531	51,485	679,871	2,587,050
Total balance sheet exposure	33,109	332,059	29,839	(395,007)	

NOTE 27 – RISK MANAGEMENT (continued):

c. Market risks (continued):

3. Breakdown of assets and liabilities of the Company by linkage bases (continued):

	As of December 31, 2012				
	In ILS unlinked	**In ILS linked to the CPI**	**In foreign currency (Dollar, Euro and other) or linked thereto**	**Nonmonetary items and others**	**Total**
	ILS in thousands				
Intangible assets				15,732	15,732
Deferred acquisition costs				130,191	130,191
Property and equipment				16,885	16,885
Reinsurance assets	16,009	525,691	43,832		585,532
Premiums to be collected	131,003	28,840	14,312		174,155
Other accounts receivables	11,483	108	1,446	20,631	33,668
Other financial investments:					
Marketable debt instruments	287,098	787,095	25,453		1,099,646
Nonmarketable debt instruments		75,284	2,641		77,925
Shares				68,284	68,284
Other			8,090	85,397	93,487
Total other financial investments	287,098	862,379	36,184	153,681	1,339,342
Other cash and cash equivalents	79,833		13,707		93,540
Total assets	525,426	1,417,018	109,481	337,120	2,389,045
Total shareholders' equity				577,104	577,104
Liabilities:					
Liabilities in respect of insurance contracts and investment contracts that are nonprofit participating contracts	222,887	1,127,096	59,357		1,409,340
Liabilities in respect of deferred taxes - net				8,877	8,877
Liabilities for employee rights upon retirement	2,326				2,326
Other accounts payable and surplus reserves	320,812	48,548	10,594	11,444	391,398
Total liabilities	546,025	1,175,644	69,951	20,321	1,811,941
Total liabilities and shareholders' equity	546,025	1,175,644	69,951	597,425	2,389,045
Total balance sheet exposure	(20,599)	241,374	39,530	(260,305)	

NOTE 27 – RISK MANAGEMENT (continued):

c. Market risks (continued):

4. **Breakdown of exposure of economic sectors to investments in equity instruments**:

	As of December 31, 2013 (ILS in thousands)				
	Listed on TA100 index	**Listed on TA MidCap index**	**Abroad**	**Total**	**% of total**
Economic sector:					
Industry	22,397	-	-	22,397	28.9
High-Tech	16,445	265	104	16,814	21.7
Banks	15,282	-	-	15,282	19.8
Construction and real estate	6,821	-	-	6,821	8.8
Investment and holdings	5,249	-	-	5,249	6.8
Oil exploration	4,918	-	-	4,918	6.4
Insurance	3,378	-	-	3,378	4.4
Commerce	1,813	-	-	1,813	2.3
	680	-		1,390	0.9
Total	**76,983**	**265**	**104**	**77,352**	**100.0**

	As of December 31, 2011 (ILS in thousands)			
	Listed on TA100 index	**Listed on TA MidCap index**	**Total**	**% of total**
Economic sector:				
Industry	17,771	-	17,771	26.0
Banks	14,900	-	14,900	21.8
Construction and real estate	9,715	-	9,715	14.2
Financial services	7,002	-	7,002	10.4
Investment and holdings	6,370	-	6,370	9.3
Communication and computer services	4,455	-	4,455	6.5
Food and tobacco	3,127	-	3,127	4.6
Oil exploration	2,688	-	2,688	3.9
Commerce	1,390	-	1,390	2.0
Electricity and water	866	-	866	1.3
Total	**68,284**	**-**	**68,284**	**100.0**

NOTE 27 – RISK MANAGEMENT (continued):

d. Liquidity risk

The Company is exposed to risks stemming from the uncertainty as to the dates in which it would be required to pay insured entities or individual the amounts their claims in proportion to the scope of funds that will be available for that purpose on that date. A potential need to recruit funds unexpectedly and during a shortterm period may require significant disposal of assets over a shortterm period and the sale thereof at prices that would not necessarily reflect their market prices. The scale of liquid assets is according to a rate established in the relevant Company policy.

Management of assets and liabilities

The Company manages its assets and liabilities in accordance with the requirements of the Supervision Law and regulations promulgated thereunder.

The tables presented below include the estimated repayment dates of the amounts of the undiscounted insurance liabilities of the Company.

The estimated repayment dates of the liabilities in respect of general insurance contracts were included in the table as follows:

Insurance liabilities estimated by an actuary - on the basis of an actuarial estimate.
Insurance liabilities in nonstatistical insurance branches and in branches not assessed by an actuary, except for the property branches as well as excess of income over expenses (accumulation) is reported in the column "without definite fixed repayment date".

The estimated repayment dates of the liabilities in respect of life and health insurance contracts were included in the tables on the basis of an actuarial estimate.

Liabilities in respect of life insurance contracts and health* insurance contracts:

	Less than one year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	More than 15 years	Without fixed repayment date	Total
	ILS in thousands						
As of December 31, 2013	71,278	86,657	10,497	657	4,274	-	173,363
As of December 31, 2012	69,279	67,583	6,982	2,485	5,629	-	151,958

Liabilities in respect of general insurance contracts:

	Less than one year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Without fixed repayment date	Total
	ILS in thousands					
As of December 31, 2013	443,296	253,438	190,976	398,518	110,132	1,396,360
As of December 31, 2012	401,105	205,188	162,193	374,441	114,455	1,257,382

* Liabilities for reinsurers would be repaid within 18 months from the end of the current year. Financial liabilities in respect of accounts payable are expected to be repaid during the year.

NOTE 27 – RISK MANAGEMENT (continued):

e. Insurance risks

The insurance risks include, inter alia, the following:

Underwriting risks: The risk that erroneous pricing would be used as a result of deficiencies in the underwriting process and from the differences between the risk upon pricing and determining the premium and actual events so that the premiums that are collected are not sufficient to cover future claims and expenses. The differences may arise from incidental changes in the business results and from changes in the cost of the average claim and/or the frequency of the claims due to various factors.

Reserve risks: The risk for an erroneous estimation of the insurance liabilities that may bring about a situation where the actuarial reserves are insufficient to cover all the liabilities and claims. The actuarial models in accordance with which the Company assesses its insurance liabilities are based on the assumption that the pattern of behavior and claims in the past represents future events. The Company's exposure is composed of the following risks:

1. Model Risk the risk of electing an erroneous model of pricing and/or for assessment of the insurance liabilities.
2. Parameter risk – the risk for usage of erroneous parameters, including the risk that the amount to be paid for settlement of the insurance liabilities of the Company or that the date of the settlement of the insurance liabilities would be different from the expected amount or date.

Catastrophe risk: Exposure to the risk that a single event of extensive effect (a catastrophe) such as natural catastrophe, war, terrorism, would cause an accumulation of damages of extensive scope. The material catastrophic event to which the Company is exposed to in Israel is and earthquake

The amount of the maximal loss expected in the general insurance business as a result from the exposure to a single large damage or accumulation of damages due to a very big event at a maximal possible loss (MPL) probability of 1.34%is ILS 894.6 million (gross) and ILS 47.3 million (retained).

The maximum expected damage for catastrophe risk in general insurance as part of the required minimum capital computation is 1.75%. The maximum expected loss in the general insurance business from exposure to a large single damage or accumulation of damages for an especially large event at the maximum possible loss (MPL) of 1.75% is NIS 1,168.2 million in gross terms and NIS 183.2 million in self retention.

As to the data regarding the various insurance products in respect of which the insurer is exposed to an insurance risk, see the breakdown of the insurance liabilities by insurance risk in note 4 - additional data as to the general insurance segment and breakdown of assets and liabilities in respect of life insurance contracts by insurance exposure and in note 16 - the breakdown of insurance liabilities arising from health insurance.

e1. Insurance risk embedded in life insurance contracts

General

Set forth below is the description of the various insurance contracts and the assumptions used for computation of the liabilities related to those products, based on the type of the product. In general, based on the supervisor's instructions, the insurance liabilities are computed by an actuary, based on accepted actuarial methods and consistently with previous year. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the insured person, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

NOTE 27 – RISK MANAGEMENT (continued):

Actuarial methods used for computation of the insurance liabilities:

1) The "individual personal accidents" plans include pure risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For those plans the liability is computed on an actuarial basis. The computation is made using the "Gross Premium Reserve" method that includes in the expected proceeds all the premium components and reduces the expected expenses and commissions.

2) The liability in respect of pending claims related to health and personal accidents include mainly provisions for pending claims for risks of death and disability from accident, and a provision for IBNR.

3) The liability in respect of life insurance contracts for groups is composed o the liability in respect of unearned premium and provision to IBNR

4) The computation is made on a gross basis. Some of reinsurance is computed based on the agreements.

The main assumptions used for computation of insurance liabilities:

1) Rate of discount

In the life insurance sector that includes pure risk products with fixed premium the discount rate used is of 2.5%.

2) The rates of mortality and illness:

a) The mortality rates used to compute the insurance liabilities under life insurance policies in respect of mortality of insured individuals are identical to the rates used to determine the tariff.

b) The rates of illness refer to the frequency of claims in respect of serious illnesses. These rates were determined based on researches made by reinsurers. The higher the assumption regarding rate of illness will be, the higher the insurance liability as a result of serious illnesses.

Sensitivity analyses in life insurance:

As of December 31, 2013 (in thousands of ILS):

	Rate of illness and mortality	
	+10%	**-10%**
Profit (loss)	(2,696)	2,696

NOTE 27 – RISK MANAGEMENT (continued):

Changes in key assumptions used in computing the insurance liability for life insurance and health insurance contracts:

In respect of pending claims, we changed the computation method to computation on the basis of the development of the known and paid claims. This change was required in light of the period of existing disability claims included in the insurance portfolio.

In addition the method for calculating the reserve for fixed premium has changed. We discontinued the use of the Net Premium Reserve method to the Gross Premium Reserve method. This change applies both to gross amount and to retained amount.

Had the said changes also been applied to the comparative figures of the calculation of the insurance liability in respect life insurance contracts, these changes would not have caused material changes in the results reported in these financial statements.

e2. Insurance risk embedded in health insurance contracts and personal insurance contracts

General

Set forth below is the description of the various insurance contracts and the assumptions used for computation of the liabilities related to those products, based on the type of the product. In general, based on the supervisor's instructions, the insurance liabilities are computed by an actuary, based on accepted actuarial methods and consistently with previous year. The liabilities are computed in accordance with the relevant coverage data, such as age and sex of the insured person, the period of insurance, the date of commencement of the insurance, the type of the insurance, periodic premium and the amount of insurance.

Actuarial methods used for computation of the insurance liabilities:

1) The "individual personal accidents" plans include pure risk products (death as a result of an accident, disability as a result of accident) that are sold as independent policies. For those plans the liability is computed on an actuarial basis. The computation is made using the "Gross Premium Reserve" method that includes in the expected proceeds all the premium components and reduces the expected expenses and commissions.

2) The liability in respect of pending claims related to health and personal accidents include mainly provisions for pending claims for risks of death from accident, serious illnesses and disability from an accidents and a provision for IBNR - Incurred by not Reported Losses. For the personal accidents sectors - both individual and group - the Link Ration models were set up on the basis of accumulated cost of the claims (payments of the claims with the addition of individual assessments and - Average Cost per Claim. The models are settled at the level of quarterly damage.

3) The computation is made on a gross basis. Some of the reinsurance is computed based on the agreements.

The main assumptions used for computation of the insurance liabilities:

1) Rate of discount

In the Personal accidents – individual sector the gross premium reserve is computed on the basis of a risk free interest.

2) The rates of mortality and illness

The rates of illness refer to the frequency of claims in respect of serious illnesses, disability as a result of accidents and death as a result of an accident. These rates were determined based on the Company's past experience. The higher the assumption regarding rate of illness will be,

NOTE 27 – RISK MANAGEMENT (continued):

the higher the insurance liability as a result of serious illnesses and disability as a result of an accident.

Sensitivity analysis in health insurance and personal accidents insurance As of December 31, 2013 (ILS in thousands):

	Rate of the cancellation		Rate of illness	
	+10%	-10%	-10%	-10%
Profit (loss)	133	(140)	(14,164)	13,169

3) Rates of cancellations

The rates of cancellations affect the insurance liabilities in respect of part of some of the health insurances. Insurance contracts can be cancelled by the Company due to unpaid premiums or at the request of the owner of the policy. The assumptions as to the rates of cancellations are based on the company's past experience based on the type of the products, the estimated useful life of the product and sales trends. A 10% increase or decrease in the cancellations assumption is immaterial for the profit item since the gross premium reserve is relatively small.

e3. Insurance risk in general insurance contracts

A summary of the main insurance sectors in which the Company operates

The Company writes insurance contracts in the field of general insurance, mainly in the compulsory car insurance sector, liabilities, car damages insurance and property insurance

Compulsory car insurance covers the owner of the policy and the driver for any liability they may incur as a result of the provisions of the Road Accidents Victims Compensation Law, 1975, for bodily damage caused as a result of usage of motor vehicle to the driver, the passengers or pedestrians hit by the car. Compulsory car insurance claims are characterized
by a long tail, i.e., sometimes a long period of time elapses from the date the event takes place to the final settlement of the claim.

The liability insurances are designed to cover the liability of an insured person for any damage he may cause to a third party. The two main types of insurance are: liability to a third party, liability of employers, other liability insurances such as professional responsibility, liability arising due to products and directors and office holders' responsibility. The timing of the filing of the claims and the settlement thereof is influenced from several factors, such as the type of coverage, the terms of the policy and legislation and legal precedents. Normally, the claims in the liability insurance are characterized by a long tail. i.e., sometimes a long period of time elapses from the date the event takes place to the final settlement of the claim.

Policy for insurance of car damages and third party car damages entitle the insured person with property damage coverage. The coverage is usually limited to the value of the damaged car. The tariff for vehicle damage insurance requires the approval of the supervisor and the same applies for the approval of the policy as a whole; the said tariff is an actuarial tariff and partially differential (varies in accordance with the risk). The said tariff is based on several parameters, both parameters that are related to the vehicle insured under the policy (such as the type of the vehicle, year of manufacture etc.) and parameters related to characters of the person insured (age of the drivers, claims history etc.). The underwriting procedure is partially performed through the tariff itself and partly based on a system of procedures that are designed to examine the claims history of the person insured that include presentation a noclaim certificate from a previous insurer (for the last three years), presentation of up to date certificate of defense, etc. The implementation of the procedures is mechanically combined into procedure of issuance of the policies.

NOTE 27 – RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts (continued):

In most of the cases the car damages insurance policies are issued for a oneyear period. Also, in most cases, claims in respect of these policies are settled close to the time in which the insurance event happened.

Property insurance policies are intended to provide the insured person coverage against physical damage to his property and loss of profits due to the damage caused to his property.

The main risks covered by property insurance policies are fire risks, explosion, burglary, earthquake and natural catastrophe. The property insurance policies sometimes include coverage for loss of profits originating in physical damage to property. Property insurance constitutes an important part of apartments insurance, business insurance, engineering insurances, freight (sea freight, land freight, air freight) etc.). In most cases, claims regarding those policies are settled close to the time in which the insurance event happened.

Principles of computation the actuarial assessment in general insurance:

General:

a) The liabilities in respect of general insurance contracts include the following components:
   - Reserve for premium that has not yet been earned.
   - Deficient premium.
   - Pending claims

   The provision for premium that has not yet been earned and the deferred acquisition costs are computed independently of any assumption and are therefore they are not exposed to the reserve risk. As to the manner in which these provisions are computed see the note referring to accounting policy.

b) In accordance with the instructions of the supervisor, the pending claims are computed by an actuary based on accepted actuarial methods consistently with previous year. The election of the actuarial method appropriate for each insurance sector and for each year of event/underwriting is being made using discretion in accordance with the extent to which the method is suitable for the sector and sometimes the various methods are combined. The assessments are based mainly on past experience of the development of payments regarding claims and/or developments in the amount of payments and specific assessments. The assessments include assumptions regarding the cost of an average claims, costs of handling of claims and the frequency of the claims. Further assumptions may be in respect of changes in rates of interest, exchange rates and the timing of payments. The payments of the claims include direct and indirect claims for settlement of claims, net of subrogation and excess insurance.

c) The usage in actuarial methods that are based on developments of claims is mainly appropriate when there is stable and satisfactory information regarding payments of claims and/or specific assessments used in order to assess the total expected cost of claim. Where the information available regarding the actual experience regarding the claims is insufficient the actuary sometime uses a computation weighting a known estimate (made by the Company and/or the sector) such as loss ratio and the development of actual claims. A greater importance is given to the assessment that is based on experience as time elapses and further data is accumulated regarding the claims.

d) Also included are quantitative assessments and discretion is used as to the extent that past trends would not continue in the future. For example, due to oneoff event, internal changes, such as a change in the mix of the portfolio, the underwriting policy and procedures and due to the effects of external factors such as legal rulings, legislation, etc. When changes as above are not fully reflected in the past experience the actuary updates the models and/or makes specific provisions based on statistical and/or legal assessments as appropriate.

NOTE 27 – RISK MANAGEMENT (continued):

e3. Insurance risk in general insurance contracts (continued):

e) In cases of large claims of nonstatistical characters, the provision is determined (gross and retained) based on an opinion issued by Company's experts and in accordance with the recommendations of its legal advisors.

f) The share of the reinsurers in the pending claims is estimated taking into account the type of the agreement (proportionate/disproportionate), actual experience in the claims and the premium transferred to reinsurer.

g) The assessment of the pending claims in respect of the Company's share in the pool was based on a computation performed by the pool.

Breakdown of actuarial methods in the principal insurance sectors:

a) The vehicle damage insurance

In the vehicle damage sector, the liabilities are computed based on the development of the claims payments and the development of the payments amounts and the specific assessment, while referring to the types of coverage such as comprehensive/third party coverage and the types of damages such as self damage/third party/theft/total loss. For the last months of damage in respect of which there are not enough data the average method is also used when determining the cost of claim.

b) Compulsory vehicle insurance

In the compulsory vehicle insurance the liabilities are computed based on the development of payments and pending amounts in respect of claims of smaller amounts (not exceeding ILS 1 million). The liabilities in respect in amounts exceeding ILS 1 million are computed in accordance with actuarial models that are based on development payments and pending claims. The share of the reinsurers in the claims in respect of excess contracts is computed in accordance with the model for larger claims (more than ILS 1 million) and in accordance with the actual claims of amounts in excess of ILS 1 million.

There is also an additional provision of ILS 21.6 million in respect of changes in legislation and rulings.

c) Liabilities insurance

In the liabilities insurance the liabilities are computed based on the development of identified claims. For periods in respect of which there are not enough data ,the cost of claims is computed using the loss ratio method. In large claims the specific assessments of the claims department are also taken into account.

d) Property insurance and other

In property insurance and other insurance, the liabilities are computed based on the development of the claims payments and/or development of the payments and pending claims.

The principal assumptions that were taken into account for purpose of actuarial assessment:

a) Pending claims in compulsory vehicle and Liabilities insurance were not capitalized.

b) No addition was made to the basis of the provision in the compulsory vehicle insurance and liabilities insurance in respect of risk margin (standard deviation).

NOTE 27 – RISK MANAGEMENT (continued):

f. Credit risk data:

Credit risk arises from exposure to decrease in the quality of credit or default of borrowers from deterioration of their financial situation. Investments in bonds, capital notes and deposits of companies are mainly rated A or above, which represents a lower credit risk.

Investment in issuers is done after a deep analysis of the Company and the loan based on credit criteria and policy as approved by the investments committee. Those debts are monitored continuously, with special attention given to problematic debt.

1. Distribution of debt instruments by location:

	December 31, 2013		
	Marketable	Nonmarketable	Total
	ILS in thousands		
Domestic	1,167,998	126,248	1,294,246
Abroad	6,218	2,456	8,674
Total debt instruments	1,174,216	128,704	1,302,920

	December 31, 2011		
	Marketable	Nonmarketable	Total
	ILS in thousands		
Domestic	1,092,716	75,284	1,168,000
Abroad	6,930	2,641	9,571
Total debt instruments	1,099,646	77,925	1,177,571

2. Breakdown of assets by ratings:

a1. Debt assets (excluding cash and cash equivalents and other receivables):

	Domestic rating			
	As of December 31, 2013			
	-AA and above	BBB through A+	Lower than BBB	Total
	ILS in thousands			
Debt assets in Israel:				
Marketable debt assets:				
Government bonds	762,118	-	-	762,118
Corporate bonds	219,418	186,111	351	405,880
Total marketable debt assets in Israel	981,536	186,111	351	1,167,998
Nonmarketable debt assets:				
Government bonds	-	-	-	-
Corporate bonds	11,751	1,049	-	12,800
Deposits with banks and financial institutions	113,448	-	-	113,448
Total nonmarketable debt assets in Israel	125,199	1,049	-	126,248
Total domestic debt instruments	1,106,735	187,160	351	1,294,246

	As of December 31, 2012			
	A and above	BBB	Lower than BBB	Total
	ILS in thousands			
Debt assets abroad:				
Marketable debt assets :				
Government bonds	6,218	-	-	6,218
Total marketable debt assets abroad	6,218	-	-	6,218
Nonmarketable debt assets:				
Corporate bonds	-	-	2,456	2,456
Total nonmarketable debt assets abroad	-	-	2,456	2,456
Total debt assets abroad	6,218	-	2,456	8,674

NOTE 27 – RISK MANAGEMENT (continued):

	Domestic rating			
	As of December 31, 2012			
	AA and above	BBB through A+	Lower than BBB	Total
	ILS in thousands			
Debt assets in Israel:				
Marketable debt assets:				
Government bonds	803,392	-	-	803,392
Corporate bonds	163,464	122,806	3,054	289,324
Total marketable debt assets in Israel	966,856	122,806	3,054	1,092,716
Nonmarketable debt assets:				
Government bonds	-	-	-	-
Corporate bonds	14,817	2,718	155	17,690
Deposits with banks and financial institutions	57,594	-	-	57,594
Total nonmarketable debt assets in Israel	72,411	2,718	155	75,284
Total domestic debt instruments	1,039,267	125,524	3,209	1,168,000

	International rating			
	As of December 31, 2012			
	AA and above	BBB through A+	Lower than BBB	Total
	ILS in thousands			
Debt assets abroad:				
Marketable debt assets :				
Government bonds	6,930	-	-	6,930
Total marketable debt assets abroad	6,930	-	-	6,930
Nonmarketable debt assets:				
Corporate bonds	-	-	2,641	2,641
Total nonmarketable debt assets abroad	-	-	2,641	2,641
Total debt assets abroad	6,930	-	-	9,571

NOTE 27 – RISK MANAGEMENT (continued):

a2. Credit risk in respect of other financial assets (in Israel)

	Domestic rating				
	As of December 31, 2013				
	A and above	BBB	Lower than BBB	Not rated	Total
	ILS in thousands				
Accounts receivable - excluding balances of reinsurers	-			295,114	295,114
Cash and cash equivalents	67.616				67.616
	67.616			295,114	362,730

	Domestic rating				
	As of December 31, 2012				
	A and above	BBB	Lower than BBB	Not rated	Total
	ILS in thousands				
Accounts receivable - excluding balances of reinsurers	-			206,136	206,136
Cash and cash equivalents	93,347			193	93,540
	93,347			206,329	299,676

3. Additional data regarding credit risks:

a. The systems of ratings of domestic debt instruments and debt instruments abroad vary from one another. It should be indicated that in accordance with the Capital Market circular 2008-6-1, regarding the publication of data for conversion of the Israeli rating system and the international rating system, the supervisor instructed that through January 1, 2009 the rating companies that received the approval of the Commissioner of Capital Market, Insurance and Savings to operate as a rating company in accordance with the Capital Market circular 2004/1 are to publish a system for the conversion of the Israeli rating into the international rating.

b. As to the balances of reinsurers - of ILS 647,666 - see the note relating to assets of reinsurance.

4. Breakdown of exposure of economic sectors to investments in marketable and marketable financial debt instruments:

	As of December 31, 2013	
	Balance sheet credit risk	
	Amount	% of total
	ILS in thousands	
Economic sector:		
Banks	229,490	17.6
Construction and real estate	154,722	11.9
Investment and holdings	48,525	3.7
Other business services	41,823	3.2
High-Tech	25,714	1.9
Commerce	12,406	1.0
Industry	11,694	0.9
Insurance	10,210	0.8
	534,584	41.0
Government bonds	768,336	59.0
Total	**1,302,920**	**100.0**

NOTE 27– RISK MANAGEMENT (continued):

	As of December 31, 2012	
	Balance sheet credit risk	
	Amount	% of total
	ILS in thousands	
Economic sector:		
Economic sector:		
Banks	124,781	10.5
Construction and real estate	100,869	8.6
Investment and holdings	47,780	4.1
Other business services	31,679	2.7
Industry	27,972	2.4
Communication and media	18,766	1.6
Financial services	10,336	0.9
Commerce	5,066	0.4
	367,249	31.2
Government bonds	810,322	68.8
Total	**1,177,571**	**100.0**

5. Reinsurance

The Company insures some of its businesses under reinsurance, most of which is being performed through reinsurers abroad. Nevertheless, the reinsurance does not release the direct insurers from their obligations to the insured entities or individuals under the terms of the insurance policies.

The Company is exposed to risks arising from uncertainty as to the ability of the reinsurers to pay their share in the liability in respect of insurance contract (the reinsurance assets) and their obligations in respect of claims that were paid. This exposure is managed by holding a followup on a current basis with regard to the reinsurer's situation in the world market and a followup with respect of the fulfillment of the reinsurer's financial liabilities.

Under the guidelines set by the Supervisor, the Board of Directors set one a year, maximal exposure levels to the reinsurer with which the Company entered (or will enter) into reinsurance agreement; such levels are based on the reinsurers' international rating. Also, the Company's exposures are divided between various reinsurers; the most significant of these exposures are to reinsurers of high international ratings.

a. In 2013, most of the Company's general insurance contracts (include earthquake exposure) were with insurance companies, as follows:

- New Hampshire Insurance Company
- National Union Fire Insurance Company of Pittsburgh, PA
- American Home Assurance Company
- AIG Europe Ltd

b. The above-mentioned companies are global AIG Corporation companies and were granting A rating by the leading international rating agencies; (Chartis Overseas is only rated by Fitch).

NOTE 27– RISK MANAGEMENT (continued):

c. The company engaged in 2013 in connection with most life insurance contracts with the following insurance companies:

- Swiss Re
- Partner Re
- Gen Re

NOTE 27 – RISK MANAGEMENT (continued):

c. Data regarding the exposure to credit risks as of December 31, 2013:

			Reinsurance assets						Debts in arrears	
Rating group	**Total premiums to reinsurers for 2013**	**Credit balances (B)**	**Life insurance**	**Property insurance**	**Liabilities insurance**	**Deposits of reinsurers**	**amount of letters of credit received from reinsurers**	**Total exposure (a)**	**0.5-1 year**	**In excess of 1 year**
-AA or above					**ILS in thousands**					
GEN RE	2,365	(532)	1,063	-		(946)		(415)		
SWISS RE	16,828	(2,565)	7,705	-		(6,734)		(1,594)		
Other	1,402	221	-	-		-		221		
	20,595	(2,876)	8,768			(7,680)		(1,788)		
A										
Partner Reinsurance Co Hd	3,704	(217)	1,559	-	-	(1,077)		265		
American Home Assurance Co.	12,088	(613)	-	6,789	53,191	(22,826)		36,541		
National Union Fire Insurance Co. Of Pittsburgh, PA	94,287	(4,782)	-	52,954	414,888	(178,044)		285,016		
New Hampshire Insurance Co.	14,506	(736)	-	8,147	62,829	(27,391)		43,849		
Other companies in the AIG international corporation	15,514	1,361	-	32,842	4,515	-		38,718		
Other	2,456	(65)	-	184	-	-		119		
	142,555	(5,052)	1,559	100'916	536,423	(229,338)		404,508		
BBB+										
Other	233	(55)	-	-	-	-		(55)		
	233	(55)	-	-	-	-		(55)		
Total	163,383	(7,983)	10,327	100,916	536,423	(237,018)		402,665		

NOTE 27 – RISK MANAGEMENT (continued):

c. Data regarding the exposure to credit risks as of December 31, 2012

Rating group	Total premiums to reinsurers for 2012	Credit balances (B)	Reinsurance assets: Life insurance	Reinsurance assets: Property insurance	Reinsurance assets: Liabilities insurance	Deposits of reinsurers	amount of letters of credit received from reinsurers	Total exposure (a)	Debts in arrears: 0.5-1 year	Debts in arrears: In excess of 1 year
	ILS in thousands									
AA or above										
GEN RE	3,124	(111)	892	-		1,166		(385)		
SWISS RE	16,122	(2,085)	6,459	-		6,316		(1,942)		
Other	1,438	216	-	-		-		216		
A	2,629	(188)	1,307	-	-	809		310		
Partner Reinsurance Co Hd	14,203	(445)	-	5,785	48,211	22,317		31,234		
American Home Assurance Co.	95,163	(2,983)	-	38,763	323,013	149,526		209,267		
Chartis Overseas Ltd										
National Union Fire Insurance	15,624	(490)	-	6,364	53,032	24,549		34,357		
Co. Of Pittsburgh, PA	17,044	(534)	-	6,943	57,853	26,781		37,481		
New Hampshire Insurance Co.	16,176	(3,436)	-	32,207	4,499	-		33,270		
Other companies in the AIG international corporation	2,922	173	-	204	-	-		377		
Other	163,761	(7,903)	1,307	90,266	486,608	223,982		346,296		
BBB+										
Other	226	16	-	-	-	-		16		
	226	16	-	-	-	-		16		
Total	184,671	(9,867)	8,658	90,266	486,608	(231,464)		344,201		

NOTE 27 – RISK MANAGEMENT (continued):

g. Operating risks –

Operating risk may lead to financial loss, reputational damage, regulatory non-compliance, inefficiency, lost targets, etc. The exposures may result from failure or inappropriateness of internal processes, human error, information technology failure, regulatory non-compliance or exogenous events. To limit the operating risk, the Company is active to update the organizational risk maps and to perform risk control self-assessments (RCSA). The risk management function in the Company includes "risk-management champions" in business units who report risk events and collect various key risk indicators (KRIs) for risk analysis and assessment. The reports and data are reported regularly to the risk manager. In 2014, risk management procedures will be integrated to have ongoing detection, treatment, monitoring and regular reporting of exposures in the organizational operating processes.

As part of the operating risk management, the Company designed a disaster recovery plan (DRP) and a business continuity plan (BCP) to recover in an instance of damage to operating infrastructure. In addition, the Company performs once a period a risk survey to detect fraud.

Further, the Company is operating an internal audit function that performs periodic audits according to an annual and multi-annual plan. This plan reflects the findings of a legally mandatory risk survey and different guidance.

Additional aspects of operating loss are treated under the guidance in SOX 404.

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

Interested parties as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010.
Related parties - as defined in IAS 24 - "Related Party Disclosures".

a. Balances with interested parties and related parties

	December 31	
	2013	2012
	ILS in thousands	
Premium to be collected	-	18
Reinsurance assets	637,156	576,670
Accounts receivable	2,676	804
Accounts payable and surplus reserves	3,838	3,206
Liabilities of reinsurers	233,031	231,061

b. Transactions with interested parties and related parties

Office holders in the Company may purchase' from time to time' insurance contracts issued by the company under market conditions and in the ordinary course of business.

	December 31		
	2013	2012	2011
	ILS in thousands		
Premiums - gross	58	366	363
Reinsurance premiums	136,395	158,211	143,215
Income from commissions	37,788	43,932	39,893
Increase in insurance liabilities and payments in respect of insurance contracts	158,931	142,684	114,397
Administrative and general expenses	7,359	8,881	8,730
Financial income (expenses)	2,177	3,443	4,439

c. Benefits to key management personnel

Key management personnel, which are being an integral part of related parties as defined by IAS24, includes members of the bored and members of senior management.

	For the year ended December 31					
	2013		2012		2011	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
	ILS in thousands					
Shortterm benefits	13	9,114	14	9,385	16	9,360
Other longterm benefits	13	1,750	14	1,450	16	2,054
Sharebased payment	8	-	8	-	8	186
		10,864		10,835		11,600

d. Benefits to related parties and other interested parties:

	For the year ended December 31					
	2013		2012		2011	
	No. of people	Amount	No. of people	Amount	No. of people	Amount
	ILS in thousands					
Fees to directors	4	671	4	704	4	512
	4	671	4	704	4	512

e. Income and expenses from related parties and interested parties:

1.Employment terms with related parties

Some of the Company's financial and insurance operations are performed with related parties and interested parties at the ordinary course of business and at market prices. As to details regarding material transactions with related party, see section b. above and note 27f.

NOTE 28 – BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (continued):

e. Income and expenses from related parties and interested parties (continued):

2. Sharebased payments plan and bonuses to employees (continued):

a. Bonuses to key management personnel

Short-term benefits include bonuses and other benefits to key management personnel, amounting to ILS 2,448 thousands (2012 – ILS 1,901 thousands; 2011 – ILS 1,590 thousands).

NOTE 29 - CONTINGENT LIABILITES AND COMMITMENTS:

Contingent liabilities class actions:

a. A lawsuit and a motion to certify a class action were filed against the company in February 2011. The lawsuit was brought against 5 more insurers. The lawsuit argues that the company is not paying the real amount of indemnification for diminished car value after being damaged in an accident, but rather pay reduced indemnification. The argument is that the computation of this reduced diminished value pay is done according to the report of the Sasson Committee, which established guidelines for computing diminished value.

The plaintiff argues that this allegedly misleading practice caused him a financial loss. The remedy the plaintiff requests is a declaration that the company has to appropriately disclose to its clients the method of computing diminished value in advance, as early as when issuing an offer to a client. Therefore, the plaintiff requested to refund the premium paid by any insurance client for vehicle insurance, which allegedly was entered into misleadingly. According to plaintiffs' estimation, 47,264 vehicles are insured by the company every year, with an average premium of ILS 2,000 less 20% of clients who had insured events, which amount to ILS 529,390,400. This amount applies to all vehicle insurance clients in the past 7 years. An alternative remedy is to repay ILS 150 for each insured, which is the difference between 5% and 1.5% in selfinsured retention. The amount required to cover all vehicle insurance client in the 7 years prior to filing the claim was ILS 39,704,700.

As yet another alternative, the diminished value component in a policy is about ILS 800 per client. The amount required to repay that to all insurance clients in the company in the past 7 years is ILS 264,678,400.

In a hearing which took place on May 13, 2012, the plaintiff agreed to withdrawn his claim. In light of the excessive demands of the plaintiff concerning professional fees and compensation to the class action plaintiff, it was agreed that the issue of legal fees and amount awarded to the plaintiff will be determined at the discretion of the Court and each of the parties shall file its arguments regarding this matter.

After the company filed its arguments, the Court ordered that only ILS 10,000 shall be paid to the plaintiff and his legal council.

On September 9, 2012, the plaintiffs lodged an appeal to the Supreme Court asking to cancel the above-mentioned ruling and reinstating the proceedings regarding compensation to the plaintiffs, expenses and legal fees, or alternatively asking that the Supreme Court shall order the increase of the relevant amounts.

NOTE 29 - CONTINGENT LIABILITES AND COMMITMENTS (continued)**:**

Contingent liabilities class actions:

A hearing on the appeal to the Supreme Court is scheduled for May 26, 2014. The plaintiffs filed their closing brief on June 18, 2013, and the defendants filed their closing brief on September 11, 2013.

The legal counsel believes that it is more likely than not that the appeal will not be accepted

b. In December 2012, a lawsuit and a motion for class action certification was filed against 6 insurance companies, including the Company; the plaintiffs also filed an application to approve the claim as a class action. 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 2008, 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 ILS 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.

On July 10, 2013, a pretrial 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.

The witnesses of the parties were cross examined on February 24, 2014 and on March 6, 2013. The court set a further evidence hearing for March 25, 2014, for the purpose of investigating 3 witnesses who have not yet been investigated.

NOTE 29 - CONTINGENT LIABILITES AND COMMITMENTS (continued)**:**

Contingent liabilities class actions:

The legal counsel believes it is more likely than not that the lawsuit will be rejected. This assessment is based on the fact that there is no legal duty to classify vehicles in policies according to the classification in vehicle licenses. In addition, each insurer has the prerogative to calculate the premium as it sees fit.

c. A legal claim was filed against the company and 14 other insurance companies on January 13, 2013; the plaintiff also filed an application to approve the claim as a class action. 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 plaintiffs 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 ILS 1,050,000.

The Company filed its response to the motion to certify a class action on June 5, 2013, and the plaintiff filed his counter-response on October 15, 2013.

On October 31, 2013, a pretrial hearing was held in which the court pointed out that the insurers charge premium for risk free periods, and such practice may be considered inappropriate given a decision in Appeal Request 3489/09 Migdal v. Metal Coating.

The Company pointed to the court that insurance companies operate based on the law and regulations, in this industry that is highly regulated and that they may not change the text in the policy as dictated by law. In addition, charging premium and the dates indicated on the policy are done in accordance with Motor Vehicle Insurance Regulations (Residual Insurance Arrangement and Mechanism for Setting the Tariff), 2001, Supervision of Financial Services (Insurance) (Contract Conditions for Compulsory Motor Vehicle Insurance), 2010 and the guidance in a circular issued by the Supervisor titled "Insurance Premiums in the Compulsory Motor Vehicle Industry", dated August 10, 2005.

The Court ruled that at this stage, the motion for certification of a class action has no relevanceto the insurance companies except for the Pool (since the Pool is a separate legal entity, and the plaintiff has grievance only towards it) and permitted the attorneys of the plaintiffs to file a request to amend the motion for class action certification in such way that will cover plaintiffs concerning the other insurance companies through January 31, 2014.

NOTE 29 - CONTINGENT LIABILITES AND COMMITMENTS (continued)**:**

Contingent liabilities class actions:

On January 30, 2014 the applicant asked the court to defer the date of filing the application for adding additional applicants by 14 days and to grant the organization Hatzlacha 30 days during which it shall consider the option of filing an application to be added as an applicant to the application as well as filing application for instructions. On February 6, 2014 the company filed its objection to the above mentioned application to defer the filing date.

On February 16, 2014, the applicant's attorney filed an application to amend the application for certification of the claim as a class action; the purpose of the amendment of the application as above was to add applicants so that the application will cover plaintiffs concerning the other insurance companies.

On February 20, 2014 the court allowed the applicant's request to defer the date of filing the application for addition additional applicant and ordered that the application to add applicant shall be discussed in a pre-trial hearing on March 25, 2014.

The attorneys of the applicant were unsuccessful in finding a class action claimant that was insured or is still insured by the company. On March 4, 2014, the company asked the court to reject the class action against the company. The company's application shall be discussed by the court on March 25, 2014.

The legal counsel are in the opinion that it is more likely that not that the motion to certify a class action will not be accepted.

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

The motion claims that the Company violates the provisions of the Communications Law 1982 including Section 30A of that law that prohibit advertising through short text messages unless specific terms in the Communications Law are met; and violation of the Privacy Protection Law, 1981 and especially the provisions on direct mailing in that law.

The plaintiffs claim that text messages that are sent by the Company for renewal of compulsory motor vehicle insurance is a prohibited "advertisement" as defined by Section 30A to the Communications Law. The plaintiffs further argue that the text messages sent by the Company are "direct mailing" and that such direct mailing is done against the provisions of the Privacy Protection Law.

The plaintiffs claim that sending the text messages was done without their consent and that their attempts to remove themselves from the mailing list were unsuccessful due to the requirement of the Company to undergo an unreasonable identification procedure in this circumstance for identifying the plaintiffs.

The plaintiffs believe that the underlying objective is renewal of the insurance policy by exerting pressure, without real possibility to remove from the mailing list for those text messages without many conditions that undermine civil rights, freedom of choice and privacy.

The plaintiffs argue that the Supervisor of Insurance prohibited acting according to a practice on automatic renewal of compulsory vehicle insurance at the end of the policy period and that the defendant found a course of action to go around those regulations. The plaintiffs also ask that the insurance in question was not a compulsory insurance policy but a comprehensive insurance, which is voluntary property coverage.

NOTE 29 - CONTINGENT LIABILITES AND COMMITMENTS (continued):

The plaintiffs argue that the Company violated the provisions of the Privacy Protection Law in connection to the dos and don'ts of managing a database for direct mailing services under sections 17D 17F(a) of the Privacy Protection Law, concerning disclosure of the source that provided the data to the database and providing indication that the customer was approached through direct mailing plus the registration number of the database.

The plaintiffs claim for damages due to the violation of Section 30A(i) to the Communications Law that states that such violation is a civil tort that is governed by the Tort Ordinance, as well as general compensation, including grievance.

The plaintiffs point to the provisions of the amendment in the Class Action Law, 2006 which explicitly added a violation of Section 30A to the Communications Law to the list of violations and the legal provisions that allow having a class action.

The plaintiffs point to Section 20(c) to the Class Action Law, claiming that that section indicate that in cases in which it is not possible to exactly quantify the damage that will be caused to each, or even to identify them, the legislature permitted paying damages to the public at large.

The plaintiffs claim that the Company has 74,663 property damages insurance customers, based on reports by the Supervisor of Capital Markets, Insurance and Savings for 2011, which indicates that 2,333,247 vehicles in Israel are covered against property damages, and that the Company has a market share of 3.2%. The plaintiffs argue that it is possible to assume that each of the members in the class was sent between one to four violating advertisments by the Company, or two violating advertisements in the last five years. Therefore, based on NIS 1,000 in damages per message, the plaintiffs estimated the damage of the class for cause at NIS 746,630,000. Alternatively, the plaintiffs ask that the amount of damages will be determined by a court-appointed expert opinion. However, since the plaintiffs do not have the full and accurte information, they set the amount of their claim for that cause of damage at NIS 150,000,000, provided that they retain their right to revise that amount according to the full data disclosed by the Company.

In addition, the plaintiffs argue that the damage caused to class member for the inability to be removed without pay is the cost of phone calls to contact the Company, estimated at NIS 75,000.

The plaintiffs also ask to compensate class members for miscellaneous damages that they sustained, including financial damage, mental damage, infringement of autonomy, invasion of privacy, grievance, discomfort and violation of legal provisions on managing a database, which were estimated at NIS 15,000,000.

The plaintiffs asked, among other things, for the following reliefs.

1. The certify a class action with an estimated financial and non-financial damages of NIS 165,075,000.

2. Issue an injunction against the defendant to prevent it from this invidious practice, refrain from sending violating text messages and change the invidious removal mechanism and aligning it with the provisions of the law.

3. Ordering the defendant to give the plaintiffs and to the class data and summary reports on the scope of sending the violating advertisements, or alternatively, to order the appointment of an expert for the court.

NOTE 29 - CONTINGENT LIABILITES AND COMMITMENTS (continued):

4. To determine the fee of attorneys representing the plaintiffs in this motion for class action certification.

On December 15, 2013, the Company filed its response to the motion for class action certification.

Legal counsel estimate that it is more likely than not that the motion will be rejected.

If the class action certification is granted, the legal counsel believes that it is not possible at this preliminary stage to assess the likelihood of the class action and the amount of monetary charge that the Company will be required to pay if the class action is accepted, among other things, because the scope and substance of the proceedings after class action certification will be influenced by the decision of the court on the motion for class action certification, which normally refers to the approved vs. unapproved causes of the action, the approved remedies vs. those not approved, etc.

The following table lists outstanding motions to certify class actions filed against the company:

	Number of motions	Claimed amount in thousand
Motions to certify class actions -		
amount claimed from the company specified	4	717,812

NOTE 30 – CONDENSED NOMINALHISTORICAL DATA FOR TAX ADJUSTMENT RETURN ONLY:

Set forth below are the condensed nominal NIS historical data of the company for tax purposes, drawn up in accordance with IFRS.

These condensed data does not constitute financial statements drawn up in accordance with IFRS and they are attached to provide the basis for the company's Adjustments Report for Tax Purposes, and are presented within these financial statements for that reason alone

a. Balance sheets:

	December 31	
	2013	**2011**
	Nominal ILS in thousands	
Investments	1,472,481	1,432,882
Property and equipment	30,047	32,605
Amounts receivable	944,002	793,355
Deferred acquisition expenses	140,520	130,191
	2,587,050	2,389,033
Shareholders' equity	643,004	577,092
Liabilities for employee rights upon	2,445	2,326
retirement net	26,889	8,877
Deferred income taxes	1,569,772	1,409,340
Insurance provisions and pending claims	344,990	391,398
Other liabilities	2,587,050	2,389,033

NOTE 30 – CONDENSED NOMINALHISTORICAL DATA FOR TAX ADJUSTMENT RETURN ONLY (continued):

b. Statement of income

	2013	2012	2011
	Nominal ILS in thousands		
Gross premiums earned	882,315	827,158	735,053
Premiums earned by reinsurers	(173,387)	(185,701)	(157,712)
Premiums earned retained	708,928	641,457	577,341
Investment income – net and financing income	75,241	97,239	*25,333
Commission income	42,617	47,628	41,457
TOTAL INCOME	826,786	786,324	644,131
Increase in insurance liabilities and payments with respect to insurance contracts	(587,544)	(403,690)	(429,949)
Share of reinsurers of increase in insurance liabilities and payments with respect to insurance contracts	170,053	152,790	119,413
Increase in insurance liabilities and payments with respect to insurance contracts (retained)	(417,491)	(250,900)	(310,536)
Commission and other acquisition expenses	(167,520))	(163,551)	(147,958)
General and administrative expenses	(133,835)	(125,896)	(119,687)
Financing Income (expenses)	(1,025)	(2,206)	*1,380
TOTAL EXPENSES	(719,871)	(542,553)	(576,801)
INCOME BEFORE TAXES ON INCOME	106,915	243,771	67,330
Taxes on income	(41,003)	(86,431)	(22,943)
INCOME FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	65,912	157,340	44,387

*Certain amounts were reclassified, see note 2.t.

c. Statement of changes in shareholders' equity:

	Share capital	Share premium	Capital reserve	Retained earnings	Total
		Nominal ILS in thousands			
Balance as of December 31, 2011	6	230,643	11,199	177,904	419,752
Changes in 2012					
Net income				157,340	157,340
Dividend paid					
Balance as of December 31, 2012	6	230,643	11,199	335,244	577,092
Changes in 2013					
Net income				65,912	65,912
Balance as of December 31, 2013	6	230,643	11,199	401,156	643,004

GENERAL INSURANCE SECTORS – ACTUARIAL OPINION

AS OF 31.12.2013

AIG ISRAEL INSURANCE CO. LTD.

TABLE OF CONTENTS

Chapter A – General Insurance Sectors

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the general insurance sectors for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2013, as detailed below.

I am a full time salaried employee of AIG Israel Insurance Co. Ltd. ("the insurer"). I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on 3.9.2006.

Chapter B - Scope of the actuarial opinion

1. Wording of scope of the actuarial opinion section

"A For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

1.2 Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

1.3 The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

1.4 To calculate the net retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

1.5 The following matters were also taken into account in my opinion:
The provision that was calculated for the Company's share of the "Pool"

(Israel Motor Insurance Pool) was based on an assessment conducted by Professor Yehuda Kahane.

1.6 No reserve was taken for the absence of a correlation between the different sectors for the purpose of writing down the total provision for all the sectors included in my evaluation."

2. Data included in the section on the scope of the actuarial opinion

2.1 Pending Claims

2.1.1 Statistical sectors:

	December 31, 2013	
	NIS in thousands	
	Gross Provision	Provision in Retention
Motor property	31,418	31,418
Comprehensive flats	15,555	14,268
Compulsory motor	492,894	337,938
Loss of property	35,158	1,060
Total statistical sectors	575,025	384,684
Total non-statistical sectors	435,450	60,701
2.1.2 Total statistical and non statistical	1,010,474	445,385
2.2 Indirect expenses for all sectors	18,819	18,819
3. Premium deficiency reserve:		
Motor property	Not required to	
Comprehensive house	Not required to	
Compulsory motors	Not required to	
Total pending claims, indirect expenses, reserve computed in accordance deficiency with an actuarial evaluation	**10,294,294**	**464,204**

Chapter C – the Opinion

"I hereby declare and confirm that in the following sectors, comprehensive flats, motor vehicle insurance – property (owned and third party), motor vehicles (New Version), 1970:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and all in effect as of the date of the financial statements:

   a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
   b. Instructions and directives issued by the Supervisor of Insurance;
   c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.
3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B, section 2.1.1 in respect of the statistical sectors comprehensive flats, property loss and compulsory motor form an adequate reserve for covering the insurer's commitments in respect of the pending claims, defined above, for each statistical sector listed separately, in effect as of the date of the financial statements.

5. To the best of my knowledge, the total provisions listed in Chapter B, section 2.1.2, form an adequate reserve for covering the insurer's commitments in respect of outstanding claims in the statistical and non-statistical sectors together, in effect as of the date of the financial statements.

6. To the best of my knowledge, the provision specified in Chapter B, section 2.2 forms an adequate reserve for covering the insurer's commitments in respect of indirect expenses to settle the claims for policies that were issue in respect of all underwriting years, in effect as of the date of the financial statements.

7. To the best of my knowledge, the provisions listed in Chapter B, section 2.3, form an adequate reserve for covering the insurer's commitment in respect of a deficit premium at retention level (in as much as such deficit premium exists) in the sectors listed, in effect as of the date of the financial statements."

<u>Chapter D – Comments and Clarifications</u>

1. **Comments, clarifications and explanations in connection with the actuary opinion I rendered, to the best of my professional judgment.**

   a. In the compulsory motor vehicle sector, in July 2009, the operator of the "Israeli Compulsory Motor Vehicle Insurance Database" published a list of "suggested tariffs for December 2009". In the chapter "other considerations", the operator of the databases lists changes that have taken place lately and which are not reflected in past experience with claims. Therefore, these changes also have an effect on the level of provisions that should be assessed. I exercised my judgment in relying on the further considerations described by the operator of the database in order to determine the level of provisions in the compulsory motor vehicle sector.

   b. In a recommendation published in December 2011, the new operator of the database resolved that it is not required to make special provisions in respect of lost years, change in the Economic Arrangement Law, increase in retirement age, recoveries from National Insurance Institute, etc. Since it is known that payment of claims under compulsory insurance is carried out over a many years, it does not seem reasonable to write-off all of the special provisions and assume that they were fully paid. I therefore allow these provisions to decline at a rate corresponding to the rate of decline of pending claims. To date, total provision amounts to NIS 21.6.

c. In 2010 the responsibility for medical care provided to people injured in car accidents was transferred from the insurance companies to health funds. This change caused a change in rate of claims, the number of claims reported and the payment and development of known claims. Currently, almost 4 years after the law was changed, we start to see changes in the frequency and severity of the claim from the claims experience collected since 1.1.2010. I increased the provisions in respect of underwriting years 2010-2013. I based the estimate on the claims experience of the last quarter of2007 and the whole 2008 underwriting years, net of the small claims. Frequency decreased by one whole point whereas severity increased significantly for small claims.

d. For non-statistical sectors it is not possible to use actuarial models to determine the development of existing claims, since little data is available, claims vary significantly in severity and there is no information with regard to the time it takes to settle the claims. The non-statistical sectors are sectors with a very young portfolio where variability is high, the products mix has not stabilized yet and there is not enough experience to estimate the tail of the claims and/or there are not enough claims. These sectors started growing mainly since 2006 and it is not possible to rely of first years' data in order to estimate the whole portfolio as of today. The credibility of the existing claims experience is very limited and therefore the actuarial evaluation is mainly based on estimated loss ratios in respect of the last four underwriting years. In previous underwriting years, the provision principally relies on estimates of the claims department with the addition of amounts in respect of development of existing claims/addition of amounts in respect of claims that have taken place but were not reported. Where in a certain sector the existing loss ratio is higher than the estimated loss ratio the higher of the two is being selected.

e. I do not use capitalization interest in the actuary assessment to assess the provisions for outstanding claims or indirect expenses. It is possible to measure the extent of conservativeness of using a 0% real interest by using a risk free capitalization interest:

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims

Sectors	Gross/retention	Provision before capitalization	Provision after capitalization	Increment (%)
		Thousands of NIS		
Statistical	Gross	575,025	558,395	2.98%
Non-statistical	Gross	435,450	410,578	6.06%
Total	Gross	1,010,474	968,974	4.28%
Statistical	Retention	384,684	376,821	2.09%
Non-statistical	Retention	60,701	56,821	6.74%
Total	Retention	445,385	433,687	2.70%

I do not add standard deviation to the provisions.

f. The sensitivity of the conservativism in the amounts is reflected by changing the interest rate used for capitalization by 0.5% or 1.0%.

g. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which best reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

2. **Material changes in actuarial assumptions and methods compared with last year's actuarial assessment**

In all sectors I switched to use software designed to calculate reserves using the development of triangles. The software makes it possible to smooth the development factors and to select a tails to the model if the claims experience is not long or developed enough. Another advantage of the software is to that it prevents human errors such as dragging Excel formulas. The development factors were tested on the basis of an annual model with quarterly development rather than on the basis of a quarterly model with a quarterly development.

This move is a strategic process of the global AIG group, which switches to calculation of reserves for outstanding claims using this software.

In the compulsory vehicle sector I needed to break the experience into several groups due to the change in medical expenses handled by the health funds. The development methods of the known and paid claims are not applicable for claims as from 2010 and it was required to test the claims using other method. The details of the change are presented in chapter D1c.
In the motor property sector, the subrogation claims were separated from the remaining claims experience.

3. **Material changes to provisions described in Chapter B compared to provisions described for the previous reporting period and the reasons for those changes, by sectors**

a. In the compulsory motor sector

The compulsory motor insurance increased significantly in 2013. The switch to the software for calculation of reserves for outstanding claims and the change in estimate for medical expenses all caused increase in the reserves for pending claims.
Compared to the end of last year, the reserves increased from NIS 442,994 thousands to NIS 492,894 thousands (gross).
Compared to the end of last year, the reserves increased from NIS 299,588 thousands to NIS 337,938 thousands (retention).

b. In the motor property sector

Compared to the end of last years, the reserves increased from NIS 23,073 thousands to NIS 31,418 thousands (gross and retention).
The increase is attributed to an increase in the motor property portfolio, the switch to the software for calculation of reserves for outstanding claims and to assessment of the subrogation outside the other models.

c. In the comprehensive flats sector

Compared to the end of last years, the reserves increased from NIS 9,057 thousands to NIS 15,555 thousands (gross).
Compared to the end of last years, the reserves increased from NIS 8,615 thousands to NIS 14,268 thousands (retained amount).

The increase is attributed to the switch to the software for calculation of reserves for outstanding claims and to the two storms we had during the year.

d. In the loss of property sector

Compared to the end of last years, the reserves increased from NIS 25,006 thousands to NIS 35,158 thousands (gross).
Compared to the end of last years, the reserves increased from NIS 784 thousands to NIS 1,060 thousands (retention).

The increase is attributed to the switch to the software for calculation of reserves for pending claims, to the two storms we had during the year and to the fire that occurred during the second quarter in park Affek.

e. In the non-statistical sectors

We gained one further year of experience with claims based on the rate of damages method and on classifying the claims into two categories: large claims and small claims. The increase in provisions is a result of the increase in portfolio. Provisions increased from NIS 302,478 thousands in 2012 to NIS 35,450 (gross) in 2013. Provisions increased from NIS 37,424 thousands in 2012 to NIS 60,701 thousands in 2013 (retention).

We also received notice of two large claims dating 2006 and 2007 in the professional liability sector. These claims increased the gross reserve by NIS 34.5 million and NIS 4.1 million for the net reserve.

4. Non-statistical sectors

a. The commercial sectors: employers' liability, third party liability, product and professional liability are sectors where portfolio is increasing. There is very high level of variance in terms of severity of the claims and we do not have enough years of development in order to establish assessment only on the basis of our portfolio.

b. In addition to the separation between small and large claims, we examine that the rate of damages is similar to prevailing rate in the market in respect of these sectors.

18.3.2014	General Insurance Actuary Director	Avital Yael Kolar	
Date	Position	Name of Actuary	Signature

Chapter B: Points requiring attention

Compulsory motor insurance

In a recommendation published in December 2011, the operator of the pool resolved that no special provisions are to be added in respect of lost years, the change of the "Law of Arrangements in the State Economy", the increase of pension age, subrogation from the institute of National Insurance, etc.
Since it is known that payment of claims in compulsory motor insurance is made over many years, it seems to me unreasonable to write off all the special provisions and assume that they were fully paid. Therefore I allow these provisions to decay at the decaying rate of the pending claims. The assumptions shall be reconsidered in 2014.

We changed the structure of the tariff in the last quarter of 2007 and maintained this structure ever since to the effect that the population of the portfolio is homogenous as from the last quarter of 2007 to date. The claims experience shows that the frequency of smaller claims decreased from 2.9% to 1.75% as from 2010. The severity of the claims increased significantly from NIS 28.9 thousands to NIS 44.5 thousands.

In the commercial sectors

There are significant developments in the product liability sector. Most of the development is attributed to one policy over a number of years. These claims are exceptional when compared to the remaining existing portfolio.

Loss of property

As a result of the storm at the beginning of January we had to large damages amounting to a NIS 13 million (gross) and Nis 360 thousands (retention). In addition, in the second quarter we had 2 large claims due to the fire in the Afek Park. So far, the fire damages amount to NIS 25 million (gross) and NIS 1 million (retention).

In the property motor sector

As a result of the heavy rain at the beginning of January there were relatively high claims relating to natural damages. Those claims amounted to NIS 1.95 million. Approximately 75% of the damages were in respect of total loss of the motor vehicle and the remaining claims were in respect of partial damage to the motor vehicle.

In the comprehensive house insurance sector

As a result of the heavy rains in January we had a NIS 5 million loss (gross) and more than NIS 4 million (retention). These were the highest losses we had as a result of natural damages in the last five years.

In December there was a snow storm that caused large damages, mainly to pergola in private houses. The damages are estimated at NIS 3.5 million (gross) and NIS 3.2 million (retention).

Chapter C - Report on development of the actuarial estimate of outstanding claims in the general insurance sector

The distinction between material excess/deficit and immaterial excess/deficit is made taking into account the scale of the company's equity, the amount of reserves, the amount of final estimate and the reported profit in a specific sector where there is an excess or deficit.

In addition, the absolute value of the excess or deficit is taken into account when materiality is assessed. In sectors where the reserve is relatively small, higher volatility is expected. An excess or deficit, the amount of which is high when compared to the reserves and/or profit in the sector, is not necessarily material if it is a small amount when compared to the company's equity.
The excess/deficit is in respect of closed years as of the end of 2012 for the liability sectors.

This year, due to switching to RESQ, it is possible to see exceptional developments in almost every sector. The investment profit is not taken into consideration. In making assessments of outstanding claims I do not capitalize the flow of estimates in order to allow for conservatism margins in the estimates. The purpose of this margin is to compensate for the model risk, the parameter risk and the variability of the claims experience.

As an exception due to the change in the calculation model, this year I shall present the development of claims both without the investment profit (as I do every year) and including the actual investment profit. It would be possible to see that if the investment profit is not included in the development most of the sectors have a deficit. When the investment profit is included in the development, the reserves were strong enough and this is exactly the purpose of conservatism margins – to preserve the company from undesirable deviations.

Switching to RESQ does not always enable one to compare the results for each accident year or underwriting year to selections made last year to determine the reserve for pending claims. This is because the data were not analyzed the way they used to be analyzed in the Excel. I was guided by the overall ultimate rather than by the specific ultimate for each and every year.

Compulsory motor

No exceptional developments since the beginning of the year.

Property motor

It seems that due to switching to RESQ the amount of reserve for outstanding claims increased. If the investment profit is not included in the reserve, there is a NIS 2.5

million deficit. However, if the investment profit is included, there is a NIS 2.6 million excess. This means that the reserve at the end of last year was sufficient.

Home Owners insurance

It seems that due to switching to RESQ the amount of reserve for outstanding claims increased. If the investment profit is not included in the reserve, there is a NIS 1.1 million deficit (gross) and NIS 0.48 million (retention). However, if the investment profit is included, there is a NIS 2.4 million excess (gross) and NIS 3 million excess (retention). This means that the reserve at the end of last year was sufficient.

Loss of property

We managed to receive subrogations that were not included in the actuarial assessment.

In the case of many claims, the estimates of the claims department in the second quarter of 2013 have decreased; this decrease totals NIS 4.3 million (gross).

In the non statistical sectors

In the professional liability sector we received notice of two claims (in respect of accident year 2006 and 2007) of Teva; the claims relate to the Paraphor drug. The total amount of insurance in respect of the two claims is $ 57.5 million (gross). Teva's excess amounts to $ 300 million per claim. I just added NIS 34 million to the gross amount. Our retention exposure amounts to $ 1 million. I included the whole exposure in the IBNR.

Form 10c – Development of actuarial estimate of outstanding claims in the general insurance sector– gross.

Name of Company AIG as of December 31, 2013

					Total estimate in sectors with no excess			Total estimate in respect of closed underwriting years(1)					
	Total	Property loss	House – comprehensive	Property motor	Engineering insurance	Agriculture insurance	Natural damages	Compulsory motor	Employers liability	Third party	Professional liability	Product liability	Other sectors
	(1)	(2)	(3)	(6)	(7)	(8)	(9)	(11)	(12)	(13)	(14)	(15)	(16)
1. Claims regarding events prior to the reported year													
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (2) (including IBNR)	486,768	25,006	9,057	23,073	12,158			248,115	18,264	52,218	74,296	21,455	3,131
A2 Provision for indirect expenses to settle claims as of beginning of year	10,337	1,195	349	5,605	502			1,985	203	328	149	21	0
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR) (3)	0												0
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	497,105	26,201	9,406	28,678	12,655	0	0	250,100	18,467	52,546	74,445	21,476	3,131
B1 Payment of claims during the year	93,971	6,891	5,593	19,955	1,321			35,737	2,361	8,700	10,054	3,358	0
B2 Payment of indirect expenses during the year	4,465	246	170	2,816	120			894	37	50	129	3	0
B3 Total payments during the year (B1+B2)	98,436	7,137	5,763	22,771	1,441	0	0	36,632	2,398	8,750	10,183	3,361	0
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	410,740	8,208	4,643	5,552	10,694			208,472	16,615	41,241	98,591	13,932	2,792
C2 Provision for indirect expenses for settlement of claims at end of year	4,962	532	117	2,885	293			538	178	297	84	38	0
C3 Total actuarial estimate at end of year (C1+C2)	415,702	8,740	4,760	8,436	10,987	0	0	209,010	16,792	41,538	98,675	13,971	2,792
D Total development of claims (B3+C3)	514,138	15,877	10,523	31,207	12,428	0	0	245,642	19,190	50,289	108,859	17,331	2,792
E. Excess/deficit of estimates (A4-D)	-17,034	10,324	-1,117	-2,529	227	0	0	4,458	-723	2,257	-34,414	4,145	339
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	-3.4%	39.4%	-11.9%	-8.8%	1.8%	0.0%	0.0%	1.8%	3.9%	4.3%	-46.2%	19.3%	10.8%
2 Claims regarding events in the reported year													
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	192,072	26,950	10,912	25,886	3,405			61,527	10,006	18,619	25,544	8,673	570
B Provision for indirect expenses to settle claims as of end of year	5,054	466	220	3,496	69			334	132	252	65	20	0
C Total actuarial estimate as of end of year (A+B)	197,126	27,416	11,132	29,362	3,474	0	0	61,861	10,138	18,871	25,609	8,693	570
3 Total													
A Actuarial estimate of pending claims at end of year (1C1=A2)	602,811	35,158	15,555	31,418	14,099	0	0	269,999	26,621	59,860	124,135	22,605	3,362
B Provision for indirect expenses to settle claims as of end of year (1C2+B2)	10,016	998	337	6,380	362	0	0	872	310	550	149	58	0
C Total actuarial estimate as of end of year (A+B)	612,828	36,516	15,892	37,798	37,798	0	0	270,872	26,931	60,410	124,284	22,663	3,362
Number of open underwriting years								3	3	3	3	3	3

Form 10d – Development of actuarial estimate of outstanding claims in the general insurance sector– retention.

Name of Company AIG as of December 31, 2013

	Total estimate in sectors with no excess												years(1)
	Total	Property loss	House – comprehensive	Property motor	Engineering insurance	Agriculture insurance	Natural damages	Compulsory motor	Employers liability	Third party	Professional liability	Product liability	Other sectors
	(1)	(2)	(3)	(6)	(7)	(8)	(9)	(11)	(12)	(13)	(14)	(15)	(16)
1. Claims regarding events prior to the reported year													
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (2) (including IBNR)	202,468	784	8,615	23,073	72			148,817	1,869	4,681	10,669	3,571	316
A2 Provision for indirect expenses to settle claims as of	10,337	1,195	349	5,605	502			1,985	203	328	149	21	0
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year	0												
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	212,804	1,978	8,964	28,678	574	0	0	150,802	2,072	5,009	10,818	3,593	316
B1 Payment of claims during the year	57,192	277	4,365	19,955	15			29,947	222	1,030	12,670	114	0
B2 Payment of indirect expenses during the year	4,465	246	170	2,816	120			894	37	50	129	3	0
B3 Total payments during the year (B1+B2)	61,657	523	4,535	22,771	135	0	0	30,842	259	1,080	1,396	117	0
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	151,973	269	4,791	5,552	19			119,654	1,810	2,645	13,604	3,351	279
C2 Provision for indirect expenses for settlement of claims at	4,962	532	117	2,885	293			538	178	297	84	38	0
C3 Total actuarial estimate at end of year (C1+C2)	156,935	801	4,908	8,436	312	0	0	120,192	1,988	2,942	13,688	3,389	279
D Total development of claims (B3+C3)	218,593	1,324	9,443	31,207	447	0	0	151,034	2,247	4,022	15,084	3,506	279
E. Excess/deficit of estimates (A4-D)	-5,788	655	-479	-2,529	128	0	0	-232	-175	987	-4,266	87	36
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	-2.7%	33.1%	-5.3%	-8.8%	22.2%	0.0%	0.0%	-0.2%	-8.4%	19.7%	-39.4%	2.4%	11.6%
2 Claims regarding events in the reported year													
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	90,464	791	9,478	25,866	67			44,041	1,079	2,462	4,934	1,689	57
B Provision for indirect expenses to settle claims as of end of	5,054	466	220	3,496	69			334	132	252	65	20	0
C Total actuarial estimate as of end of year (A+B)	95,518	1,257	9,698	29,362	136	0	0	44,375	1,211	2,715	4,999	1,709	57
3 Total													
A Actuarial estimate of pending claims at end of year	242,437	1,060	14,268	31,418	86	0	0	163,695	2,889	5,107	18,538	5,040	336
B Provision for indirect expenses to settle claims as of end of	10,016	998	337	6,380	362	0	0	872	310	550	149	58	0
C Total actuarial estimate as of end of year (A+B)	252,454	2,058	14,606	37,798	448	0	0	164,567	3,199	5,656	18,687	5,098	336
Number of open underwriting years								3	3	3	3	3	3

Form 10c – Development of actuarial estimate of outstanding claims in the general insurance sector– gross – including investment profit.

Name of Company AIG as of December 31, 2013

	Total estimate in sectors with no excess							years(1)				
	Total	Property loss	House – comprehensive	Property motor	Engineering insurance	Agriculture insurance	Natural damages	Compulsory motor	Employers liability	Third party	Professional liability	Product liability
	(1)	(2)	(3)	(6)	(7)	(8)	(9)	(11)	(12)	(13)	(14)	(15)
1. Claims regarding events prior to the reported year												
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (2) (including IBNR)	486,768	25,006	9,057	23,073	12,153			248,115	18,264	52,218	74,296	21,455
A2 Provision for indirect expenses to settle claims as of beginning of year	10,337	1,195	349	5,605	502			1,985	203	328	149	21
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR) (3)	16,859	798	3,555	5,116	33			6,376	93	215	487	170
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	513,963	26,999	12,961	33,794	12,688	0	0	256,476	18,561	52,761	74,932	21,647
B1 Payment of claims during the year	93,971	6,891	5,593	19,955	1,321			35,737	2,361	8,700	10,054	3,358
B2 Payment of indirect expenses during the year	4,465	246	170	2,816	120			894	37	50	129	3
B3 Total payments during the year (B1+B2)	98,436	7,137	5,763	22,771	1,441	0	0	36,632	2,398	8,750	10,183	3,361
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	410,740	8,208	4,643	5,552	10,694			208,472	16,615	41,241	98,591	13,932
C2 Provision for indirect expenses for settlement of claims at end of year	4,962	532	117	2,885	293			538	178	297	84	38
C3 Total actuarial estimate at end of year (C1+C2)	415,702	8,740	4,760	8,436	10,987	0	0	209,010	16,792	41,538	98,675	13,971
D Total development of claims (B3+C3)	514,138	15,877	10,523	31,207	12,428	0	0	245,642	19,190	50,289	108,859	17,331
E. Excess/deficit of estimates (A4-D)	-175	11,122	2,438	2,587	260	0	0	10,834	-630	2,472	-33,927	4,315
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	0.0%	41.2%	18.8%	7.7%	2.1%	0.0%	0.0%	4.2%	-3.4%	4.7%	-4.5%	19.9%
2 Claims regarding events in the reported year												
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	192,072	26,950	10,912	25,866	3,405			61,527	10,006	18,619	25,544	8,673
B Provision for indirect expenses to settle claims as of end of year	5,054	466	220	3,496	69			334	132	252	65	20
C Total actuarial estimate as of end of year (A+B)	197,126	27,416	11,132	29,362	3,474	0	0	61,861	10,138	18,871	25,609	8,693
3 Total												
A Actuarial estimate of pending claims at end of year (1C1=A2)	602,811	35,158	15,555	31,418	14,099	0	0	269,999	26,621	59,860	124,135	22,605
B Provision for indirect expenses to settle claims as of end of year (1C2+B2)	10,016	998	337	6,380	362	0	0	872	310	550	149	58
C Total actuarial estimate as of end of year (A+B)	612,828	36,156	15,892	37,798	14,461	0	0	270,872	26,931	60,410	124,284	22,663
Number of open underwriting years								3	3	3	3	3

Form 10d – Development of actuarial estimate of outstanding claims in the general insurance sector– retention – including investment profit.

Name of Company AIG as of December 31, 2013

	Total	Total estimate in sectors with no excess								years(1)					
		Property loss	House – comprehensive	Mortgage banks	Comprehensive businesses	Property motor	Engineering insurance	Agriculture insurance	Natural damages	Compulsory motor	Employers liability	Third party	Professional liability	Product liability	Other sectors
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(11)	(12)	(13)	(14)	(15)	(16)
1.Claims regarding events prior to the reported year															
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (2) (including IBNR)	######	784	8,615			23,073	72			148,817	1,869	4,681	10,669	3,571	316
A2 Provision for indirect expenses to settle claims as of beginning of year	10,337	1,195	349			5,605	502			1,985	203	328	149	21	0
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR)	16,859	798	3,555			5,116	33			6,376	93	215	487	170	15
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	######	2,776	12,519	0	0	33,794	607	0	0	157,178	2,165	5,224	11,305	3,763	331
B1 Payment of claims during the year	57,192	277	4,365			19,955	15			29,947	222	1,030	1,267	114	0
B2 Payment of indirect expenses during the year	4,465	246	170			2,816	120			894	37	50	129	3	0
B3 Total payments during the year (B1+B2)	61,657	523	4,535	0	0	22,771	135	0	0	30,842	259	1,080	1,396	117	0
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	151,973	269	4,791			5,552	19			119,654	1,810	2,645	13,604	3,351	279
C2 Provision for indirect expenses for settlement of claims at end of year	4,962	532	117			2,885	293			538	178	297	84	38	0
C3 Total actuarial estimate at end of year (C1+C2)	156,935	801	4,908	0	0	8,436	312	0	0	120,192	1,988	2,942	13,688	3,389	279
D Total development of claims (B3+C3)	218,593	1,324	9,443	0	0	31,207	447	0	0	151,034	2,247	4,022	15,084	3,506	279
E. Excess/deficit of estimates (A4-D)	11,071	1,453	3,076	0	0	2,587	161	0	0	6,144	-82	1,202	-3,779	257	52
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	4.8%	52.3%	24.6%	0.0%	0.0%	7.7%	26.5%	0.0%	0.0%	3.9%	-3.8%	23.0%	-33.4%	6.8%	15.6%
2 Claims regarding events in the reported year															
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	90,464	791	9,478			25,866	67			44,041	1,079	2,462	4,934	1,689	57
B Provision for indirect expenses to settle claims as of end of year	5,054	466	220			3,496	69			334	132	252	65	20	0
C Total actuarial estimate as of end of year (A+B)	95,518	1,257	9,698	0	0	29,362	136	0	0	44,375	1,211	2,715	4,999	1,709	57
3 Total															
A Actuarial estimate of pending claims at end of year (1C1=A2)	######	1,060	14,268	0	0	31,418	86	0	0	163,695	2,889	5,107	18,538	5,040	336
B Provision for indirect expenses to settle claims as of end of year (1C2+B2)	10,016	998	337	0	0	6,380	362	0	0	872	310	550	149	58	0
C Total actuarial estimate as of end of year (A+B)	252,454	2,058	14,606	0	0	37,798	448	0	0	164,567	3,199	5,656	18,687	5,098	336
Number of open underwriting years										3	3	3	3	3	3

Chapter D – Analysis of estimate of outstanding claims per each sector

1. Data used to establish the actuarial estimate for all sectors

1.1 Company's data based 400AS – data of policies and claims

1.2 The Idan system – data from the finance division.

1.3 Statistical reports from the finance division; these reports includes details of the premiums, outstanding claims and paid claims by sectors, by underwriting year and by accident year. It is possible to issue these reports for different periods; for example – a report on a cumulative basis from the date of commencement of company's activities, or only for the last quarter or last calendar year.

1.4 Earned premium for the period – gross policy data are entered and processed using SPSS in order to calculate the earned premium. The files include the following information: sector, policy number, premium for addition, number of addition, date commencement of addition, date of end of addition.

1.5 Exposure units for each quarter – gross policy data are processed using SPSS in order to calculate the exposure units for each quarter. Commensurate with the process of calculating the earned premium, the exposure units for the period are calculated.

1.6 The claims file includes the following information at gross level:

Run date
Issuance month
Sector
Numbering of claim
Number of claim
Type of claimant
Numbering of damage
Cause of damage
Status of claimant
Symbol of compensation payment
Payment of compensation NIS
Symbol of payment of expense
Payment of expense NIS
Symbol of compensation + expense
Amount of compensation + expense NIS
Symbol of estimate
Amount of estimate NIS
Symbol of pending balance
Amount of pending balance NIS
Amount of calculated pending balance
Amount of pending calculated balance NIS
Policy
Addition
Licensing
Date of opening of claim

Date of opening of damage
Date of damage
Agent
Product code
Type of asset
Currency
Symbol of payment of expense - currency
Payment of expense - currency
Symbol of payment of expense – currency
Payment of expense – currency
Symbol of compensation + expense – currency
Compensation + expense – currency
Symbol of estimate – currency
Estimate – currency
Symbol of pending balance – currency
Pending balance – currency
Symbol of calculated pending balance – currency
Calculated pending balance – currency
Date of beginning of insurance
Date of end of insurance
Code of model
Year of manufacture
Code of settlement where burglary took place
i.d. no. of claimant
Claimant under legal proceedings

1.7 Prior to commencement of work, the claims files I receive from the computing department are compared with statistical reports issued by the finance division. The claims file is created a month before end of month closing of the finance department. Therefore, there may be differences between the two sources. If the scale of this difference is maintained from one quarter to another, the claims file can be used for the estimate of reserves. If the difference increased significantly, the reason for the difference should be investigated and one should decide whether to re-run the claims file or it is sufficient to make manual amendments when making the assessment of provisions. If it was decided that the claims file can be relied upon for purposes of establishing the estimate, the Excel test file is signed with the date of the tested quarter.

1.8 The claims file is processed using the SPSS software. Using this software I create files that contain the following information:

1.8.1 Currency
1.8.2 Classification
1.8.3 Distribution
1.8.4 Product
1.8.5 Date of beginning
1.8.6 Quarter of development

1.8.7 Payment during the quarter
1.8.8 Total change in known claim compared with previous quarter
1.8.9 Open claims
1.8.10 Closed claims
1.8.11 Exposure units
1.8.12 Earned premium

1.9 An additional test is made after files are created in the SPSS; as part of this test, we check the transfer of all claims data to the RESQ software which is used to analyze the reserves. The test is carried out to verify completeness of the data and is also signed with the date of the analyzed quarter. The data in the RESQ system are withdrawn to Excel file for the purpose of carrying out this test.

1.10 It is only after data are tested for completeness that we can begin the assessment of reserves.

1.11 All analyses are all carried out at gross level.

1.12 Information of re-insurers contracts are taken into account separately for the analysis of each sector/product at retention level.
I do not have a breakdown of the individual claims at retention level over the years which correspond to the file containing gross level data.

1.13 As to recoveries of individual claims – I receive a file which includes a breakdown of the claims and the recoveries we expect to receive from the reinsurers.

1.14 We hold a quarterly discussion with the claims department in order to verify that there are no changes in the policy of opening/closing claims, the rate of payment or large claims that have not yet been entered into the system for technical reasons.

2. Compulsory motors sector

2.1 The data on which the actuarial estimate is based.

2.1.2 Company's data base

2.1.2 Reports issued by the finance division

2.1.3 Claims file received from the computing department

2.1.4 Policies file received from the computing department

2.1.5 "Suggested Tariffs as of December 2009" report published by the data base for compulsory motor insurance in Israel

2.1.6 Calculation of ISO in respect of loss of earning of old age pension for the lost years

2.1.7 In respect in the retention market – relying on the pool's actuary

2.2 Details of the methods used and assumptions made for the purpose of calculating the reserves:

2.2.1 Analysis is made at gross level and only at the end of the analysis one analyses at retention level

2.2.2 Analysis is carried out is 5 separate parts:

2.2.2.1 Truncated claims up to a total of $ 300,000 through underwriting year 2009.
2.2.2.2 Truncated claims in excess of $ 300,000 though underwriting year 2009.
2.2.2.3 Truncated claims up to NIS 1,200,000 as from underwriting year 2010.
2.2.2.4 Truncated claims in excess of NIS 1,200,000 as from 2010

2.2.2.5 Addition in respect of changes in the law, court, etc. for all underwriting years.

2.2.3 One of the biggest challenges of switching to the RESQ was to create a model in the RESQ system. This software is mainly designed to make calculations on the basis of the development of triangles and is not very flexible when it comes to different models. In light of the changes in legislation it was required to separate the data and analyze some of them in the RESQ and some outside the RESQ. For data that are not analyzed using the RESQ it is possible to use the results of the Excel analysis.

2.2.3.1 <u>Truncated claims up to $ 300,000 through underwriting year 2009</u>

- I examined the DFM method of the known claims and added a 3% tail.
- I examined the DFM method of the paid claims and added a 7% tail.
- Selection methods by underwriting years in respect of the provision to pending claims:

    - 1997-1999 - Carried loss reserve.
    - 2000 – DFM of known claims
    - 2001-2006 – DFM of known claims
    - 2007 – DFM of known claims
    - 2008 – average of the DFM methods of the known claims and paid claims
    - 2009 – DFM of paid claims
- In the past the model made a distinction between small and large claims but did not truncate the large claims as was the case in the new model.

2.2.3.2 Claims in excess of $ 300,000 through underwriting year 2009

- The model of the claims in excess of the XS point of $ 300,000 is based on a model of frequency and severity. For claims in excess of $300,000, frequency and severity were measured separately.

- I examine 4 different models:

- Total final claims are proportional to total truncated claims. The assumption is that 20% should be loaded over all underwriting in respect of the large claims. This model assumes the stability of distribution of large claims over the years.

- The second model is based on the first model but is a little more sophisticated. One examines over the years the ratio between claims which exceed the excess point and the truncated claims in order to determine the IBNR. However, one takes into account the maximum between calculation of IBNR and actual large known claims.

- The third model is based on frequency multiplied by severity:

  - Severity is based on a log-normal model; we selected as the average claim the 71% percentile of the model.

  - For frequency we load 20%. This enables variability in the number of claims. Frequency is based on claims between the years 2001-2007 against the exposure of that period. In respect of 2008 and 2009 I reduced loading by 9% due to change in the product mix of the portfolio at the end of 2007.

  - The model does not take into account actual claims but rather uses the frequency multiplied by severity.

- The fourth model is also based on frequency multiplied by severity but only in respect of claims that have not yet been reported. For claims that have already been reported we used the estimate of the claims department.

- The reserve is determined using one of the methods or an average of several methods for each underwriting year.

2.2.3.3 Truncated claims up to NIS 1,200,000 from underwriting year 2010

- In 2010 we increased our excess point from $300,000 to NIS 1,200,000. The purpose of increase was to reduce the exposure to volatility of the exchange rate of the dollar. Therefore, we truncated the claims at a higher threshold.

- In 2010 a law came into effect where under the health funds pay in respect of claims which are covered by the national health formulary.

- As a result of the said change, the models of development of known and paid claims no longer work. The rate of payments and reports of claims has changed completely and the results of those models are not reliable.

- In order to estimate the truncated claims subsequent to the change in the law as above, I used the claims in the last quarter of 2007 and the claims of underwriting year 2008. We made a very aggressive change to the model and this change is still valid today. The assumption is that we observe a sequence of homogenous population since the structure of tariff was changed at the end of 2007.

- The data show that the frequency in the relevant period was around 2.9% and the severity of those claims was around NIS 28,800. I assume that there will be a 4% development in respect of those claims.

- The development of the frequency of the claims shows that the frequency of the claims decreased to 1.75% in respect of the years 2010-2013.

- Using an empirical model for claims from the last quarter of 2007 through the end of 2008, it is possible to estimate the expected severity as a result of those claims as from 2010.

- The result of using this model is that the expected severity shall increase to NIS 44,500 instead of NIS 28,900 prior to the change in the law. I assume that the small claims drop first and they are handled by the health funds and therefore we are left with the larger claims that constitute the 1.75% frequency.

- My final selection is 1.75% * exposure * 44500 * 1.04 per each underwriting quarter.

2.2.3.4 Claims in excess of NIS 1,200,000 as from 2010

- I use the 4 models mentioned in section 2.2.3.2 but there are three differences:

- The excess point of reference is higher.

- Instead of using the 71 percentile for severity of claims I used the 81 percentile.

- I reduced the severity of the claims by NIS 50,000 under the assumption that some of the claims which exceed the excess point are handled by the health funds.

2.2.3.5 Addition due to changes in laws, courts, etc. for all underwriting years

- "Israeli Compulsory Motor Vehicle Insurance Database" published a list of "suggested tariffs for December 2009". This report specifies several other considerations taken into account in determining the tariffs as of December 2009. These considerations arise from changes in the Israeli judiciary and legislative environment. These changes are not sufficiently reflected in the claims history of Israeli insurance companies.

- The operator of the new data base (as from 2010) assumes that all changes are already included within the triangle as it recommended in December 2011.

- The original recommendations of ISO were to activate the factors relating to changes in the judiciary and legislative environment on total claims. As explained below the ISO allowed exercising one's discretion as to using the original assumptions and I use some of the assumptions in light of the time that elapsed from publication thereof.

- I do not think that it is possible to write-off all reserves as recommended by the new operator of the data base. The reason is that it is known that payment of claims is made over many years so a significant part of the amounts which are covered by these provisions have not yet been paid. So I do not understand the operator's recommendation in that respect.

- I adopted the recommendations of the previous operator of the data base – ISO Israel. I made some adjustments to the recommendations and based additional reserves I make. The operator of the data base would have based its estimates only on paid claims. Since I also use estimates of pending claims, I did not think it right to use only the paid claim method. The operator of the data base would have calculated the overall cost for the forthcoming year. I need to calculate the cost for previous years. This is why I made the adjustments.

- Compulsory pension law – I took into account 4% of the small claims commencing 2008. Several rulings were issued whereby a claimant who did not provide for pension at the time of the accident still receives compensation as if he has been making provisions since 2008. This provision falls in the scope of open years. These claims have not yet been paid and it is too early to estimate the effect they will have.

- Increase in retirement age – I take into account 1.5% in respect of outstanding claims in the years during which Avner was a partner and only 80% in respect of outstanding claims in the years Avner was not a partner. This calculation is only applied to claims in the years 2000-2007.

- The lost years – I take into account 5% for outstanding claims in which Avner was in charge of the portfolios. For the years 2003-2008 I only take 2%.

- Subrogations of the National Insurance Institute: I took into account 3% for small claims over the last seven years. I assume that in respect of the large claims the claims department definitely recorded the provisions for subrogation claims. The portfolio was relatively small when the National Insurance Institute started demanding the subrogations and the past does not necessarily reflects the future.
- For the Economic Arrangements Law I take into account 1.5% but only in respect of the small claims through 2007.

- Below is the list of additional provisions included in the reserves in excess of the triangles mentioned above:

Type of provision	**Total special provision**
Compulsory pension from 2008	NIS 6.0 million
Increase in retirement age	NIS 0.9 million
Lost years	NIS 1.1 million
Subrogations of the National Insurance Institute	NIS 10.1 million
Changes in the Economic Arrangements Law	NIS 0.5 million
Health funds	NIS 0 million
Total special provisions	NIS 18.6 million

2.2.4 For all global provisions taken into account a total of NIS 10.3 million is in respect of closed years.

2.2.5 Retention is based on total of all models specified in sections 2.2.3.1, 2.2.3.3. and 2.2.3.5.

2.3 I do not use capitalization interest

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims – gross				
Sectors	**Gross/ retention**	**Provision before**	**Provision after capitalization**	**Increment (%)**
		NIS in thousands		
Compulsory insurance	Gross	492,894	475,894	3.59%
Compulsory insurance	Retention	337,938	329,789	2.47%

2.4 This is a statistical sector.

2.5 A full assessment was made in this sector for the voluntary market. For our share in the Pool I rely on the assessment made by Professor Yehuda Kahane. The estimates are updated every six months.

3. Property motor sector

3.1 The data used to substantiate the actuarial estimate:

3.1.1 The company's data base
3.1.2 Reports issued by the finance division
3.1.3 For analysis purposes, the portfolio is segmented as follows:

Distribution channel	Coverage
Direct	Comprehensive self damage
Direct	Comprehensive third party
Direct	Theft
Direct	Total loss
Direct	Third party – private and commercial vehicles
Direct	Third party – motorcycle
Direct	Subrogation
Direct and agents	Natural damages
Direct and agents	Loss of keys
Agents	Comprehensive self damage
Agents	Comprehensive third party
Agents	Theft
Agents	Total loss
Agents	Third party- private and commercial vehicles
Agents	Subrogation
Fleets	Self damage and third party
Fleets	Theft
Fleets	Total loss

3.2 Details of the methods and assumptions used for calculation of reserves:

3.2.1 Usually I use five methods to calculate pending claims:

3.2.1.1 DFM applied to known claims

3.2.1.2 DFM applied to paid claims

3.2.1.3 Frequency multiplied by severity

3.2.1.4 BF applied to know claims in the last year or the last couple of years.

3.2.1.5 BD applied to paid claims in the last year or the last couple of years.

3.2.2 For each coverage, we will normally select more than one method throughout the different accident years.

3.2.3 The a priori damage rate applied for each coverage type is based on past experience of the portfolio.

Distribution channel	Coverage	A priori damage rate for the BF
Direct	Comprehensive self damage	For 2013 – 28%
Direct	Comprehensive third party	For 2012 and 2013 - 22.2%
Direct	Theft	Not in use
Direct	Total loss	For 2013 – 15%
Direct	Third party – private and commercial vehicles	For 2012 and 2013 – 63%
Direct	Third party – motorcycle	For 2012 and 2013 – 20%
Direct	Subrogation	Not in use
Direct and agents	Natural damages	For 2013 – 8.5%
Direct and agents	Loss of keys	For 2013 – 8.5%
Agents	Comprehensive self damage	For 2013 – 40%
Agents	Comprehensive third party	For 2013 – 19%
Agents	Theft	Not in use
Agents	Total loss	Not in use
Agents	Third party- private and commercial vehicles	Not in use
Agents	Subrogation	Not in use
Fleets	Self damage and third party	For 2013 – 55%
Fleets	Theft	Not in use
Fleets	Total loss	Not in use

3.2.4 Subrogations

3.2.4.1 This is the first year in which we separate the subrogations and analyze them separately.

3.2.4.2 The analysis of the subrogations is different than the analysis of the other pending claims.

3.2.4.3 The prediction is actually an attempt to determine the success rate: how much of the subrogations included in outstanding claims shall be paid in practice. In order to determine the success rate of subrogation collections, I examine the ratio between the pending and total paid in practice after several quarters.

3.2.4.4 Currently, the model includes the following success rates:

Age of development	**Up to 12 months**	**13 -24 months**	**25-36 months**	**37-48 months**	**Over 48 months**
Rate of expected collection	95%	70%	40%	25%	0%

3.2.4.5 The model is conservative and the success rates are better than the ones shown in the table. I decided to examine the values within one year and if the improvement trend shall continue it will be possible to increase the factors included in the table.

3.2.5 We do not have reinsurer contract except for catastrophe contract that was not activated in the course of the reported year.

3.3 I do not use capitalization interest

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims				
Sectors	**Gross/ retention**	**Provision before capitalization**	**Provision after capitalization**	**Increment (%)**
		NIS in thousands		
Property vehicle	Gross	31,418	31,609	-0.61%
Property vehicle	Retention	31,418	31,609	-0.61%

3.4 This is a statistical sector.

3.5 A full assessment was made in this sector.

4. Comprehensive house insurance

4.1 The data used to substantiate the actuarial estimate:

4.1.1 The company's data base
4.1.2 Reports issued by the finance division

4.1.3 For analysis purposes, the portfolio is segmented as follows:

Distribution channel	Coverage
Direct	Comprehensive
Direct	Fire
Direct	Natural damages
Direct	Loss of wallet and keys
Direct	All risks
Direct	Third party
Direct	Water damage
Direct	Subrogation – water damage
Direct	Bicycles

4.2 Details of the methods and assumptions used for calculation of reserves:

4.2.1 Usually I use five methods to calculate pending claims:

4.2.1.1 DFM applied to known claims

4.2.1.2 DFM applied to paid claims

4.2.1.3 Frequency multiplied by severity

4.2.1.4 BF applied to know claims in the last year or the last couple of years.

4.2.1.5 BD applied to paid claims in the last year or the last couple of years.

4.2.2 For each coverage, we will normally select more than one method throughout the different accident years.

4.2.3 The a priori damage rate applied for each coverage type is based on past experience of the portfolio.

Distribution channel	Coverage	A priori damage rate for the BF
Direct	Comprehensive	For 2013 – 12%
Direct	Fire	For 2013 – 6.6%
Direct	Natural damages	Not in use
Direct	Loss of wallet and keys	For 2013 – 7%
Direct	All risks	For 2013 – 1% of total premium
Direct	Third party	For 2012 and 2013 – 1.6%
Direct	Water damages	For 2013 – 7%
Direct	Subrogation – water damage	Not in use
Direct	Bicycle	Not in use

4.2.4 For bicycle coverage we do not have enough exposure and claims experience. The maximum possible rate was taken into account between loading NIS 5,000 and the known claims for the last 4 quarter for each quarter separately.

4.2.5 Natural damages – there were two exceptional events this year. One event took place in January and the other in December. I added a 20% loading to known claims in respect of the December claims. This was definitely an exceptional year. The claims related to the rain storm are develop in a different way than the development of the claims related to the snow storm. It should be assumed that the type of damages is different and therefore the development is also different.

4.2.6 When there is flooding, the damages are long-term and it is more difficult to close the claims due to dampness.

4.2.7 In the cases of snow related claims, most of the claims were in respect of pergolas broken by the wind or due to the weight of the snow on the pergola. It is easier to estimate the amount of the claim in these cases than in the case of section 4.2.6.

4.3 Calculating the provision for outstanding claims (retention)

4.3.1 As to pending known claims, the actual estimate of the claims department was taken into account

4.3.2 As to IBNR (retention) I took into account 93% of the gross IBNR. In practice, our surplus rate is lower and therefore there is a small conservatism margin between gross and retention.

4.3.3 The surplus ratio is examined against gross and retention premium reports for each year separately.

4.4 I do not use capitalization interest

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims				
Sectors	**Gross/ retention**	**Provision before capitalization**	**Provision after capitalization**	**Increment (%)**
		NIS in thousands		
House comprehensive	Gross	15,555	15,652	-0.62%
House comprehensive	Retention	116,126	116,221	-0.08%

4.5 This is a statistical sector.

4.6 A full assessment was made in this sector.

5. Sectors: employers' liability, third party, product liability, professional liability

5.1 The data used to substantiate the actuarial estimate:

5.1.1 The company's data base
5.1.2 Reports issued by the finance division

5.2 The methods

5.2.1 I switched to the rate of damages out of premium (in gross and retention) as from underwriting year 2006.

5.2.2 For the years before 2006 I use the development triangle of the known claims; however, these triangles are not very reliable since there are not many available data or history.

5.2.3 I also distributed the claims between truncated claims up to NIS 600 thousands and claims exceeding NIS 600 thousands.

5.2.4 Employers' liability

5.2.4.1 I only examined DFM of known claims. I smoothed the development factors using a Weibull function after 34 quarters and added a 20% tail.

5.2.4.2 For the years 2011-2013 I added a loading of 20% of the premium in respect of large claims. In respect of 2008 I added a loading of 5% of the premium because there were not large claims.

5.2.5 Third party

5.2.5.1 I analyzed property claims and corporal damage claims separately. For property claims I used DFM of known claims. For the last three years I used the BF method with an a priori damage rate of 20%.

5.2.5.2 For corporal damage claims I used DFM for known claims and smoothed the development factors using the Weibull function after 20 quarters, including a 1.012 tail.

5.2.5.3 For large claims I used a loading of 45% of the premium in respect of the years 2007-2013, 15% in respect of the years 2005-2006 and 10% for 2005.

5.2.6 Product liability

5.2.61 This sector is influenced by several large claims. Most of the claims arise over the years due to the Makhteshim portfolio. This portfolio was not renewed in 2013 and as a result it is possible to see that results improve from that point onwards.

5.2.6.2 Except for the years 2009 and 2011 which seem to be exceptional years due to the Coca Cola and Makhteshim India claims, the damage rates in respect of the other years seem reasonable. Each of these claims almost reached the $ 10 million limit of liability.

5.2.6.3 In respect of 2012-2013 – the selected rate of damages is 60%.

5.2.6.4 This sector is not statistical. Variability is very high.

5.2.7 .Professional liability

5.2.7.1 This sector is based on a 60% damage rate for almost all years.

5.2.7.2 For underwriting years 2006 and 2007 we were given notice about two large claims of Teva. The limit of liability for those two claims together is $ 57 million. In the gross calculation I took into account app. 20% of the potential value of the claims until more details are available in connection with these claims. In the calculation of retention I took into account the full amount - $ 1 million.

5.3 I do not use capitalization interest

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims				
Sectors	**Gross/ retention**	**Provision before capitalization**	**Provision after capitalization**	**Increment (%)**
		NIS in thousands		
Liability sectors	Gross	421,351	396,332	6.31%
Liability sectors	Retention	60,614	56,778	6.76%

5.4 The estimate is carried out on a NIS-linked basis.

5.5 In order to achieve a resolution of the reserve for outstanding claims (retention), I exclude the claims which are 100% reinsured and use the same methods specified above to apply the relative contract rate for each underwriting year in accordance with the actual reinsurer contract.

5.6 These sectors are not statistical.

6. Engineering insurance sectors – loss of property

6.1 The data used to substantiate the actuarial estimate:

6.1.1 The company's data base
6.1.2 Reports issued by the finance division

6.2 The methods:

6.2.1 The triangle method of known claims

6.2.2.I I also distributed the claims between truncated claims up to NIS 600 thousands and claims exceeding NIS 600 thousands.

6.3 In order to achieve a resolution of the reserve for outstanding claims (retention), I exclude the claims which are 100% reinsured, re-develop a development triangle of known claims and apply the relative contract rate for each underwriting year in accordance with the actual reinsurer contract.

6.4 Engineering insurance

6.4.1 I used the DFM of known claims excluding 2008 in which I neutralized the subrogation in respect of truncated claims.

6.4.2 For 2013 there is a NIS 280 thousands loading (gross) in respect of claims in excess of the truncating threshold.

6.5 Loss of property

6.5.1 Through 2009 – I used actual payments in order to neutralize potential subrogations.

6.5.2 In respect of the truncated claims I use DFM for known claims in the years 2011-2013.

6.5.3 In 2013 we had several exceptional events: flooding in December, large fire in Rosh Ha-Ayin in April and a snow storm in December.

6.5.4 Due to the above mentioned events I added NIS 8.2 million (gross) mainly in respect of business interruption.

6.5.5 Retention in our property sectors is only 5%.

5.3 I do not use capitalization interest

Effect of risk free interest on capitalization/non-capitalization of provisions for pending claims				
Sectors	**Gross/ retention**	**Provision before capitalization**	**Provision after capitalization**	**Increment (%)**
		NIS in thousands		
Fire and engineering sec	Gross	49,257	49,586	-0.66%
Fire and engineering sec	Retention	1,146	1,153	-0.58%

5.4 The estimate is carried out on a NIS-linked basis.

5.5 There is high volatility in the severity of the claims. These sectors are not statistical.

Form 10e – Development of actuarial estimate of outstanding claims in the general insurance sector
Name of Company AIG as of December 31, 2013

		Gross				Retention			
		Statistical sector yes/no	**The share out of provision in financial statements which is assessed by the actuary (%)**	**Capitalization interest**	**Explanations**	**Statistical sector yes/no**	**The share out of provision in financial statements which is assessed by the actuary (%)**	**Capitalization interest**	**Explanations**
Sectors wIthout excess	Loss of property	Yes	100.00%	0.00%	Acceptable actuary methods	Yes	100.00%	0.00%	Acceptable actuary methods
	Comprehensive – house insurance	Yes	100.00%	0.00%	Acceptable actuary methods	Yes	100.00%	0.00%	Acceptable actuary methods
	Mortgage banks								
	Comprehensive – businesses								
	Property – vehicle	Yes	100.00%	0.00%	Acceptable actuary methods	Yes	100.00%	0.00%	Acceptable actuary methods
	Engineering insurance	Yes	100.00%	0.00%	Acceptable actuary methods	Yes	100.00%	0.00%	Acceptable actuary methods
	Agricultural insurance								
	Natural damages								
	Other sectors								
	Compulsory vehicle	Yes	100.00%	0.00%	Acceptable actuary methods – the portfolio is segmented into 5 parts	Yes	100.00%	0.00%	Acceptable actuary methods – the portfolio is segmented into 5 parts
	Employers' liability	No	100.00%	0.00%	Acceptable actuary methods but truncated claims of up to NIS 600,000 are viewed separately and claims in the case of claims in excess of truncation threshold – variability is high and the portfolio is heterogenic	No	100.00%	0.00%	Acceptable actuary methods but truncated claims of up to NIS 600,000 are viewed separately and claims in the case of claims in excess of truncation threshold – variability is high and the portfolio is heterogenic

		Gross				Retention			
		Statistical sector yes/no	The share out of provision in financial statements which is assessed by the actuary (%)	Capitalization interest	Explanations	Statistical sector yes/no	The share out of provision in financial statements which is assessed by the actuary (%)	Capitalization interest	Explanations
Sectors with excess	Third party	No	100.00%	0.00%	Acceptable actuary methods but truncated claims of up to NIS 600,000 are viewed separately and claims in the case of claims in excess of truncation threshold – variability is high and the portfolio is heterogenic	No	100.00%	0.00%	Acceptable actuary methods but truncated claims of up to NIS 600,000 are viewed separately and claims in the case of claims in excess of truncation threshold – variability is high and the portfolio is heterogenic
	Professional liability	No	100.00%	0.00%	Acceptable actuary methods but truncated claims of up to NIS 600,000 are viewed separately and claims in the case of claims in excess of truncation threshold – variability is high and the portfolio is heterogenic	No	100.00%	0.00%	Acceptable actuary methods but truncated claims of up to NIS 600,000 are viewed separately and claims in the case of claims in excess of truncation threshold – variability is high and the portfolio is heterogenic
	Product liability	No	100.00%	0.00%	Acceptable actuary methods but truncated claims of up to NIS 600,000 are viewed separately and claims in the case of claims in excess of truncation threshold – variability is high and the portfolio is heterogenic	No	100.00%	0.00%	Acceptable actuary methods but truncated claims of up to NIS 600,000 are viewed separately and claims in the case of claims in excess of truncation threshold – variability is high and the portfolio is heterogenic
	Other sectors	No	100.00%	0.00%	Criminality and embezzlement – no claims experience	No	100.00%	0.00%	Criminality and embezzlement – no claims experience

1) Explanations regarding data specified in forms 10a and 10b should be detailed

2) Where there are several explanations for a sub-sector they should be detailed in a separate numbered line

<u>Chapter E – Indirect Expenses</u>

The model is based on:

a. The number of different employees in each team of the claims department.

b. The ratio between handling of new claims and handling of old claims in the course of the last quarter.

c. Rate of decrease in handling of claims by quarter of development.

d. Relative flow of remaining employees available each quarter to settle old remaining claims.

e. The number of outstanding claims and not the amount of the claim. In the case of sectors with a slower settlement rate, we shall have more future quarters of provision for indirect expenses than in the case of sectors with a higher settlement rate.

The required data are as follows:

- The basic claims file includes all the information detailed in Chapter D section 1.6.

- The number of teams dealing with settlement of claims by teams such as, third party, subrogation, financial, personal accidents, travel abroad, houses, compulsory.

- File received from the finance division; the file is to include the expenses, taking into account all the costs of the claims department, 10% of computing costs, 10% of HR costs and 10% of finance division costs. This cost amounts to an annual total of NIS 16.8 million.

- The expenses which were included in the calculation for each department are as follows:

  - Payroll and related expenses;
  - Travel and computing;
  - Office equipment;
  - Communications;
  - Professional services;
  - Rent.

- The analysis is based on the following breakdown of the files claim:

Ulaekey – teams settling insurance claims	**Name of the group**
Ulaekey 1	Property vehicle – third party
Ulaekey 2	Insured
Ulaekey 3	Subrogation
Ulaekey 4	Residual
Ulaekey 5	Compulsory insurance
Ulaekey 6	Comprehensive house insurance
Ulaekey 7	Personal accidents – individual
Ulaekey 8	Personal accidents – group
Ulaekey 9	Personal accidents – group – students
Ulaekey 10	Travel abroad – individual
Ulaekey 11	Travel abroad – group
Ulaekey 12	Health - critical illness and complementary insurance
Ulaekey 13	Liabilities
Ulaekey 14	Business
Ulaekey 15	Financial

Stages of the work:

1. The claims file is processed through the SPSS and I create development triangles of several aspects of claims handling (handling includes change in payment and/or change in estimate in the course of the quarter) in accordance with the 15 keys described above. The triangles are created at quarterly level and on the basis of damage quarters.

2. I import the triangles to an Excel file to calculate the provision for indirect expenses.

3. Using the ulaekey key I estimate the ratio between handling of claims in previous damage quarters compared with the current damage quarter. The ratio is achieved by counting all claims handled with in the course of the quarter. Handling shall be change in total payments compared with previous quarter or change in the overall estimate of the claim compared to the previous quarter. Set forth below is an example of such a calculation: in the current damage quarter 820 claims were handled in respect of the current quarter. 4,288 claims were handled in respect of past damage quarters. So 16.1% of handled claims were in respect of claims that belong to the current quarter.

	Old	New	Total
Number of claims handled	4,288	820	5,108
Ratio in percentages	83.9%	16.1%	

4. I reduce the number of those included in the team settling the claims by 13.5%. If we go into run-off, we shall not need those employees for the purpose of handling claims. So if we had 9 employees for ulaekey1 we would have been left with 7.6 employees for this example.

5. New – will only take into account the current damage quarter.

6. Old – will take into account all damage quarters except for the last quarter.

7. In order to prevent high volatility, I take into account the average of the last four quarters. Attached is an example for distribution between new and old as of the end of March 2013.

    - One should compute once a quarter the cost of one employee settling claims. For the purpose of making this calculation we spread the whole cost received from the finance division and spread the cost to the number of employees working in the claims department. At the moment the amount is NIS 58.5 thousands per one employee settling claims per quarter.

    - Each ulaekey key has a separate spreadsheet which includes the triangle of the development of the number of claims handled. From this point I create development or (retirement).

    - We apply the development factors to the triangles in order to estimate the number of claims to be handled in future quarters.

    - If we know that we started with 7.6 employees that settle claims and who handle 5,108 claims, in the next quarter we expect to handle only 4,459 claims. So I can reduce the number of employees settling claims in accordance with the decrease in outstanding claims handled from one quarter to the next quarters: 6.6=7.6*4,459/5,108 employees who settle claims at the end of the next quarter. You use the same method to calculate the number of employees who will be required to settle claims in the next quarters.

    - You multiply the number of the remaining claims by the quarterly cost of the employee who settles the claims and adjust the result by the increase in inflation over time. You add up the quarterly amounts received and the result is the reserve for ULAE for that team of employees who settle claims.

    - Attached is an example of this calculation. Once the calculation is updated I stamp it with the date of balance sheet. The color of the stamp changes each quarter.

    - Here I copied the first nine quarters. But in practice my calculation includes 70 future quarters.

    - There is a spreadsheet summarizing the results of all sectors.

    - For sectors which require reporting by underwriting year rather than by accident year I correct the distribution of the years. These sectors will be the compulsory vehicle insurance and liability insurance.

    - The file also includes a SOX spreadsheet with a list of fields that are to be filled in. I update the list as work advances to indicate that the matter specified in the field has been accounted for.

Chapter F - Analysis of the estimate of the premium deficiency reserve

1. Details of the sectors for which actual reserve exists

    1.1 There are no sectors where actual reserve exists in accordance with the provisions of the circular.

2. Calculation method:

    2.1 I take from Form 2 the unearned premium (retention) data as of the end of period for the three following sectors: compulsory – vehicle, comprehensive – house, property – vehicle.

    2.2 I take from Form 2 the rate of actual damage (retention) for the last reported period (if there were no exceptional events). In case that exceptional event occurred – such an event should be neutralized from the actual rate of damages.

    2.3 I also take the rate of expected expenses from Form 2 – the work assumption is that we shall maintain the same level of expenses in the future.

    2.4 Using the rate of damages and the rate of expected expenses, it is possible to calculate the cost of expected claims and the cost of expected claims out of unearned premiums.

    2.5 As to comprehensive house insurance, the company reserves $ 10 million (retention) for a case of a catastrophic event. In this case I estimate the cost of expected claims in case of a catastrophic event in order to achieve the overall cost of expected claims.

    2.6 In the compulsory vehicle sector the low LR (60%) is due to the fact that our premium tariff to reinsurers in the un-proportional contract is 1.7% lower than the premium for our excess layer exceeding NIS 1.2 million. In practice the cost of claims exceeds 10% of gross premium. We have 16.25% expenses so the LR is close to 6%.

    2.7 According to the current operator of the data base, the LR out of net premium is 72%. So a 60% LR is reasonable (in retention) in light of the existing reinsurance agreement.

    2.8 The amounts of claims and expenses achieved as a result of the above calculation are subtracted from the unearned premium. If there is excess – there is no premium deficit if the result of the calculation is negative there is a premium deficit.

    2.9 If there is a premium deficit, one should check whether company's management intends to take measure to rectify the situation so as the premium deficit shall not occur in the future and if required actual provision should be made.

2. Comprehensive vehicle insurance

In thousands of NIS

gross premium unearned				201312	From Financial Reports
autoprop					
vendors				32,476	Acquisition costs
total	99,459	unearned premium		18,659	General Expenses
				227,638	Total Premium
Net Premium	99,459				
Loss from regular	71,096	71.5%			
general expenses	22,351	22.5%			
		93.9%			
total expenses	93,447				

Total Surplus	6,052	No Deficiency

201312

3. Compulsory vehicle insurance

In thousands of NIS

gross premium unearned		
bi	61,030	
total	61,030	
reinsurance XS	1,038	
Net Premium unearned	59,992	
		LR expected
Loss from regular includes ulae dec	40,280	66.00%
general expenses	14,954	24.5%
total expenses	55,234	90.5%

Total Surplus	4,758	No Deficiency

201312

4. Compulsory vehicle insurance

In thousands of NIS

gross premium unearned				
home owners				
vendors-shachar				
total	46,730	טופס 2		
Reinsurance	6,053	טופס 2		
Net Premium	**40,677**			
		LR expected	LR actual	
Expected claims	16,271	40%	50.6%	- the actual LR this year was relatively high due to the floods and snow.
Expected recoveries	1,620	4%		
Expenses	17,549	38%		
eq 1 - lower level	694	0- 10MXS		
total expenses	**36,134**			
Total Surplus	4,543	**No Deficiency**		

201312

HEALTH INSURANCE SECTOR – ACTUARIAL OPINION

AS OF 31.12.2013

AIG ISRAEL INSURANCE CO. LTD.

TABLE OF CONTENTS

Chapter A – Health Insurance Sector

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the health insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2013, as detailed below.

I am a full time salaried employee of AIG Israel Insurance Co. Ltd. ("the insurer"). I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on 3.9.2006.

Chapter B - Scope of the actuarial opinion

1. Wording of scope of the actuarial opinion section

"A For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

B Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

C The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified in section 2 below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

D To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

E The following matters were also taken into account in my opinion:

1) The provision calculated in respect of incoming businesses (in that regard "incoming businesses" as defined in Insurance Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in

General Insurance), 1984): an estimate was not calculated since the company does not have business of this type.

2) The provision that was calculated for co-insurance where the company is not the leading insurer: the company does not have business of this type.

2. Data included in the section on the scope of the actuarial opinion

1) Provision for outstanding claims

a) Sectors for which an actuary provision for outstanding claims was calculated:

Sub-sector- general insurance	**Gross Provision**	**Provision in Retention**
	NIS in thousands	
Personal accidents – individual	90,800	81,753
Personal accidents – group	18,859	18,859
Travel abroad – individual	5,859	5,859
Travel abroad – group	320	320
Critical illness – individual – elementary insurance	9,371	9,335
Total reported in general insurance	**125,208**	**116,126**

Sub-sector- life insurance	**Gross Provision**	**Provision in Retention**
	NIS in thousands	
Critical illness – individual	3,265	2,845
Medical expenses – individual	1,311	656
Total reported in life insurance	**4,576**	**3,501**

2) Provision for indirect expenses for settlement of claims

Provision for indirect expenses for settlement of claims (gross and retention)		
NIS in thousands		
Type of activity	**General insurance**	**Life insurance**
Private	1,179	--------
Group	1,874	--------
Total	**3,053**	--------

3) Provision deriving from conditions of insurance contracts

In some of the products available in the personal accidents – individual sub-sector, we found that a provision needs to be made which arises from the conditions of the insurance contract.

Sub sector	**Gross provision**	**Provision in retention**
	NIS in thousands	
Personal accidents - individual	3,803	3,803

4) Provision in respect of profit sharing

No provision was calculated since the company does not have business of this type.

Chapter C – the Opinion

"I hereby declare and confirm that in the following subsectors of health insurance, personal accidents individual and group, critical illness, travel abroad individual and group and medical expenses:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

   a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
   b. Instructions and directives issued by the Supervisor of Insurance;
   c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve for covering the insurer's commitments in respect of its liability arising from health insurance contracts included in the health insurance subsectors listed above, in effect as of the date of the financial statements."

Chapter D – Comments and Clarifications

1. Two products of the personal accidents group sector - pupils and sportsmen are in a run off when in excess of 5 years. This means that the company no longer receives premiums for those insurances but continues to settle claims in respect of past exposure. In the pupils' product, there is a particularly long tail. The experience with claims and development of claims is materially different than those of the sportsmen product.

2. The provision for outstanding claims in the personal accidents individual product continues to increase from one year to another due to the increase in the number of individuals insured as part of this sector.

3. In the case of critical illness insurance there is an increase in loss ratios due to the increase in size of portfolio and the decrease of the effect of underwriting over the years.

4. Capitalization interest was only used to compute the provision deriving from the insurance contract. The interest rate is the NIS risk free interest (linked to the

CPI) which was published as of December 31, 2013 (with no additions with respect of non-liquidity premium).

Effect of risk free interest on capitalization/non-capitalization of provisions for outstanding claims – gross

Sectors	Provision before capitalization	Provision after capitalization	Increment (%)
	NIS in thousands		
Personal accidents – individual	90,800	91,184	-0.42%
Personal accidents – group	18,859	18,651	1.11%
Travel abroad – individual	5,859	5,727	2.30%
Travel abroad – group	320	318	0.70%
Critical illness	9,371	9,463	-0.97%
Total - in general insurance	**125,208**	**125,342**	**-0.11%**
Critical illness – life insurance	3,265	3,301	-1.11%
Medical expenses – life insurance	1,311	1,325	-1.0%
Total reported in life insurance	**4,576**	**4,626**	**-1.09%**

Effect of risk free interest on capitalization/non-capitalization of provisions for outstanding claims – retention

Sectors	Provision before capitalization	Provision after capitalization	Increment (%)
	NIS in thousands		
Personal accidents – individual	81,753	82,099	-0.42%
Personal accidents – group	18,859	18,651	1.11%
Travel abroad – individual	5,859	5,727	2.30%
Travel abroad – group	320	318	0.70%
Critical illness	9,335	9,427	-0.97%
Total - in general insurance	**116,126**	**116,221**	**-0.08%**
Critical illness – life insurance	2,845	2,860	-0.52%
Medical expenses – life insurance	656	659	-0.51%
Total reported in life insurance	**3,501**	**3,519**	**-0.52%**

5. The sensitivity of the conservative amounts is reflected by changing the interest rate used for capitalization by 0.5% or 1.0%.

Sensitivity analysis of conservative amounts without capitalization to the risk free interest

Amounts in thousands of NIS	Provision in books without capitalization	Capitalization: Risk free interest less 1.0%	Capitalization: Risk free interest less 0.5%	Capitalization: Risk free interest plus 0.5%	Capitalization: Risk free interest plus 1.0%
All sectors (gross)	129,784	133,163	131,547	128,426	126,918
Difference in NIS compared with provision without capitalization	-	-3,378	-1,763	1,359	2,866
Difference in % compared with provision without capitalization	0.0%	-2.6%	-1.4%	1.0%	2.2%
All sectors (retention)	119,627	122,684	121,195	118,320	116,932
Difference in NIS compared with provision without capitalization	-	-3,056	-1,568	1,307	2,696
Difference in % compared with provision without capitalization	0.0%	-2.6%	-1.3%	1.1%	2.3%a

6. The process of assessing the various actuarial provisions involves statistical uncertainty. These assessments are based on certain assumptions which best reflect the information currently available to us. There may be future changes, which will have an effect on these assumptions in terms of legislation, legal rulings and economic and social environments. It is impossible to predict these factors and they may affect the final cost of the claims thus affecting actuarial estimate of the provisions.

and they constitute the best estimate as of the date of assessment.

18.3.2014	Health Insurance Actuary Director	Avital Yael Koler	
Date	Position	Name of Actuary	Signature

Chapter B: Points requiring attention

1. Two products of the personal accidents group sectors are in a run-off. The provisions were set in the past so that no negative development is supposed to occur with these two products. The rate of release of the provisions is in accordance with actual payments made. In the sportsmen product it seems that the tail has stabilized. In the case of the pupils' product, it is still too early to determine since the tail is much longer. The limitation period in the case of the pupils' product is much longer than that of the sportsmen product.

2. In the individual accidents sector I reduced the conservativeness applied to the triangles due to development of claims experience triangles which have accrued a sufficient number of maturity quarters.

3. In the critical illness sector the effect of underwriting decreases with the passage of time since the beginning of the policy. In this sector there is an increase in the loss ratios.

4. In the critical illness-life insurance sector there was an exceptionally bad year with loss ratios increasing to 157%. It is not clear why there were so many claims compared with previous years.

5. I transferred all models to the RESQ software, which enables the calculation of reserves using the triangles of the paid claims and known claims. Using this software also allows adding a tail to the development factors where necessary, by using known mathematical functions. Using this software also prevents human error such as dragging Excel formulas. Transferring the models to the RESQ software is a strategic move of AIG international. Through the end of 2014, all general insurance reserves shall be calculated using the same RESQ environment.

Chapter C - Report on development of the actuarial estimate of outstanding claims in the health insurance sector

The distinction between material excess/deficit and immaterial excess/deficit is made taking into account the scale of the company's equity, the amount of reserves, the amount of final estimate and the reported profit in a specific sector where there is an excess or deficit.

In addition, the absolute value of the excess or deficit is taken into account when materiality is assessed. In sectors where the reserve is relatively small, higher volatility is expected. An excess or deficit, the amount of which is high when compared to the reserves and/or profit in the sector, is not necessarily material if it is a small amount when compared to the company's equity.

Personal accidents – health-individual
The investment profit contributes app. half of the gross excess and app. 40% of the retention excess. Reserves are released in respect of the relatively new accidents-individual products such as Active and AIG Family in respect of claims made three years ago.

Travel abroad – health group

A relatively high amount was released of excess provision for outstanding claims. Last year it seemed that the claims tail increased. However, this only lasted for a certain period.

Critical illness – health individual

No exceptional developments

Critical illness- life individual

The year 2012 was exceptional in terms of the number of claims. The portfolio has increased by 23% in terms of the premiums, but the number of claims increased by 128%. At the moment it is assumed that this is an exceptional year rather than a problem in the pricing of the product. If 2013 proves to be exceptional as well, it would be necessary to reassess the pricing of the product.

Medical expenses – life individual

No exceptional developments

Investment profits

More than half of the excess amount relating to last year's estimate arises from investment profit.

Form 11g – Development of Actuarial estimate of outstanding claims in the health insurance sector – businesses reported in life insurance – gross.

Name of Company AIG as of December 31, 2012 in thousands of NIS

	Total	Individual insurance			
		Medical expenses(1)	Critical illness	Other	Total individual
	(1)	(2)	(3)	(4)	(5)
1. Claims regarding events prior to the reported year					
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (including IBNR)	**3,217**	698	2,519		3,217
A2 Provision for indirect expenses to settle claims as of beginning of year	**0**				
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR)	**8**	8			8
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	**3,225**	706	2,519		3,225
B1 Payment of claims during the year	**2,741**	224	2,517		2,741
B2 Payment of indirect expenses during the year	**0**				
B3 Total payments during the year (B1+B2)	**2,741**	224	2,517		2,741
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	**1,118**	23	1,095		1,118
C2 Provision for indirect expenses for settlement of claims at end of year	**0**				
C3 Total actuarial estimate at end of year (C1+C2)	**1,118**	23	1,095		1,118
D Total development of claims (B3+C3)	**3,859**	247	3,612		3,859
E. Excess/deficit of estimates (A4-D)	**(633)**	459	(1,092)		(633)
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	**-19.60%**	**65.00%**	**-43.40%**		**19.60%**
2 Claims regarding events in the reported year					
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**3,458**	1,288	2,170		3,458
B Provision for indirect expenses to settle claims as of end of year	**0**				
C Total actuarial estimate as of end of year (A+B)	**3,458**	**1,288**	**2,170**		**3,458**
3 Total					
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**4,576**	1,311	3,265		4,576
B Provision for indirect expenses to settle claims as of end of year	**0**				
C Total actuarial estimate as of end of year (A+B)	**4,576**	1,311	3,265		4,576

1) Medical expenses, consultation and medication.

Form 11f – Development of Actuarial estimate of outstanding claims in the health insurance sector – businesses reported in life insurance – retention.

	Total	Individual insurance			
		Medical expenses(1)	Critical illness	Other	Total individual
	(1)	(2)	(3)	(4)	(5)
1. Claims regarding events prior to the reported year					
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (including IBNR)	**2,139**	346	1,793		**2,139**
A2 Provision for indirect expenses to settle claims as of beginning of year	**0**				**0**
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR)	**8**	8			**8**
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	**2,147**	354	1,793		**2,147**
B1 Payment of claims during the year	**2,225**	112	2,113		**2,225**
B2 Payment of indirect expenses during the year	**0**				**0**
B3 Total payments during the year (B1+B2)	**2,225**	112	2,113		**2,225**
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	**769**	12	757		**769**
C2 Provision for indirect expenses for settlement of claims at end of year	**0**				**0**
C3 Total actuarial estimate at end of year (C1+C2)	**769**	12	757		**769**
D Total development of claims (B3+C3)	**2,994**	124	2,870		**2,994**
E. Excess/deficit of estimates (A4-D)	**(847)**	231	(1,078)		**(847)**
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	**-39.40%**	**65.10%**	**-60.10%**		**-39.40%**
2 Claims regarding events in the reported year					
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**2,732**	644	2,088		**2,732**
B Provision for indirect expenses to settle claims as of end of year	**0**				**0**
C Total actuarial estimate as of end of year (A+B)	**2,732**	**644**	**2,088**		**2,732**
3 Total					
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**3,501**	656	2,845		**3,501**
B Provision for indirect expenses to settle claims as of end of year	**0**				**0**
C Total actuarial estimate as of end of year (A+B)	**3,501**	656	2,845		**3,501**

2) Medical expenses, consultation and medication.

Form 11g – Development of actuarial estimate of outstanding claims in the health insurance sector – businesses reported in general insurance – gross. Name of Company AIG as of December 31, 2013

	Total	Individual insurance						Group insurance		
	Total	Medical expenses(1)	Foreign employees	Critical illness	Travel abroad	Personal accidents	Total individual	Travel abroad	Personal accidents	Total group
	(1)	(2)	(3)	(4)	(6)	(7)	(9)	(14)	(15)	(17)
1. Claims regarding events prior to the reported year										
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (including IBNR)	**114,658**			8,279	6,454	77,702	92,435	710	21,513	22,223
A2 Provision for indirect expenses to settle claims as of beginning of	**3,451**			382	193	1,001	1,576	72	1,803	1,875
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR) (2)	**6,619**			493	413	4,525	5,431		1,188	1,188
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	**124,728**	0	0	9,153	7,060	83,228	99,442	782	24,504	25,286
B1 Payment of claims during the year	**39,776**			3,571	2,604	26,680	32,855	221	6,699	6,921
B2 Payment of indirect expenses during the year	**1,405**			67	139	437	643	30	732	762
B3 Total payments during the year (B1+B2)	**41,181**	0	0	3,638	2,743	27,117	33,498	251	7,432	7,683
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	**71,398**			4,049	2,713	49,170	55,931	38	15,429	15,466
C2 Provision for indirect expenses for settlement of claims at end of year	**1,554**			34	37	270	341	4	1,209	1,212
C3 Total actuarial estimate at end of year (C1+C2)	**72,952**	0	0	4,083	2,750	49,440	56,273	42	16,637	16,679
D Total development of claims (B3+C3)	**114,133**	**0**	**0**	**7,721**	**5,493**	**76,557**	89,771	**293**	**24,069**	**24,362**
E. Excess/deficit of estimates (A4-D)	**10,595**	**0**	**0**	**1,433**	**1,567**	**6,671**	9,671	**489**	**435**	**924**
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	**8.50%**	**0.00%**	**0.00%**	**15.70%**	**22.20%**	**8.00%**	**9.70%**	**62.50%**	**1.80%**	**3.70%**
2 Claims regarding events in the reported year										
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**53,811**			5,322	3,146	41,630	50,098	283	3,430	3,712
B Provision for indirect expenses to settle claims as of end of year	**1,499**			148	148	542	837	53	609	661
C Total actuarial estimate as of end of year (A+B)	**55,309**	**0**	**0**	**5,470**	**3,294**	**42,172**	50,935	**335**	**4,039**	**4,374**
3 Total										
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**125,208**	0	0	9,371	5,859	90,800	106,030	320	18,859	19,179
B Provision for indirect expenses to settle claims as of end of year	**3,053**	0	0	182	185	812	1,179	56	1,818	1,874
C Total actuarial estimate as of end of year (A+B)	**128,261**	0	0	9,553	6,044	91,612	107,208	337	20,676	21,053

1) Medical expenses – insurance to cover medical expenses (including surgery, transplants, special treatments abroad, medical tests and medication.
2) Investment income should be charged in accordance with the profit charged to revenues in forms 2 and 3.

Form 11h – Development of actuarial estimate of outstanding claims in the health insurance sector – businesses reported in general insurance – retention

Name of Company AIG as of December 31, 2012

		Individual insurance						Group insurance		
	Total	**Medical expenses(1)**	**Foreign employees**	**Critical illness**	**Travel abroad**	**Personal accidents**	**Total individual**	**Travel abroad**	**Personal accidents**	**Total group**
	(1)	**(2)**	**(3)**	**(4)**	**(6)**	**(7)**	**(9)**	**(14)**	**(15)**	**(17)**
1. Claims regarding events prior to the reported year										
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (including IBNR)	**108,914**			7,432	6,454	72,804	86,691	710	21,513	22,223
A2 Provision for indirect expenses to settle claims as of beginning of year	**3,451**			382	193	1,001	1,576	72	1,803	1,875
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR) (2)	**6,619**			493	413	4,525	5,431		1,188	1,188
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	**118,984**			8,307	7,060	78,330	93,698	782	24,504	25,286
B1 Payment of claims during the year	**35,577**			3,320	2,604	22,732	28,656	221	6,699	6,921
B2 Payment of indirect expenses during the year	**1,405**			67	139	437	643	30	732	762
B3 Total payments during the year (B1+B2)	**36,982**			3,387	2,743	23,169	29,299	251	7,432	7,683
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	**66,479**			4,013	2,713	44,286	51,012	38	15,429	15,466
C2 Provision for indirect expenses for settlement of claims at end of year	**1,554**			34	37	270	341	4	1,209	1,212
C3 Total actuarial estimate at end of year (C1+C2)	**68,033**			4,047	2,750	44,556	51,354	42	16,637	16,679
D Total development of claims (B3+C3)	**105,014**			**7,434**	**5,493**	**67,725**	80,652	**293**	**24,069**	**24,362**
E. Excess/deficit of estimates (A4-D)	**13,969**			**873**	**1,567**	**10,605**	13,045	**489**	**435**	**924**
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	**11.70%**			**10.50%**	**22.20%**	**13.50%**	**13.90%**	**62.50%**	**1.80%**	**3.70%**
2 Claims regarding events in the reported year										
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**49,648**			5,322	3,146	37,467	45,935	283	3,430	3,712
B Provision for indirect expenses to settle claims as of end of year	**1,499**			148	148	542	837	53	609	661
C Total actuarial estimate as of end of year (A+B)	**51,146**			**5,470**	**3,294**	**38,009**	46,772	**335**	**4,039**	**4,374**
3 Total										
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**116,126**			9,335	5,859	81,753	96,947	320	18,859	19,179
B Provision for indirect expenses to settle claims as of end of year	3,053			182	185	812	1,179	56	1,818	1,874
C Total actuarial estimate as of end of year (A+B)	119,179			9,517	6,044	82,565	98,126	377	20,676	21,053

1) Medical expenses – insurance to cover medical expenses (including surgery, transplants, special treatments abroad, medical tests and medication.
2) Investment income should be charged in accordance with the profit charged to revenues in forms 2 and 3.

Chapter D – Analysis

1) Data used to establish the actuarial estimate for all sectors

1.1 Company's data based 400AS – data of policies and claims

1.2 The Idan system – data from the finance division.

1.3 Statistical reports from the finance division; these reports includes details of the premiums, outstanding claims and paid claims by sectors, by underwriting year and by accident year. It is possible to issue these reports for different periods; for example – a report on a cumulative basis from the date of commencement of company's activities, or only for the last quarter or last calendar year.

1.4 Earned premium for the period – gross policy data are entered and processed using SPSS in order to calculate the earned premium. The files include the following information: sector, policy number, premium for addition, number of addition, date commencement of addition, date of end of addition.

1.5 Exposure units for each quarter – gross policy data are processed using SPSS in order to calculate the exposure units for each quarter. Commensurate with the process of calculating the earned premium, the exposure units for the period are calculated.

1.6 The claims file includes the following information at gross level:

Run date
Issuance month
Sector
Numbering of claim
Number of claim
Type of claimant
Numbering of damage
Cause of damage
Status of claimant
Symbol of compensation payment
Payment of compensation NIS
Symbol of payment of expense
Payment of expense NIS
Symbol of compensation + expense
Amount of compensation + expense NIS
Symbol of estimate
Amount of estimate NIS
Symbol of pending balance
Amount of pending balance NIS
Amount of calculated pending balance
Amount of pending calculated balance NIS
Policy
Addition

Licensing
Date of opening of claim
Date of opening of damage
Date of damage
Agent
Product code
Type of asset
Currency
Symbol of payment of expense - currency
Payment of expense - currency
Symbol of payment of expense – currency
Payment of expense – currency
Symbol of compensation + expense – currency
Compensation + expense – currency
Symbol of estimate – currency
Estimate – currency
Symbol of pending balance – currency
Pending balance – currency
Symbol of calculated pending balance – currency
Calculated pending balance – currency
Date of beginning of insurance
Date of end of insurance
Code of model
Year of manufacture
Code of settlement where burglary took place
i.d. no. of claimant
Claimant under legal proceedings

1.7 Prior to commencement of work, the claims files I receive from the computing department are compared with statistical reports issued by the finance division. The claims file is created a month before end of month closing of the finance department. Therefore, there may be differences between the two sources. If the scale of this difference is maintained from one quarter to another, the claims file can be used for the estimate of reserves. If the difference increased significantly, the reason for the difference should be investigated and one should decide whether to re-run the claims file or it is sufficient to make manual amendments when making the assessment of provisions. If it was decided that the claims file can be relied upon for purposes of establishing the estimate, the Excel test file is signed with the date of the tested quarter.

1.8 The claims file is processed using the SPSS software. Using this software I create files that contain the following information:

1.8.1 Currency
1.8.2 Classification
1.8.3 Distribution

1.8.4 Product
1.8.5 Date of beginning
1.8.6 Quarter of development
1.8.7 Payment during the quarter
1.8.8 Total change in known claim compared with previous quarter
1.8.9 Open claims
1.8.10 Closed claims
1.8.11 Exposure units
1.8.12 Earned premium
1.8.13 The distribution of products is as described in the attached table for accidents-individual:

Currency	Classification	Distribution	Product
Dollar	Travel abroad – individual	Leumi Card	Leumi Card
Dollar	Travel abroad – individual	Direct	Travel abroad individual
Dollar	Travel abroad – group	Group	Travel abroad- group
CPI linked	Critical illness	Direct	Offek and Lady
CPI linked	Critical illness	Work place	Bitachon Lachaim
CPI linked	Personal accidents - individual	Direct	Personal accidents
CPI linked	Personal accidents - individual	Direct	50+
CPI linked	Personal accidents - individual	Direct	AIG Family
CPI linked	Personal accidents - individual	Direct	AIG Active
CPI linked	Personal accidents - individual	Direct	Muganim
CPI linked	Personal accidents - individual	Work place	VEB
CPI linked	Personal accidents- group	Group	Children
CPI linked	Personal accidents - group	Group	Sportsmen
CPI linked	Personal accidents - group	Group	Policies $
CPI linked	Personal accidents - group	Group	Other group

1.8.14 The distribution of products is made in accordance with the details in the attached table for health in life insurance:

Currency	Classification	Distribution	Product
CPI linked	Critical illness	Life insurance - direct	Heart-cancer
CPI linked	Medical expenses	Life insurance - direct	Shaban (complementary insurance)

1.9 An additional test is made after files are created in the SPSS; as part of this test, we check the transfer of all claims data to the RESQ software which is used to analyze the reserves. The test is carried out to verify completeness of the data and is also signed with the date of the analyzed quarter. The data in the RESQ system are withdrawn to Excel file for the purpose of carrying out this test.

1.10 It is only after data are tested for completeness that we can begin the assessment of reserves.

1.11 All analyses are all carried out at gross level.

1.12 Information of re-insurers contracts are taken into account separately for the analysis of each sector/product at retention level.
I do not have a breakdown of the individual claims at retention level over the years which correspond to the file containing gross level data. Our reinsurer contract is a surplus contract except for the Shaban (complementary

insurance) contract which is a quota share contracts. Since these are proportionate contracts, a factor can be applied to the IBNR in order to achieve the retention level data.

1.13 As to recoveries of individual claims – I receive a file which includes a breakdown of the claims and the recoveries we expect to receive from the reinsurers.

1.14 We hold a quarterly discussion with the claims department in order to verify that there are no changes in the policy of opening/closing claims, the rate of payment or large claims that have not yet been entered into the system for technical reasons.

2. Calculation methods

1.1 Personal accidents – individual – calculation of IBNR

2.1.1 No classification into large claims and small claims

1.1.2 The triangles of the paid claims and the known claims are analyzed using the chain ladder method (DFM paid and DFM known accordingly).

1.1.3 Where necessary smoothing is applied to the tail of the development factors using one of the following methods inverse power or Weibull.

1.1.4 In respect of the last year and up to the three last years it is also possible to use the Bornhuetter-Ferguson (BF). The expected loss ratios for the BF is based on the loss ratios of the last several years if the tariff has not changed.

1.1.5 Another method is analyzing separately the frequency and the severity and multiplying the results together.

1.1.6 Personal accidents – individual – the personal accidents product

2.1.6.1 this products includes both coverage for death in accident and coverage of disability as a result of an accident. Compared to the personal accidents product, this product has a relatively long tail because it takes time to determine the extent of disability of the claimant.

2.1.6.2 I assumed that claims through the year 2004 are closed and shall not be reopened.

2.1.6.3 Accident year 2005-2010 – I have taken the average of the methods triangles of known claims and the method of frequency multiplied by severity.

2.1.6.4 For the years 2011-2013 I used the BF method for known claims assuming an a priori loss ratio of 60%.

1.1.7 Personal accidents – individual – 50+

2.1.7.1 The main coverage in this product is death as a result of an accidents and fractures and urns as a result of accidents. The development of claims is relatively short. The result of the claim is achieved quite quickly.

2.1.7.2 I examined the five methods mentioned in section 2.1 taking into account that the paid claims have a tail from the fifth quarter which was received by smoothing the function inverse power.

2.1.7.3 Through 2008 – I assumed that the claims are closed.

2.1.7.4 For accident years 2009-2010 I have used the paid claims method.

2.1.7.5 For 2011 – I used the average between the known claims method and the paid claims method.

2.1.7.6 2012 and 2013 – I used the average of the two BF methods (paid and known) with a priori loss ratio of 30%.

1.1.8 Personal claims – individual – AIG Family

1.1.8.1 This product provides coverage for death as a result of an accident and for permanent disability at rate in excess of 50% as a result of an accident. The tail is relatively long. It takes a lot of time to determine the extent of the disability of the claimant. The amounts of insurance in this product are relatively high since there is both a one-off payment and an allowance payable.

1.1.8.2 The years 2006 and 2009 are closed years. It is unlikely that these years shall reopen since the limitation period has ended.

1.1.8.3 For the years 2006 and 2009 I use the DFM method for known claims.

1.1.8.4 For the years 2010-2013 I use a predetermined loss ratio (for 2010, which is a more mature year, I use 35%; 2011-2013 – app. 40%).

1.1.9 Personal accidents – individual – AIG Active

2.1.9.1. This product is similar to the personal accidents product but it is targeted at younger and more adventurous population. Extreme sports are also included within the definition of the term accident. The product also includes death and disability as a result of an accident; it therefore has a relatively long tale because of the period of time required to demine the level of disability of the claimant.

2.1.9.2 When applying the DFM method to known claims I applied a smoothing function (an inverse power function) to development factors from the 9th quarter.

2.1.9.3 When applying the DFM method to paid claims I applied a smoothing function (an inverse power function) to development factors from the 1st quarter.

2.1.9.4 Until the accident year 2011 I selected the average of the two DFM methods (payments and known).

2.1.9.5 For accident years 2012 and 2013 I used the average of the following methods: the two DFM methods (payments and known) at a fixed 40% loss ratio.

1.1.10 Personal accidents – individual - protected

2.1.10.1 These are products that cover mainly death as a result of accident with special coverage if the accident happened in the road or at home.

2.1.10.2 I used a 13% loss ratio in respect of the last three years.

1.1.11 Personal accidents – individual - VEB

2.1.11.1 This is a product sold in work places. The product covers both in respect of death as a result of accident and disability as a result of an accident. It also covers fractures or recuperation.

2.1.11.2 I examined the following methods: known DFM, known payments, including smoothing of the development factors from the 16th quarter with an inverse power function; the method whereby frequency is multiplied by severity with smoothing of the development factors from the 19th quarter with a Weibull function.

2.1.11.3 The year s2012 probably ends with a relatively lower frequency compared with the other years.

2.1.11.4 Through accident year s2008 – I assume there are no longer developments.

2.1.11.5 Accident years 2009-2011 – DFM of known claims.

2.1.11.6 Accident years 2012-2013 - the BF method was applied to known claims and the a priori loss ratio was 45%.

1.2 Personal claims - group

2.2.1 Personal accidents – group - students

2.2.1.1 Between the years 2001-2006 we insured the groups of children under the law which requires that children that fall within the scope of the Compulsory Education Law be covered by personal insurance coverage in regional municipalities and towns. These groups have proved to be of very high loss ratio, and the limitation period only ends when the youngest insured child reaches the age of 21.

2.2.1.2 I examine the development of the claims using the DFM method to known claims. The final selection of the reserve is set at a higher loss ratio. Every quarter I verify that the DFM does not reach the threshold of the predetermined loss ratio.

2.2.1.3 We also have a group of Israeli Scouts (Zofim) which is insured under this insurance. Since the limitation period ends only when the children reach the age of 21 this group also falls within this category.

2.2.1.4 Attached are the damages rates selected separately for each accident year:

2.2.1.4.1 2001 – 136%

2.2.1.4.2 2002 – 152%

2.2.4.3 2003 – 190%

2.2.4.4 2004 – 169%

2.2.4.5 2005 – 143%

2.2.4.6 2006 – 303%

2.2.1.4.7 2007 – 187%.

2.2.1.5 There is almost no exposure in respect of tax years 2006 and 2007; exposure is mainly in respect of the Scouts group.

2.2.2 Personal accidents – group - sportsmen

2.2.2.1 In accident years 2001-2005 the group mainly included sports groups and the coverage was provided on the basis of the Sports Law. At later years the portfolio mainly included gyms in work places.

2.2.2.2 The period in respect of which we insured sports groups is almost completely developed. Due to low scope of premiums in the last years I use the BF method over 4 years. Normally the BF method is used for shorter periods.

2.2.2.3 I examined the following methods:

2.2.2.3.1 DFM for known claims with smoothing of the development factors from the 13th quarter using a Weibull function.

2.2.2.3.2 DFM for paid claims with smoothing of the development factors from the first quarter using the inverse power function.

2.2.2.3.3. The BF method is applied to paid and known claims in respect of 2010-2013 with an a priori loss ratio of 40%.

2.2.2.4 The methods selected for the purpose of determining the reserve for each accident year:

2.2.2.4.1 2001-2003 – Carried loss reserve

2.2.2.4.2 2004-2009 – DFM applied to known claims

2.2.2.4.3 2010 – DFM applied to paid claims

2.2.2.4.4 2011 – BF applied to paid claims

2.2.24.5 2012 – DFM applied to paid claims

2.2.2.4.6 2013 – BF applied to known claims

2.2.3 Personal accidents – group – 4 policies

2.2.3.1 I had to exclude 4 specific policies from past experience. The behavior of these policies is different from the behavior of the other policies. The four policies are: Keren Kayemeth LeIsrael, Tel Aviv Municipality, Karmiel Municipality, and Refael. It is not possible to analyze the portfolio homogenously if these policies are attached to it. These policies were given a expected damage ratio on a case by case basis based on the experience accumulated in recent months.

2.2.3.2 Keren Kayemeth LeIsrael, Tel Aviv Municipality and Karmiel Municipality mainly have a high loss ratios.

2.2.3.3 In the case of Rafael, the differences between the reports on the occurrence of an insurance event and the report of the event itself are much larger than in the group portfolio as a whole. Therefore, the rate of development of known and paid claims is different than the rate of the group portfolio.

2.2.3.4 The a priori loss ratio for each accident year is as follows:

2.2.3.4.1 2009 – 120%
2.2.3.4.2 2010 – 120%
2.2.3.4.3 2011 – 112%
2.2.3.4.4 2012 – 105%
2.2.3.4.5 2013 – 75%

2.2.3.5 The methods elected for determining the reserve:

2.2.3.5.1 2009-2010 – average between the loss ratio method and DFM applied to paid claims.

2.2.3.5.2 2011 - average of the two BF methods applied to paid and known claims and of the loss ratio method.

2.2.3.5.3 The loss ratio method.

2.2.4 Personal accidents – group – remaining group portfolio

2.2.4.1 The portfolio comprises annual policies. All policies provide coverage in respect of death as a result of accident. The remaining types of coverage provided are elected by the owner of the policy. They may include, for example, death as a result of an accident, fractures, recuperation from accident, etc.

2.2.4.2 I examined the following methods:

2.2.4.2.1 DFM applied to known claims with smoothing of the factors from the 8^{th} quarter using a Weibull function.

2.2.4.2.2 DFM applied to paid claims with smoothing of factors from the 13^{th} quarter using a Weibull function.

2.2.4.2.3 The method of multiplying frequency by severity with smoothing of the development factors from the 13^{th} quarter using a Weibull function.

2.2.4.2.4 BF methods applied to the paid claims and known claims in 2009.

2.2.4.3 1999-2005 accident years – carried loss reserve

2.2.4.4. 2006-2008 accident years – DFM of known claims.

2.2.4.5 2009-2011 accident years – BF method applied to the DFM of the paid claims with a priori loss ratio of 58% for these years.

2.2.4.6 2009-2011 accident years – the BF method applied to the DFM of the known claims with 58% a priori loss ratio for 2012 and 68% a priori loss ratio for 2013. A higher loss ratio was selected for 2013 in order to reflect the possibility that there are large claims that have not yet been reported or which have not yet developed.

1.3 Critical illness – calculation of IBNR

2.3.1 Critical illness - direct

2.3.1.1 This line includes two products; one product covering 31 illnesses and the other covering only cancer affecting women. The portfolio is no large enough to enable the separate analysis of each line.

2.3.1.2 The methods that were examined are as follows:

2.3.1.2.1 DFM was applied to the known claims with a smoothing of the development factors from the 13th quarter using a Weibull function.

2.3.1.2.2 DFM was applied to paid claims with a smoothing of the development factors from the 13th quarter using an inverse power function.

2.3.1.2.3 The BF method was applied to paid and known claims with the following a priori loss ratio:

2.3.1.2.3.1 2011 – 40%.
2.3.1.2.3.2 2012 – 45%
2.3.1.2.3.3. 2013 – 55%

2.3.1.3 For accident year through 2010 – carried loss reserve was selected to determine the reserve.

2.3.1.4 For the years 2011-2013 – the method selected is the average between the two BF methods applied to the known and paid claims were selected to determine the reserve.

2.3.2 Critical illness – through work places

2.3.2.1. This is a product marketed to clients in their work place. The risk in this product is higher than the risk of the direct product. In work places there may be a situation where people are referred by work colleagues, meaning – there is something that may be causing a critical illness in the work place. The underwriting in the work place needs to be meticulous.

2.3.2.2. The portfolio is very small with high variability. I set a 60% loss ratio in respect of the last three years.

2.3.3. Critical illness – through life insurance

2.3.3.1 This product only covers cardiac arrest and cancer.

2.3.3.2 2012 seemed to be an exceptional year with a loss ratio of 157%. Between the years 2011 and 2012 the portfolio increased by 23% but the number of claims increased by 128%. It may be that due to the size of the portfolio there is a high rate of variability. It seems that the loss ratios shall stabilize around the real value of the portfolio as the portfolio becomes larger.

2.3.3.3 Methods selected to estimate the reserve for outstanding claims:

2.3.3.3.1 For the years through 2012 the DFM method applied to known claims.

2.3.3.3.2 For 2013 – a loss ratio of 70% was selected.

1.4 Travel abroad – calculation of IBNR

2.4.1 Travel abroad - group

2.4.1.1. I examined the five methods referred to in section 2.

2.4.1.2. To estimate the reserve for outstanding claims I used the following methods:

2.4.1.2.1 I applied the FDFM method to known claims for all years through 2011.

2.4.1.2.2. For accident years 2012 I used the DFM method for all paid claims.

2.4.1.2.3 For accident year 2013 I used the BF method for paid claims with a 60% a priori loss ratio.

2.4.2 Travel abroad – Leumi Card

2.4.2.1 This group of products provides various levels of coverage to holders of Leumi Card who travel abroad.

2.4.2.2 I examined the five methods referred to in section 2.1. The paid claims have a tail from the 19^{th} quarter; the tail is a result of smoothing using an inverse power function.

2.4.2.3 To calculate the reserve for outstanding claims I used the following methods:

2.4.1.2.3.1 Accident years 2007 - carried loss reserve. This year is considered to be closed.

2.4.1.2.3.2 Accident years 2008-2010 - I selected the average of the two DFM methods (payments and known).

2.4.1.2.3.3 Accident years 2011- 2012 – DFM method applied to the known claims

2.4.1.2.3.4 I used the average of the DFM method and the BF method for the paid claims with a 62% a priori loss ratio.

2.4.3 Travel abroad – personal - other

2.4.3.1 This group of products provides various levels of coverage to holders of Leumi Card who travel abroad.

2.4.3.2 I examined the five methods referred to in section 2.1. The paid claims have a tail from the 19th quarter; the tail is a result of smoothing using an inverse power function.

2.4.2.3 To calculate the reserve for outstanding claims I used the following methods:

2.4.1.3.3.1 Accident years 2007 - carried loss reserve. This year is considered to be closed.

2.4.1.3.3.2 Through accident year 2011 – The DFM method to known claims.

2.4.1.3.3.3 Accident years 2012 – DFM method applied to the paid claims.

2.4.1.3.3.4 Accident year 2013 - I used the average of the BF method applied to known claims with the loss ratios method with a 50% a priori loss ratio.

1.5 Medical expenses

2.5.1 The medical expenses product is complementary to the Shaban (the complementary insurance of the health funds). The insured undergoes full underwriting before he/she joins the policy. We expect low loss ratios in the first years as a result of the underwriting. The scale of the portfolio is still small.

2.5.2 To determine the reserve for outstanding claims, the following methods were selected:

2.5.2.1 Carried loss reserve.

2.5.2.2 2011-2012 – DFM applied to paid claims.

2.5.2.3 2013 – average of the BF methods applied to known and paid claims with a 32% a priori loss ratio (this a priori rate is expected to increase as the portfolio matures).

1.6 Contract reserve

2.6.1 This provision is based on the calculation of future flow of income and expenses at policy level in the long term personal accidents line.

2,6,2 The basic assumptions of morbidity, cancellations and rate of expenses are examined once a year before the calculation of the embedded value which is published in May.

2.6.3 The interest rate used for capitalization is the NIS-linked risk free interest published at the end of balance sheet date.

2.6.4 The test is carried out for the inventory of policies in effect as of balance sheet date.

2.6.5 We considered the level of data clustering required for calculation the reserve. It was decided to collect data at the level of policy number for the following reasons:

2.6.5.1 Children cannot have their own policy (i.e., without their parents being insured). So in fact there is cross subsidization between parents and children. Parents subsidize the cost of the children.

2.6.5.2 The sold products are packed as packages of coverages which cannot be broken down; i.e., it is not possible to cancel some of the coverages and leave the policy active. Therefore, we thought it would be best to collect data at the level of the whole policy.

2.6.6. The analysis of the claims experience is made on the basis of age and coverage level and so is the calculation of the flow of income and expenses.

2.6.7 The analysis of cancelations experience is made at the product level, on the period of time during which the policy was in effect and sometimes by age groups. It is not possible to reach a more detailed level of data since there will not be enough observable data to use in analysis.

2.6.8 After completion of the calculation of the flow of income and expenses we add up all results of all coverages to all insured persons covered under the same policy and check whether the result is negative or not.

2.6.8.1 Where the total amount the income and expenses flow per policy is positive no action is required of us.

2.6.8.2 Where the total amount of income and expenses flow per policy is negative we make a provision for the said amount in respect of contract reserve.

2.6.9 If the company decides in the future to market modular products where specific coverages can be added or removed to the product, we shall reconsider the clustering method in respect of the new products.

2.6.10 Attached are several sensitivity test applied to the reserve:

	The provision arising from the terms of the contract Thousands of NIS	**Change to the pre-tax profit line Thousands of NIS**
Based on the original assumptions used for calculation	3,803	
10% increase in the morbidity rate	6,064	-2,261
10% decrease in the morbidity rate	2,537	1,266
1% increase in the capitalization interest	3,572	231
1% decrease in the capitalization interest	4,054	-251
10% increase in the cancellation rate	3,670	133
10% decrease in the cancellation arte	3,943	-140

3. Capitalization interest

3.1 Capitalization interest was only used in calculation of contract reserve. Interest used is based on NIS-linked risk free interest published as of December 31, 2013.

	Gross			Retention		
	The estimated portion of the reserve in the financial statements (%)	Capitalization interest (%)	Comments	The estimated portion of the reserve in the financial statements (%)	Capitalization interest (%)	Comments
Individual insurances						
Medical expenses	100%	0.00%	We switched to the triangles method	100%	0.00%	We switched to the triangles method
Critical illness	100%	0.00%	We switched to the triangles method	100%	0.00%	We switched to the triangles method
Other						
Group insurance						
Medical expenses						
Critical illness						
Other						

Form 11j – Explanations regarding actuarial estimate in the health insurance – businesses reported in general insurance

	Gross			Retention		
	The estimated portion of the reserve in the financial statements (%)	Capitalization interest (%)	Comments	The estimated portion of the reserve in the financial statements (%)	Capitalization interest (%)	Comments
Individual insurances						
Medical expenses						
Foreign employees						
Critical illness	100%	0.00%	We switched to the triangles method	100%	0.00%	We switched to the triangles method
Dental						
Travel abroad	100.0%	0.00%	No comments	100%	0.00%	
Personal accidents	100%	0.00%	No comments	100%	0.00%	
Other	100%	Risk free interest	Contract reserve	100%	Risk free interest	Contract reserve
Group insurance						
Medical expenses						
Foreign employees						
Critical illness						
Dental						
Travel abroad	100%	0.00%	No comments	100%	0.00%	No comments
Other	100%	0.00%	No comments	100%	0.00%	No comments

Comments regarding data which are specified in form 11a to 11d should be detailed.
When there are several notes in respect of a sub-sector – they should be detailed in a separate numbered line.

Chapter E – Indirect Expenses

The model is based on:

a. The number of different employees in each team of the claims department.

b. The ratio between handling of new claims and handling of old claims in the course of the last quarter.

c. Rate of decrease in handling of claims by quarter of development.

d. Relative flow of remaining employees available each quarter to settle old remaining claims.

e. The number of outstanding claims and not the amount of the claim. In the case of sectors with a slower settlement rate, we shall have more future quarters of provision for indirect expenses than in the case of sectors with a higher settlement rate.

The required data are as follows:

- The basic claims file includes all the information detailed in Chapter D section 1.6.

- The number of teams dealing with settlement of claims by teams such as, third party, subrogation, financial, personal accidents, travel abroad, houses, compulsory.

- File received from the finance division; the file is to include the expenses, taking into account all the costs of the claims department, 10% of computing costs, 10% of HR costs and 10% of finance division costs. This cost amounts to an annual total of NIS 16.8 million.

- The expenses which were included in the calculation for each department are as follows:

  - Payroll and related expenses;
  - Travel and computing;
  - Office equipment;
  - Communications;
  - Professional services;
  - Rent.

- The analysis is based on the following breakdown of the files claim:

Ulaekey – teams settling insurance claims	**Name of the group**
Ulaekey 1	Property vehicle – third party
Ulaekey 2	Insured
Ulaekey 3	Subrogation
Ulaekey 4	Residual
Ulaekey 5	Compulsory insurance
Ulaekey 6	Comprehensive house insurance
Ulaekey 7	Personal accidents – individual
Ulaekey 8	Personal accidents – group
Ulaekey 9	Personal accidents – group – students
Ulaekey 10	Travel abroad – individual
Ulaekey 11	Travel abroad – group
Ulaekey 12	Health - critical illness and complementary insurance
Ulaekey 13	Liabilities
Ulaekey 14	Business
Ulaekey 15	Fiancial

Stages of the work:

1. The claims file is processed through the SPSS and I create development triangles of several aspects of claims handling (handling includes change in payment and/or change in estimate in the course of the quarter) in accordance with the 15 keys described above. The triangles are created at quarterly level and on the basis of damage quarters.

2. I import the triangles to an Excel file to calculate the provision for indirect expenses.

3. Using the ulaekey key I estimate the ratio between handling of claims in previous damage quarters compared with the current damage quarter. The ratio is achieved by counting all claims handled with in the course of the quarter. Handling shall be change in total payments compared with previous quarter or change in the overall estimate of the claim compared to the previous quarter. Set forth below is an example of such a calculation: in the current damage quarter 820 claims were handled in respect of the current quarter. 4,288 claims were handled in respect of past damage quarters. So 16.1% of handled claims were in respect of claims that belong to the current quarter.

	Old	New	Total
Number of claims handled	4,288	820	5,108
Ratio in percentages	83.9%	16.1%	

4. I reduce the number of those included in the team settling the claims by 13.5%. If we go into run-off, we shall not need those employees for the purpose of handling claims. So if we had 9 employees for ulaekey1 we would have been left with 7.6 employees for this example.

5. New – will only take into account the current damage quarter.

6. Old – will take into account all damage quarters except for the last quarter.

7. In order to prevent high volatility, I take into account the average of the last four quarters. Attached is an example for distribution between new and old as of the end of March 2013.

   - One should compute once a quarter the cost of one employee settling claims. For the purpose of making this calculation we spread the whole cost received from the finance division and spread the cost to the number of employees working in the claims department. At the moment the amount is NIS 58.5 thousands per one employee settling claims per quarter.

   - Each ulaekey key has a separate spreadsheet which includes the triangle of the development of the number of claims handled. From this point I create development or (retirement).

   - We apply the development factors to the triangles in order to estimate the number of claims to be handled in future quarters.

   - If we know that we started with 7.6 employees that settle claims and who handle 5,108 claims, in the next quarter we expect to handle only 4,459 claims. So I can reduce the number of employees settling claims in accordance with the decrease in outstanding claims handled from one quarter to the next quarters: 6.6=7.6*4,459/5,108 employees who settle claims at the end of the next quarter. You use the same method to calculate the number of employees who will be required to settle claims in the next quarters.

   - You multiply the number of the remaining claims by the quarterly cost of the employee who settles the claims and adjust the result by the increase in inflation over time. You add up the quarterly amounts received and the result is the reserve for ULAE for that team of employees who settle claims.

   - Attached is an example of this calculation. Once the calculation is updated I stamp it with the date of balance sheet. The color of the stamp changes each quarter.

	-11,084	-9,602	-8,205	-6,562	-5,206	-4,348	-3,474	-2,905	-2,487
	-19,375	-15,963	-13,664	-12,034	-10,592	-9,139	-7,845	-6,264	-4,962
	-51,230	-36,605	-28,520	-23,916	-20,651	-17,112	-14,684	-12,983	-11,450
	-353,633	-326,839	-176,534	-95,459	-60,193	-42,051	-32,516	-26,974	-23,571
TOTAL	**-445,794**	**-397,740**	**-234,201**	**-144,139**	**-102,110**	**-76,987**	**-62,332**	**-52,526**	**-45,234**

201312

- Here I copied the first nine quarters. But in practice my calculation includes 70 future quarters.

- There is a spreadsheet summarizing the results of all sectors.

- For sectors which require reporting by underwriting year rather than by accident year I correct the distribution of the years. These sectors will be the compulsory vehicle insurance and liability insurance.

- The file also includes a SOX spreadsheet with a list of fields that are to be filled in. I update the list as work advances to indicate that the matter specified in the field has been accounted for.

Chapter F - Testing the refundability of the remaining balance of deferred purchase expenses

The company does not spread the purchase expenses beyond the year in which it received the whole amount of the premium.

ERROR: ioerror
OFFENDING COMMAND: image

STACK:

LIFE INSURANCE SECTORS – ACTUARY STATEMENT

AS OF 31.12.2013

AIG ISRAEL INSURANCE CO. LTD.

TABLE OF CONTENTS

LIFE INSURANCE SECTOR – ACTUARY STATEMENT

Chapter A - Identity of the actuary

I was requested by AIG Israel Insurance Co. Ltd. to evaluate the provisions listed in Chapter B hereafter in the life insurance sector for the financial statements ("the provisions") of the insurer AIG Israel Insurance Co. Ltd. at December 31, 2013, as detailed below.

I am a full time salaried employee of AIG Israel Insurance Co. Ltd. ("the insurer"). I am not an interested party in the insurer nor am I a relative of an interested party of the insurer.

I was appointed to this position on 3.9.2006.

Chapter B - Scope of the actuarial opinion

1. Scope of the actuarial opinion

A For the purpose of calculating the insurer's provisions, I relied on data that I received from the insurer. My requests for information and data were satisfied adequately for the purpose of evaluating the provisions for financial statements purposes. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

B Where necessary, my evaluation also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

C The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions specified below were determined by me, to the best of my professional judgment, and subject to the instructions, directives and principles specified in section 1 to Chapter C, below.

D To calculate the retention, I asked the entities responsible for the insurer's reinsurance for information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the effect and implications of the reinsurance arrangements on the provisions.

E The following matters were also taken into account in my opinion:

1) The provision calculated in respect of incoming businesses was calculated by the actuary (in that regard "incoming businesses" as defined in Insurance

Business Supervision Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984). No estimate was calculated since the company does not have businesses of this type.

2) As of the date of this report, there are co-insurances where the company is not the leading insurer in the sectors relevant to this opinion.

2. Data included in the section on the scope of the actuarial opinion

1) Provision for pending claims:

a) Sectors in which we calculated an actuarial provision for pending claims:

Life insurance sub sector	Gross provision NIS thousands	Retention provision NIS thousands
Life insurance	16,600	12,072
Disability permanently	13,224	9,545
Disability from accident	1,794	1,207
Unemployment	770	385
Disability from accident	113	81
Total provision for pending	**32,499**	**23,290**

b) Set forth below is the amount of changes in provisions (in thousands of NIS) at both gross and retention levels, as follows:

1) For policies that came into effect after the end of the reported period of the last financial statements – the adjustment amount of the provisions – arising from the difference between the premium basic assumptions and the provision basic assumptions – we increased the provisions by NIS 3,884 thousands (gross) and NIS 2,765 thousands (retention) compared with the previous method for calculation of IBNR.

2) For policies which came into effect before the end of the reported period of the last financial statements – we increased the provisions in respect of previous years by NIS 5,618 thousands (gross) and NIS 3,665 thousands (retention).

<u>Chapter C – the Opinion</u>

I hereby declare and confirm that in the life insurance sub-sectors:

1. I evaluated the insurer's provisions listed in Chapter B in accordance with the instructions, directives and principles set forth below, and in effect as of the date of the financial statements:

a. The provisions of the Control of Financial Services (Insurance) Law, -1981, and regulations promulgated thereunder.
b. Instructions and directives issued by the Supervisor of Insurance;
c. Acceptable actuarial principles.

2. After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my evaluation.

3. I determined the assumptions and methods used to assess the provisions, to the best of my professional judgment, and in accordance with the instructions, directives and principles specified above.

4. To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve for covering the insurer's commitments in respect of its liability arising from life insurance contracts, in effect as of the date of the financial statements.

Chapter D – Comments and Clarifications

1. In life insurance we switched to a more comprehensive model for determining the reserve for pending claims. In the past, the model was based on months of premium with the accepted assumption being that claims in the life insurance sector are reported very quickly and normally the claims that have been made through balance sheet date are known within a month.

2. The most common IBNR reserves in life insurance are normally based on maintaining full premium for several months in accordance with the reporting differences between the insurance event and the opening of the claim. This method completely ignores several basic parameters, such as the frequency of the claims, the severity of the claims, the claims that have already been reported in practice. The amount of the premium is irrelevant. If the premium was not priced correctly, there will be a reserve deficit. If the premium was priced correctly, then the premium method is too conservative because it includes both the expenses and the profit factors. Also it does not relate to claims that have already been reported. In this case one ends up with double counting.

3. In terms of pending claims, the company's life insurance portfolio is very similar to the personal accidents insurance portfolio. All payments made to the insured are compensation where a insurance event takes place. The insurance amounts are paid as a one-off payment except for unemployment allowance insurance under which an allowance is paid for a period of up to a year. It is therefore my opinion that it is desirable that the claims experience is examined in accordance with actuarial principles generally acceptable in general/health insurance, if the claims experience allows it.

4. In light of the above I decided to adopt the "triangles methods", which are methods that follow up the development of claims over time and which make it possible to predict the estimate of pending claims in accordance with past rates of paid claims or known claims (paid+pending).

5. The reason for switching to a different model is the increase of the permanent disability portfolio which constitutes approx 12 % of the overall premium in life insurance. The development of permanent disability claims is longer. The conclusion is that one month or two months of premium are no sufficient. In light of this fact, it was resolved to apply methods which are acceptable in estimation of pending claims in the personal accidents sector, which has similar characteristics: risk claims, one-off payment, type of coverage is death or disability, etc.

6. I did not use capitalization interest. In this case I did not examine the effect of capitalization since compared to other sectors the claims are paid quote quickly after the case is reported.

7. Switching to statistical methods mainly increased the estimates in respect of previous years in which reserves were released more quickly in the disability sectors.

8. In respect of estimates for previous years, I increased the estimates (mainly in respect of disability claims) by NIS 5.6 million (gross) and NIS 3.6 million (retention). These increases are attributed to studying the portfolio's development, switching to statistical methods and use of software which is designated to calculation of reserves for pending claims and strengthening reserves. Since switching to new methods was achieved at once, it is not possible to separately estimate the effect of each of the factors.

9. There is statistical uncertainty in the process of estimating the various actuarial reserves. These estimates are based on certain assumptions and these assumptions best reflect the things that are currently known to us. There may be future changes in the legal, judicial, social and economic environment that will have an effect on these assumptions. These changes may have an unpredictable effect on the total future actuarial reserves.

18.3.2014	Life Insurance Actuary Director	Michal Burger	
Date	Position	Name of Actuary	Signature

Chapter B: Points requiring attention

1. Risk life insurance – this coverage exists since the year 2000. In total there are 342 real claims that were reported through 31,12.2013. The acceptable triangle development methods are very credible in this case.

2. Permanent disability – the coverage exists since 2002. In total there are 118 real claims that were reported through 31.1.2.2013. The acceptable triangle development methods are very credible in this case. Most of the uncertainty is in respect of the last damage year. Based on past experience it is possible to select a combination of methods for determining the reserve: average claim per case and average frequency and reliance on the number of claims that have already been reported in practice.

3. Disability claims have long development tails because it takes quote a while until the percentage of disability can be determined. For claims of this type one should maintain a pending claims reserve for the last several years.

4. Disability as are result of an accident – this coverage exists since 2008 and there are 28 claims which were reported through December 31, 2013. In this case, the average rate of damages per case is more suitable as the calculation method since there are not enough claims to allow us to rely on development.

5. Unemployment – This coverage exists since 2008 and there are 44 claims which were reported through December 31, 2013. In this case, the average rate of damages per case is more suitable as a method since there are not enough claims to allow us to rely on development.

Chapter C: Report on development of the actuarial estimate of pending claims in the life insurance sector.

In the case of permanent disability there was an exceptional development compared to the actuarial estimate which was not realistic. This development brought the company to revise the estimates of pending claims in the life insurance sector.

Development of Actuarial estimate of pending claims in the life insurance sector – gross.

	Total	Individual insurance						
		Death in accident	Disability from accident	Death	Permanent disability	Unemployment	Other	Total individual
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Claims regarding events prior to the reported year								
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (including IBNR)	23,192		208	16,492	4,591	1,901		23,192
A2 Provision for indirect expenses to settle claims as of beginning of year	-							-
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR)	96			96				96
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	23,288		208	16,588	4,591	1,901		23,288
B1 Payment of claims during the year	17,108		595	12,378	3,894	240		17,108
B2 Payment of indirect expenses during the year	-							-
B3 Total payments during the year (B1+B2)	17,108		595	12,378	3,894	240		17,108
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	10,088	30	477	1,654	7,624	303		10,088
C2 Provision for indirect expenses for settlement of claims at end of year	-							-
C3 Total actuarial estimate at end of year (C1+C2)	10,088	30	477	1,654	7,624	303		10,088
D Total development of claims (B3+C3)	27,195	30	1072	14,032	11,518	544		27,195
E. Excess/deficit of estimates (A4-D)	(3,907)	(30)	(864)	2556	(6927)	1357		(3,907)
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	-16.8%	**0.0%**	**-415.9%**	**15.4%**	**-150.9%**	**71.4%**		**-16.8%**
2 Claims regarding events in the reported year								
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	22,412	83	1,317	14,946	5,600	466		22,412
B Provision for indirect expenses to settle claims as of end of year	-							-
C Total actuarial estimate as of end of year (A+B)	22,412	**83**	**1,317**	**14,946**	**5,600**	**466**		**22,412**
3 Total								
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	32,499	113	1,794	16,600	13,224	770		32,499
B Provision for indirect expenses to settle claims as of end of year	-							-
C Total actuarial estimate as of end of year (A+B)	32,499	113	1,794	16,600	13,224	770		32,499

Development of Actuarial estimate of pending claims in the life insurance sector – retention.

	Total	Individual insurance						
		Death in accident	Disability from accident	Death	Permanent disability	Unemployment	Other	Total individual
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Claims regarding events prior to the reported year								
A1 Actuarial estimate of pending claims and direct expenses arising there from at beginning of year (including IBNR)	**14,169**		95	2,696	11,239	139		14,169
A2 Provision for indirect expenses to settle claims as of beginning of year								
A3 Investment profit on actuarial estimate of pending claims and expenses arising there from as of beginning of year (including IBNR)	**96**				96			96
A4 Total actuarial estimate at beginning of year and investment profits on estimate (A1-A3)	**14,265**	-	95	2,696	11,335	139	-	14,265
B1 Payment of claims during the year	**10,730**		120	1,483	7,762	365		10,730
B2 Payment of indirect expenses during the year	**-**							
B3 Total payments during the year (B1+B2)	**10,730**		120	2,483	7,762	365		10,730
C1 Actuarial estimate of pending claims and direct expenses arising there from at the end of the year (including IBNR)	**7,199**		152	5,291	1,344	390	23	7,199
C2 Provision for indirect expenses for settlement of claims at end of year								
C3 Total actuarial estimate at end of year (C1+C2)	**7,199**		152	5,291	1,344	390	23	7,199
D Total development of claims (B3+C3)	**17,930**		152	7,774	9,106	755	23	17,930
E. Excess/deficit of estimates (A4-D)	**(3,665)**		(177)	(5,078)	2,230	(617)	(23)	**(3,665)**
F Rate of excess/deficit of actuarial estimate as of beginning of year (including IBNR) (A4/E) (%)	**25.7%**	**0.0%**	**-186.0%**	**-188.4%**	**19.7%**	**-444.7%**	**0.0%**	**-25.7%**
2 Claims regarding events in the reported year								
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**16,091**		233	4,254	10,728	817	58	16,091
B Provision for indirect expenses to settle claims as of end of year								
C Total actuarial estimate as of end of year (A+B)	**16,091**		**233**	**4,254**	**10,728**	**817**	**58**	**16,091**
3 Total								
A Actuarial estimate of pending claims and direct expenses arising there from at end of year (including IBNR)	**23,290**		385	9,545	12,072	1,207	81	23,290
B Provision for indirect expenses to settle claims as of end of year								
C Total actuarial estimate as of end of year (A+B)	**23,290**		385	9,545	12,072	1,207	81	23,290

Chapter D – Analysis

1) Data used to establish the actuarial estimate for all sectors

1.1 Company's data based 400AS – data of policies and claims

1.2 The Idan system – data from the finance division.

1.3 Statistical reports from the finance division; these reports includes details of the premiums, pending claims and paid claims by sectors, by underwriting year and by damage year. It is possible to issue these reports for different periods; for example – a report on a cumulative basis from the date of commencement of company's activities, or only for the last quarter or last calendar year.

1.4 Earned premium for the period – gross policy data are entered and processed using SPSS in order to calculate the earned premium. The files include the following information: sector, policy number, premium for addition, number of addition, date commencement of addition, date of end of addition.

1.5 Exposure units for each quarter – gross policy data are processed using SPSS in order to calculate the exposure units for each quarter. Commensurate with the process of calculating the earned premium, the exposure units for the period are calculated.

1.6 The claims file includes the following information at gross level:

Run date
Issuance month
Sector
Numbering of claim
Number of claim
Type of claimant
Numbering of damage
Cause of damage
Status of claimant
Symbol of compensation payment
Payment of compensation NIS
Symbol of payment of expense
Payment of expense NIS
Symbol of compensation + expense
Amount of compensation + expense NIS
Symbol of estimate
Amount of estimate NIS
Symbol of pending balance
Amount of pending balance NIS
Amount of calculated pending balance
Amount of pending calculated balance NIS
Policy
Addition

Licensing
Date of opening of claim
Date of opening of damage
Date of damage
Agent
Product code
Type of asset
Currency
Symbol of payment of expense - currency
Payment of expense - currency
Symbol of payment of expense – currency
Payment of expense – currency
Symbol of compensation + expense – currency
Compensation + expense – currency
Symbol of estimate – currency
Estimate – currency
Symbol of pending balance – currency
Pending balance – currency
Symbol of calculated pending balance – currency
Calculated pending balance – currency
Date of beginning of insurance
Date of end of insurance
Code of model
Year of manufacture
Code of settlement where burglary took place
i.d. no. of claimant
Claimant under legal proceedings

1.7 Prior to commencement of work, the claims files I receive from the computing department are compared with statistical reports issued by the finance division. The claims file is created a month before end of month closing of the finance department. Therefore, there may be differences between the two sources. If the scale of this difference is maintained from one quarter to another, the claims file can be used for the estimate of reserves. If the difference increased significantly, the reason for the difference should be investigated and one should decide whether to re-run the claims file or it is sufficient to make manual amendments when making the assessment of provisions. If it was decided that the claims file can be relied upon for purposes of establishing the estimate, the Excel test file is signed with the date of the tested quarter.

1.8 The claims file is processed using the SPSS software. Using this software I create files that contain the following information:

1.8.1 Currency
1.8.2 Classification
1.8.3 Distribution

1.8.4 Product
1.8.5 Date of beginning
1.8.6 Quarter of development
1.8.7 Payment during the quarter
1.8.8 Total change in known claim compared with previous quarter
1.8.9 Open claims
1.8.10 Closed claims
1.8.11 Exposure units
1.8.12 Earned premium
1.8.13 The distribution of products is as described in the attached table for life insurance:

- Death risk
- Permanent total disability
- Unemployment
- Death as a result of accident

1.9 An additional test is made after files are created in the SPSS; as part of this test, we check the transfer of all claims data to the RESQ software which is used to analyze the reserves. The test is carried out to verify completeness of the data and is also signed with the date of the analyzed quarter. The data in the RESQ system are withdrawn to Excel file for the purpose of carrying out this test.

1.10 It is only after data are tested for completeness that we can begin the assessment of reserves.

1.11 All analyses in the RESQ are all carried out at gross level.

1.12 Information of re-insurers contracts are taken into account separately for the analysis of each sector/product at retention level.
I do not have a breakdown of the individual claims at retention level over the years which correspond to the file containing gross level data.

1.13 As to recoveries of individual claims – I receive a file which includes a breakdown of the claims and the recoveries we expect to receive from the reinsurers.

1.14 We hold a quarterly discussion with the claims department in order to verify that there are no changes in the policy of opening/closing claims, the rate of payment or large claims that have not yet been entered into the system for technical reasons.

2. Calculation methods

2.1 life insurance– individual – calculation of IBNR

2.1.1 No classification into large claims and small claims

2.1.2 The triangles of the paid claims and the known claims are analyzed using the chain ladder method (DFM paid and DFM known accordingly).

2.1.3 Where necessary smoothing is applied to the tail of the development factors using one of the following methods: inverse power or Weibull.

2.1.4 In respect of the last year and up to the three last years it is also possible to use the Bornhuetter-Ferguson (BF) method. The expected rate of damages for the BF is based on the rate of damages of the last several years if the tariff has not changed.

2.1.5 Another method is analyzing separately the frequency and the severity and multiplying the results together.

2.1.6 Individual life insurance –death risk

2.1.6.1 Coverage for death-risk constitutes the main part of our life insurance portfolio.

2.1.6.2 I assumed that claims through damage year 2011 are closed and shall not be reopened.

2.1.6.3 For 2012 I used the average of the DFM methods for known and paid claims.

2.1.6.4 For the year 2013 I used the average of the BF methods for known and paid claims assuming an a priori damage rate of 28%.

2.1.7 Individual life insurance – permanent disability

2.1.7.1 The coverage is an expansion of the death-risk coverage and brings forward payment to insured in case of permanent disability.

2.1.7.2 It takes a long time for claims to be reported and then develop into a permanent disability.

2.1.7.3 The National Insurance Institute needs to determine the insured's percentage of disability in order for the company to acknowledge that the insured is entitled for the compensation.

2.1.7.4 The portfolio has increased significantly in the last several years.

2.1.7.5 I examined the five methods mentioned in section 2.1 taking into account that the paid claims have a tail from the 17th quarter which was achieved by smoothing the function inverse power. As to known claims, I smoothed the development factors from the 20^{th} quarter using an inverse power function.

2.1.7.6 I selected the following methods to determine the reserve for pending claims:

2.1.7.6.1 Carried loss reserve

2.1.7.6.2 2009-2010 – an average of the DFM method applied to known claims and the method of frequency multiplied by severity.

2.1.7.6.3 2011 – the average between the DFM method applied to known claims and the DFM method applied to paid claims and the method of frequency multiplied by severity.

2.1.7.6.4 2012 – the average between the DFM method applied to known claims and the DFM method applied to paid claims.

2.1.7.6.5 2013 – the BF method applied to known claims with a prior damage rate of 50%.

2.1.8 Individual life insurance – death as a result of an accident

2.1.8.1 Coverage for death as a result of an accident also has a relatively long tail. It takes a lot of time to determine the level of the claimant's disability.

2.1.8.2 There are not enough claims to allow the use of statistical method. We determined reasonable damage rates based on actual claims experience:

2.1.8.2.1 Damage year 2011 – 70%

2.1.8.2.2 Damage year 2012 – 120%

2.1.8.2.3 Damage year 2013 – 80%

2.1.9 Individual life insurance – unemployment

2.1.9.1 The coverage compensates the insured over a period of up to one year in case that the insured is unemployed.

2.1.9.2 The following methods were examined:

2.1.9.2.1 DFM applied to know claims on the basis of semi-annual triangles with smoothing of development factors using a Weibull functions after 8 medians.

2.1.9.2.2 DFM of paid claims. I applied a smoothing function to the development factors as from the ninth quarter using the inverse power function.

2.1.9.2.3 I also examined the BF method to known and paid claims using a priori damage rate of 140% for the years 2012-2013.

2.1.9.3 The following methods were selected for the purpose of determining the provision for pending claims for unemployment compensation:

2.1.9.3.1 2009-2010 – Carried loss reserve

2.1.9.3.2 2011 – DFM applied to known claims.

2.1.9.3.3. 2012-2013 – BF applied to known claims with a priori damage rate of 140%.

2.1.9 Individual life insurance – death as a result of accident

2.1.10.1 There were no cases of death as a result of accident in this product ever since coverage became available. The scope of exposures is very small. In 2013, the total amount of premium was less than NIS 280 thousands.

2.1.10.2 A damage rate of 30% was determined for damage years 2012 and 2013.

2.2. Determining retention of reserve for pending claims

2.2.1 For known pending claims included in the claims system we used the know value of retention in respect of those specific claims.

2.2.2 For the IBNR, we applied the ratio of the premium in retention and the gross premium to the IBNR.

2.2.3 The calculation was carried out separately for each of the coverages and for each damage year.

2.2.4 The premium reports (gross and retention) by products are received from the AS400.

2.3 Determining the reserve for pending claims during 2014

2.3.1 In respect of damage year 2013, we shall maintain an estimate of the ultimate claims per damage year and per coverage and examine that the developed claims still fall within the scope of the year-end reserve.

2.3.2 If we find that developments were exceptional we shall increase the reserve.

2.3.3 The examination shall be carried out using the tables presented in page 7.

2.3.4 We shall carry out an examination using the triangles method only at the end of 2014 for the purpose of overall updating of the reserves.

2.3.5 In respect of damage year 2014 we shall determine the rate of damages for each coverage in accordance with the period of time during which the coverage was available, the size of the portfolio and the selection of a priori damage rate made as of the end of 2013.

2.3.6 We shall use this damage rate throughout the year. At the end of the year we shall examine (using the triangles method) whether the provisions are sufficient.

2.3.7 If in the course of the year we find out that the development of the damage year is exceptional we shall increase the rate of damages in respect of the coverage in which the exception occurred.

Additional Information

Regulation 25a

Name of company:	AIG Insurance Co. Ltd.
No, of company with companies' registrar	51-230488-2
Address:	25 Hasivim St. Kiryat Matalon, Petach Tikva
Telephone no:	03-9272333
Fax no.	03-9272366
Website:	www.aig.co.il
Balance sheet date:	December 31, 2013
Date of financial statements:	March 18, 2014

Regulation 11: List of Investments in Subsidiaries and related Companies as of date of financial statements

None

Regulation 12: Changes in Investments in Subsidiaries and Related Companies in the reported period

None

Regulation 13: Income or Losses of Subsidiaries and Related Companies for the year ended December 31, 2013

None

Regulation 14: List of Loan Balances Extended as of Date of Financial Statements

None. Extending loans is not a principal activity of the company.

Regulation 20: Trade in the Stock Exchange

None. As of date of financial statements there are no securities issued by the company, which are listed in the Stock Exchange.

Regulation 21: Payments to Interested Parties and Senior Office Holders

Set forth below is a breakdown of the payments made by the company and amounts it undertook to pay in the reported year for each of the five office holders receiving the highest salary among office holders who served in their position, regardless of whether they were granted by the company or by others (amounts are denominated in thousands of NIS and excluding payroll tax).

	Salary	Social benefits and related payments	Total
1	1,850	71	1,921
2	820	410	1,230
3	727	154	881
4	648	126	774
5	606	138	744

Salary paid to outside directors - 671 thousands NIS, including VAT.

Regulation 21a: Company's controlling shareholders

As of the date of publication of these financial statements, the controlling shareholder in the company is AIG Europe Holdings Ltd. ("AEHL") which holds 100% of the ordinary shares of the company and 100% of the voting shares of the company. AEHL is a member of American International Group Inc. ("AIG"). AIG is the ultimate parent company or the company. The former controlling shareholder of the company was American International Overseas Ltd.

Regulation 22: Transactions with a controlling shareholder or transactions in the approval of which the controlling shareholder has personal interest, into which the company has entered in the reported year or subsequent to the end of the reported year through the date of publication of this report or which is valid at the time of publication of the report

Transactions which are not listed in Section 270(4)

For details about transactions with a controlling shareholder or transactions in the approval of which the controlling shareholder has personal interest, which are not listed in Section 270(4), see section 4.5 (Reinsurance) in Chapter A – Description of the Company's Business and note 28 to the financial statements – Balances and Transactions with Interested Parties and Related Parties.

Exceptional transactions

There were no exceptional transactions with the controlling shareholder or transactions in the approval of which the controlling shareholder had personal interest.

Insignificant transactions

There were no insignificant transactions with the controlling shareholder or transactions in the approval of which the controlling shareholder had personal interest.

Regulation 24: Shares and Convertible Securities Held by an Interested Party in the Company as of date of financial statements

Name of interested party	No. of company with registrar of companies	Name of security	Par value as of 31.12.13	Holding rate		
				In equity	In voting rights	In authority to appoint directors
AIG Europe Holdings Ltd.	Foreign	Ordinary shares Voting shares	5,630 100	100%	100%	100%

Regulation 24a: Registered shares capital, issued share capital and convertible securities

The company's registered share capital is NIS 45,000,100, divided into 45,000,000 ordinary shares of NIS 1 par value each and 100 voting shares of NIS 1 par value each.

The issued and paid share capital of the company is NIS 5,730 which is distributed into 5,630 ordinary shares of NIS 1 par value each and 100 voting shares of NIS 1 par value each.

Regulation 26: Company's Directors

1.

Name	Ralph Mucerino (Chairman of the Board)
Passport No.	113008316
Year of birth	1946
Address	New York, State of New York USA
Nationality	American
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Chief Distribution Officer, Global Commercial Insurance AIG P&C, Consumer Regional CEO for the Americas
Date of commencement of service as director	13.1.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, COO of Chartis International
Relative of another interested party in the company?	No

2.

Name	Nicolas Aubert
Passport No.	56600YC02
Year of birth	1965
Address	London UK
Nationality	French
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes Managing Director UK
Date of commencement of service as director	5.5.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, Director South Europe Region in Chartis, CEO of Chartis (SA) Europe
Relative of another interested party in the company?	No

3.

Name	Daniel Dhoerty
Passport No.	422065134
Year of birth	1961
Address	London UK
Nationality	American
Member of Directors Committee	No
Independent director/outside director	No

Employee of the company, subsidiary related company or an interested party?	Yes, AIG P&C, President, Consumer Insurance EMEA
Date of commencement of service as director	1.9.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, senior positions in the field of health and marketing in AIG Europe
Relative of another interested party in the company?	No

4.

Name	Robert Quane
Passport No.	422098299
Year of birth	1968
Address	New York, State of New York, USA
Nationality	American
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, AIG P&C, Head of Global Accident & Health
Date of commencement of service as director	7.9.2010
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, Regional Risk Manager Chartis UK& Ireland, COO Chartis Int. Personal Lines
Relative of another interested party in the company?	No

5.

Name	James Lenton
Passport No.	540160940
Year of birth	1975
Address	London, UK
Nationality	British
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Deputy Financial Officer , AIG PC EMEA
Date of commencement of service as director	24.10.13
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, CPA, Partner in Ernst & Young LLP
Relative of another interested party in the company?	No

6.

Name	Marilyn Hirsch
ID No.	328767926
Year of birth	1968
Address	New York, USA
Nationality	American, Israeli
Member of Directors Committee	No
Independent director/outside director	No
Employee of the company, subsidiary related company or an interested party?	Yes, Global Head of AIG Strategic Planning
Date of commencement of service as director	28.4.13
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, Managing Director of AIG Strategic Planning, Independent Director of American Safety Insurance, founder of Blue start Capital Group
Relative of another interested party in the company?	No

7.

Name	David Klein
ID No.	007256647
Year of birth	1935
Address	30 Jabotinsky St. Kfar Saba
Nationality	Israeli
Member of Directors Committee	Yes. Chairman of Investments Committee, (from 1.1.2014 – member of the Investments Committee), Compensation Committee, Audit Committee
Independent director/outside director	Yes, financial ,accounting and insurance expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	1.4.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, PhD in Economics, owners of David Klein Financial Consulting Ltd., Chairman of Advisory Board of Meitav Investment House
Relative of another interested party in the company?	No

8.

Name	Jules Polak
ID No.	026059444
Year of birth	1946
Address	4 Kiryati St. Ramat Gan
Nationality	Dutch
Member of Directors Committee	Chairman of the Audit Committee and Compensation Committee
Independent director/outside director	Yes, financial ,accounting and insurance expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	27.2.2006
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, CPA, MBA, Director in Benny Moshe Karaso Ltd. Jules Polak Business Management Ltd.
Relative of another interested party in the company?	No

9.

Name	Aliza Rotbard
ID No.	060477510
Year of birth	1946
Address	6 Herzl Rosenblum St. Tel Aviv
Nationality	Israeli
Member of Directors Committee	Yes. Audit Committee, Investment Committee, Compensation Committee
Independent director/outside director	Yes, accounting and financial expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	24.2.2011
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, BA in Physics and Mathematics, Director in Kamada, Pointer Shagrir, Discount Bank., Hadera-Paper and other companies
Relative of another interested party in the company?	No

10.

Name	Eti Livni
ID No.	003782372
Year of birth	1948
Address	122 Wingate St. Herzliya
Nationality	Israeli
Member of Directors Committee	Yes, Audit Committee, Compensation Committee
Independent director/outside director	Yes, insurance expertise
Employee of the company, subsidiary related company or an interested party?	No
Date of commencement of service as director	26.3.2008
Education and main occupation during the past 5 years as well as other companies in which he serves as a director	Academic, Lawyer, from 2008 director in Alrov Ltd , Israel Military Industry (IMI), New Makefet Pension and Benefit Funds Management Ltd.
Relative of another interested party in the company?	No

AIG

Regulation 26a: Senior Office Holders of the Company

1.

Name	Shay Feldman
ID No.	031872245
Year of birth	1974
Position in the company	CEO
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	BA in Economics and Management (Tel Aviv-Yaffo Academic College), MA in Marketing from Derby University, Regional Manager AIG Marketing Europe, Head of Direct Activity for Asia-Pacific in Zurich Financial Service, Senior Vice President Marketing and Personal Insurance EMEA in London
Year of commencement of service	2013

2.

Name	David Rothstein
ID No.	017016973
Year of birth	1958
Position in the company	CFO
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Academic, CPA
Year of commencement of service	2001

3.

Name	Iris Nachshoni
ID No.	058468414
Year of birth	1963
Position in the company	Chief Information Systems Officer
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	VP Information Systems Schestowitz Ltd 2008-2012, VP Information Systems Mei Eden 2001-2008
Year of commencement of service	2012

4.

Name	Sharon Shoham
ID No.	017331422
Year of birth	1973
Position in the company	Deputy Director Commercial Insurance Division
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Academic, BA in Communications and Business Management, MA in Law, MA Business Management, Director of Property and Liabilities, Director of Business Development, Director of Hi-Tech and Special Risks in Migdal Insurance Company Ltd.
Year of commencement of service	2012

5.

Name	Pazit Kalir
ID No.	0132259868
Year of birth	1970
Position in the company	VP Human Resources
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Academic, BA in Criminology, MA in Organizational Sociology, HR Director in Surecomp and Organizational Development and Manager Development Director in Cellcom
Year of commencement of service	2008

6.

Name	Lior Scheinin
ID No.	028024099
Year of birth	1970
Position in the company	VP Individual Insurance Division
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Academic
Year of commencement of service	2003

7.

Name	Nurit Kantor
ID No.	031817356
Year of birth	1974
Position in the company	VP Customers Division
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Academic BA and MA in Business Management, VP Customer Service and Sales Bezeq International
Year of commencement of service	2012

8.

Name	Ilanit Levi
ID No.	028875177
Year of birth	1971
Position in the company	VP Sales
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Academic, Director profit center Life Insurance, Distribution Director Individual Insurance Division, Sales Directors in Insurance Agency of Bank Leumi
Year of commencement of service	2012

9.

Name	Michal Raviv
ID No.	031432495
Year of birth	1978
Position in the company	VP Marketing
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Academic, MA in Business Management, Marketing Communications Director Psagot Investment House
Year of commencement of service	2011

10.

Name	Aviram Gavish
ID No.	029312550
Year of birth	1972
Position in the company	Chief Legal Officer and Chief Compliance Officer
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Lawyer, MA in Commercial Law from the Tel-Aviv University, BA in Law from the Hebrew University of Jerusalem, Director Reinsurance, Ombudsman and Company Secretary in Shlomo Insurance Company Ltd; Medical Negligence Division .Madanes Insurance Agency; Legal Advisor and Company Secretary in Davidoff and Davidoff Howden Insurance Agency
Year of commencement of service	2012

11.

Name	Olivia Zohar
ID No.	011179322
Year of birth	1970
Position in the company	Risks Officer
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Academic, CPA, MBA, Chief Risks Officer of the Senior Pension Funds
Year of commencement of service	2013

12.

Name	Avital Koler
ID No.	304707961
Year of birth	1968
Position in the company	General and Health Insurance Actuary Director
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	Full member in Israel Association of Actuaries and has a BA and an MA in Applied Mathematics from Technion - Israel Institute of Technology
Year of commencement of service	2006

13.

Name	Thomas Lowe
ID No.	327077798
Year of birth	1976
Position in the company	Internal Auditor
Relative of another office holder or interested party in the company?	No
Education and main occupation during the past 5 years	CPA, Academic, Senior Manager Internal Audit, Controller, Financial Project Manager
Year of commencement of service	2013

AIG

Regulation 26b: Number of Independent Signatories as determined by the Company

None

Regulation 27: Auditors of the Company

Kesselman & Kesselman CPAs, 25 Hamered St. Tel-Aviv

To the best of the company's knowledge the auditors, including Mr. Noam Hadar, CPA, who is the engagement partner in the said firm, are not interested parties and/or related to any senior officeholder or interested parties in the company.

Regulation 28: Changes in the Memorandum or Articles of Association of the Company in 2013

Section 18c to the Articles of Association of the Company was amended in January 2013. Among other things, the Articles of Association stipulate that any transfer of shares by the Company's existing shareholders to the previous controlling shareholder of the Company (Chartis Overseas Ltd.) or to any related party thereof shall not require advance approval of the Company's Board of Directors.

Regulation 29: Resolutions and Recommendations of the Board of Directors

a. Set forth below are the recommendations of the Board of Directors and the resolutions of the Board of Directors which do not require the approval of a General Meeting:

   1. Payment of dividend (or distribution) as defined in the Companies Law, in any other way, or distribution of bonus shares: None.
   2. Changes to authorized or issued equity of the Company: None.
   3. Changes to the Memorandum or Articles of Association of the Company: None.
   4. Redemption of shares: None.
   5. Early redemption of debentures: None.
   6. Non arm's-length transaction between the company and an interested party thereof, except for a transaction between the Company and a subsidiary thereof. None.

b. General Meeting resolutions that were taken without being recommended by the Board of Directors. None

c. Resolutions of Special General Meeting. See Regulation 28 above.

Regulation 29a: Resolutions of the Company

a. Approval of acts under Section 255 to the Companies Law. None

b. An act in accordance with Section 254(a) to the Companies Law, which has not yet been approved. None

c. Transactions that require special approval in accordance with Section 270(1) to the Companies Law and provided that the transaction is an exceptional transaction as defined in the Companies Law; for details see the reference to exceptional transactions in Regulation 22 above.

d. Exemption, insurance or liability to indemnify a office holder as defined in the Companies Law and which is in effect as of the date of publication of the report:

Insurance

The Company entered into an officers' liability insurance policy covering office holders and directors for the period from February 1, 2013 through January 31, 2014. The liability limit is $ 25 million per claim and for the whole insurance period including legal expenses; (but in respect of claims filed in Israel the policy covers legal expenses in excess of the above liability limit to an amount equal to 20% of the said liability limit.

Indemnification

The Company has undertaken in advance to indemnify its office holders in accordance with the wording of the indemnity letters it provided to the office holders. According to the indemnity letters, the Company has undertaken, to the extent allowed by law, to indemnify its office holders for any liability or expense with which he was charged or which he expended in consequence of an act which he/she performed by virtue of holding office in the Company. The accumulated amount of indemnity for all office holders in respect of one or more than one of the event set by the Board of Directors shall not exceed 25% of the Company's equity.

Exemption

As part of an exemption letter issued to its office holders, subject to the provisions of Sections 258-263 to the Companies Law, 1999 and any law that is to replace them, the Company has undertaken to exempt its officers, from all of his/her responsibility for damage caused to the Company, whether directly or indirectly, due to his/her violation of the obligation of caution towards the Company as a result of actions taken in good faith and as part of his/her capacity as office holder in the Company and/or employee of the Company; the exemption will not apply in cases where the obligation of caution was violated intentionally or rashly; nor will the exemption apply if the obligation of caution was violated due to any matter relating to distribution.

AIG Insurance Co. Ltd.

Date: March 18, 2014

Shay Feldman	**Ralph Mucerino**