AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of March 31, 2014

Contents

AIG Israel Insurance Company Ltd. ("the Company" – Directors' Report of Company's Business for the Period Ended March 31, 2014

The Directors Report of the Company's Business as of March 31, 2014 ("**directors' report**") reviews the Company and the development its business as took place in the first quarter of 2014 ("**the reported period**"). The information in this report are as of March 31, 2014 ("**the report date**"), unless otherwise is explicitly indicated.

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

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

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

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

Forward-looking information

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

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

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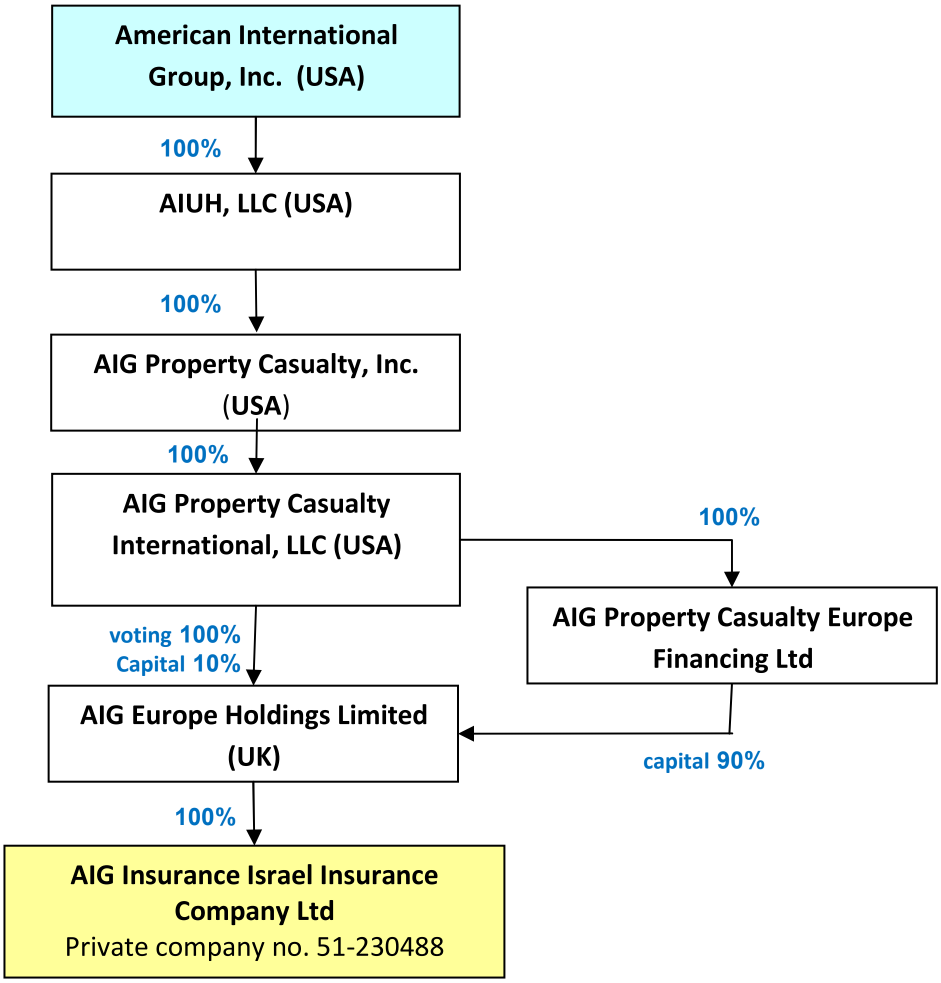
1. **Summary description of the Company**

1.1 Organizational structure

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

The ultimate controlling shareholder of the Company is American International Group Inc. ("global AIG"), a leading international insurance and finance corporation, and as of the date of this report an A- rated company by Standard & Poor's (S&P). The shareholder of the Company is AIG Europe Holdings Limited, which holds the entire issued and paid up share capital of global AIG.

The following is the holding structure of the Company:



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

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

1.2 Lines of business

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

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

1.3 Dependence on clients or marketing entities

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

1.4 Developments or material changes in agreements with reinsurers

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

1.5 Unusual events since the issuance of the last financial statements

In January 2014, after was approached in this regard, the Company announced that it intends to recognize the New Histadrut as the sole labor union organization in the Company and to comply with relevant legal provisions.

2. Description of business environment

General

In accordance with data published by the division of Capital Market, Insurance and Savings at the Israel Ministry of Finance, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. According to these data, as of September 30, 2013, general insurance premiums amounted to NIS 14,956 million (without Karnit), while the share of the five largest insurance companies: Harel, the Phoenix, Clal, Menora and Migdal amounted to NIS 9,586 thousand, or 64% of total general insurance premiums in the Israeli market.

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

Developments in the macroeconomic environment of the Company

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

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

	Jan-Mar 2014	Jan-Mar 2013	2013
Government bond indices			
General government bonds	2.1%	-0.2%	3.5%
CPI-linked government bonds	2.0%	-0.9%	3.0%
Treasury bonds	1.9%	0.4%	4.0%
Corporate bond indices			
Tel Bond 60	1.9%	1.3%	6.4%
Tel Bond Shekel	2.2%	1.4%	5.9%
Share indices			
TA 100	6.2%	4.9%	15.1%

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

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

<u>Trends and developments in the main insurance business segments of the Company</u>

For information about trends and developments in the main insurance business segments of the Company, see sections 2.12, 2.2.2, 2.3.2, 2.4.2, 2.5.2, 2.6.2, 4.1, 4.5 and 4.7 in Chapter A (description of company's business) in the Company's 2013 periodic report.

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

For details see section 5.1 in Chapter A (description of company's business) in the Company's 2012 periodic report.

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

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

Legislation

- On April 24, 2014, Amendment No. 6 to the Insurance Contract Law, 1981 was published in the Reshumot (the Israeli government's official gazette). That amendment adds a new provision relating to the number of years for statute of limitations, and it is determined that in case of a claim arising from disability of the client from an illness of accident, then the statute of limitations should be counted since the date when the right of the client to claim insurance benefit under the insurance contract is created.

Circulars

- On January 14, 2014, the Supervisor of Insurance issued Institutional Investors Circular 2014-9-1, titled "Provisions of Chapter 10, Part 1 of Title 5 in the Consolidated Circular". This circular contains provisions on risk management of institutional investors. The circular is designed to create a comprehensive and structured codex that will help to navigate through the different guidance and simplify compliance by supervised entities.

- On January 20, 2014, the Supervisor of Insurance issued Insurance Circular 2014-1-2, titled "Update of Guidance on the Structure of Disclosure Required in the Financial Statements of Insurance Companies under International Financial Reporting Standards (IFRS)". The circular updates the structure of disclosure in the annual financial statements of insurers and introduces new disclosure requirements and some updates ahead of issuing the consolidated circular.

- On January 20, 2014, the Supervisor of Insurance issued Insurance Circular 2014-1-3, titled "Update of Guidance in Periodic Report of Insurance Companies". This circular is designed to revise the description of corporate business report and directors' report in the periodic reports of insurance companies to make them more focused, up-to-date and based with uniform structure, and it includes provisions on the scope of reports, reporting principles, reporting period and the approval and signing of the reports.

- On February 12, 2014, the Supervisor of Insurance issued a paper titled "Policies for Controlling an Institutional Investor". The purpose of this paper is to present the policy of the Supervisor when considering requests for control over insurers. The document presents guidance regarding the control over an institutional investment entity, including control together with others, control structure and holding of control instruments, minimum holding rate, financing to corporations that hold an institutional investment entity, placing charges on controlling instruments and financial robustness of an applicant for permission to control an institutional investment entity.

- On March 31, 2014, the Supervisor of Insurance issued a paper titled "Guidance to Institutional Investment Entities Ahead of the Effective Date of the Consolidated Circular". The guidance includes a list of chapters in the codex that are still in effect, including the provisions of Title 5 (Part 1, chapters 7 and 8) and the provisions of Title 6 (parts 2, 6 and 7). In addition, a list was appended of circulars that are integrated into, or eliminate from the consolidated circular.

- On April 10, 2014, the Supervisor of Insurance issued Insurance Circular 2014-9-2, titled "Compensation Policy in Institutional Investment Entities." The purpose of the circular was to set provisions for the purpose of creating a policy framework for compensation to executives and other employees in institutional investment entities, and preventing incentives that may encourage taking risks that are inconsistent with the longer-term targets of the institutional investment entities and its risk-management policy.

Drafts

- On January 1, 2014, the Supervisor of Insurance issued Draft Insurance Circular 2013-158, titled "Transfer of Funds to a Reinsurer Outside of Israel – Draft." The draft circular sets the terms for transferring funds and receiving collateral from reinsurers outside of Israel for their share of the insurance liability.

- On January 1, 2014, the Supervisor of Insurance issued a document titled "The Supervisor's Position – Findings of the Survey on the Implementation of the Circular on Statistical Data Collection of Claims and the Method for Settling Claims and Managing Requests for Money Withdrawal and Transfer – Draft." The paper presents key findings for 2012 and 2013 on the implementation of Circular 2011-9-6 "Collection of Statistical Data on the Settlement of Claims and the Management of Requests for Money Withdrawal and Transfer," detailing adequate and lacking implementation.

- On March 25, 2014, the Supervisor of Insurance issued Draft Insurance Circular 2014-10, titled "Renewal of Insurance Circular". The Circular places a duty on an insurance company to receive the consent of a customer to renew a policy and charge premium.

- On April 27, 2014, the Supervisor of Insurance issued Draft Insurance Circular, titled "Principle Decision on Joining a Collective Life Insurance Policy – Draft." Following the findings in a cross-section test on the collective insurance business, the draft circular establishes, among other things, means to contact insurance customers to obtain their consent to continue be insured in collective life insurance, and for the purpose of refunding policy premiums to customers who are not interested in such coverage or do not provide their decision to the insurer.

- On April 10, 2014, the Supervisor of Insurance issued Draft Agents and Consultants Circular 2014-32, titled "Involvement of an Unlicensed Entity in Marketing and Selling of Non-Group Financial Product – Draft." The draft circular sets a framework for engagement between a regulated entity and a person or entity without a license from the Supervisor of Capital Market, Insurance and Savings around the involvement of an external entity in the marketing and sale of retail insurance products.

- On April 10, 2014, the Supervisor of Insurance issued Draft Agents and Consultants Circular 2014-32, titled "Group Overseas Travel Insurance to Health Fund Members and Travel Agency Customers – Draft." The draft circular sets principles under which the Supervisor of Insurance will allow Health Funds or Travel Agencies to have group overseas travel insurance, as well as provisions on the sale of group overseas travel insurance created or renewed prior the effective date of the Supervision of Financial Services Regulations (Insurance) (Group Health Insurance), 2009.

- Following the draft issued on January 30, 2013, a second draft of the Insurance Business Regulations (Terms of Household and Contents Insurance Contract) (Amendment) 2014 was issued on May 1, 2014. The purpose of the second draft was to revise the terms and the language in the standard policy and regulate a number of issues, given various court decisions given on the terms set in the standard policy and the ample experience accumulated on the standard policy at the Capital Market, Insurance and Savings Department, and the discussions made in 2013 with insurance companies and comments received on the first version of the draft.

Entering and marketing new business

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

3 Financial information by business activities of the Company

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

	March 31, 2014	March 31, 2013	December 31, 2013
Other assets	318,501	257,796	326,383
Deferred acquisition expenses	146,443	137,464	140,520
Financial investments and cash	1,520,908	1,466,243	1,472,481
Reinsurance assets	686,846	632,006	647,666
Total assets	**2,672,698**	**2,493,509**	**2,587,050**
Shareholders' equity	669,512	593,178	643,004
Liabilities in respect of insurance	1,636,700	1,493,431	1,569,722
Other liabilities	366,486	406,900	374,324
Total equity and liabilities	**2,672,698**	**2,493,509**	**2,587,050**

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

	Jan-Mar 2014	**Jan-Mar 2013**	**2013**
Gross earned premiums	222,887	213,668	882,315
Premiums earned by reinsurers	(39,688)	(44,641)	(173,387)
Premiums earned in retention	183,199	169,027	708,928
Net investment revenue and financing revenue	25,720	12,770	75,241
Fee revenue	11,879	12,211	42,617
Total revenue	**220,798**	**194,008**	**826,786**
Payments and change in liability for insurance contracts, in retention	(101,074)	(94,320)	(417,491)
Total other expenses	**(77,015)**	**(74,428)**	**(302,392)**
Income before income taxes	**42,709**	**25,260**	**106,903**
Taxes on income	(16,201)	(9,186)	(41,003)
Income for the period and total comprehensive income for the period	**26,508**	**16,074**	**65,900**

Shareholders' equity and capital requirements

As of March 31, 2014, company's shareholders' equity exceeds the shareholders' equity required as of that date under the Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998 by NIS 153.9 million.

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

4. Results of operations

The Company continued during Q1 2014 to increase gross premiums, by 6.5% y/y. Total gross premiums in the reported period amounted to NIS 254.5 million, up from NIS 238.9 million in the corresponding period in 2013.

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

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

Jan-March 2013	Life insurance	Health insurance	General insurance	Total
Gross	24,403	49,135	165,358	238,896
In retention	19,003	45,508	125,587	190,098
% of total gross	10.2	20.6	69.2	100.0
% of retention	10.0	23.9	66.1	100.0

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

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

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013
Income from compulsory vehicle activity	5,344	3,796	18,341
Income from property vehicle activity	6,198	919	15,911
Income from household activity	4,978	1,966	12,416
Income (loss) from commercial insurance activity	372	(1,212)	(10,657)
Income from health insurance activity	11,894	11,340	40,284
Income (loss) from life insurance activity	1,622	3,238	(3,849)
Other - Income not attributed to any segment	12,301	5,213	34,457
Income before tax	**42,709**	**25,260**	**106,903**
Taxes on income	(16,201)	(9,186)	(41,003)
Income for the year and total comprehensive income the year	**26,508**	**16,074**	**65,900**

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

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

a. Income from net investment was NIS 25.7 million, compared with NIS 12.8 million in the corresponding period in 2013. The increase in investment was derived from increase asset prices in the Israeli capital market during the reported period compared to the corresponding period in 2012.

b. The income of the Company from property vehicle insurance in the reported period was NIS 6.2 million, compared with NIS 0.9 million in the corresponding period of 2013. The increase in profit was mainly a result of improved claims ratio.

c. The income of the Company from compulsory vehicle insurance in the reported period was NIS 5.3 million compared with NIS 3.8 million in the corresponding period in 2013. The increased profitability is a result of higher investment returns.

d. The income of the Company from household insurance in the reported period was NIS 5.0 million compared with NIS 2.0 million in the corresponding period in 2013. The increased profitability is a result of improved claim ratio.

e. The income of the Company from professional liability insurance in the reported period was NIS 0.9 million compared with NIS 1.3 million in the corresponding period in 2013. The increased profitability is a result of higher investment returns, as well as improved claim ratio and expense ratio.

f. The income of the Company from other property liability insurance in the reported period was NIS 0.1 million compared with NIS 0.1 million in the corresponding period in 2013.

g. The loss of the Company from other liability insurance in the reported period was NIS 0.6 million compared with NIS 0.1 million in the corresponding period in 2013. The increased loss is a result of a higher claim ratio.

h. The income of the Company from health insurance in the reported period was NIS 11.9 million compared with NIS 11.3 million in the corresponding period in 2013.

i. The income of the Company from life insurance in the reported period was NIS 1.6 million compared with NIS 3.2 million in the corresponding period in 2013. The decrease in profitability is a result of higher claim ratio and expense ratio.

5. Cash flows and liquidity

Net cash provided by operating activities in the reported period amounted to NIS 44.6 million, compared with NIS 2.8 million provided by operating activities in the corresponding period in 2013.

Net cash used in investing activities in the reported period amounted to NIS 1.5 million, compared with amount of NIS 2.8 million in the corresponding period in 2013.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by amount of NIS 43.2 million and amounted to amount of NIS 110.8 million as of March 31, 2014 (after neutralization of the effect of exchange rate fluctuations on the balance of cash and cash equivalents).

6. Sources of funding

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

7. The effect of external factors

For more information, see section 2 above.

8. Material subsequent events

No significant events have taken place subsequent to balance sheet date.

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

Controls and procedures applied to disclosure

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

Internal controls over financial reporting

In the course of the quarter ending on March 31, 2014 no change occurred in the internal control of the Company over financial reporting, which materially affected or is reasonably expected to materially affect the Company's internal control on financial reporting.

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

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

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

Ralph Mucerino	Shay Feldman
Chairman of the Board of Directors	CEO

May 27, 2014

Filename:	DR_1Q2014_English
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Subject:	
Author:	nurit
Keywords:	
Comments:	
Creation Date:	07:05:00 20/05/2014
Change Number:	4
Last Saved On:	10:34:00 03/06/2014
Last Saved By:	usherg
Total Editing Time:	4 Minutes
Last Printed On:	10:34:00 03/06/2014
As of Last Complete Printing	
Number of Pages:	12
Number of Words:	4,418 (approx.)
Number of Characters:	22,093 (approx.)

Declaration

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended March 31, 2014 (hereafter – "the report").

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

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

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

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Shay Feldman - CEO

May 27, 2014

Declaration

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended March 31, 2014 (hereafter – "the report").

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

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

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

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David Rothstein - CFO

May 27, 2014

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

Management, with the supervision of the Board of Directors of AIG Insurance Company Ltd. (hereafter the "the Insurance Company") are responsible for setting and maintaining effective internal control over financial reporting. The internal controls system of the insurance company was planned in order to provide reasonable assurance to management and Board of Directors to the effect that the financial statements are prepared and presented fairly in accordance with International Financial Reporting Standards and in accordance with the directives of the Supervisor of Insurance.
All internal controls have inherent limitations regardless of the quality of planning. Therefore, even if it is determined that these controls are effective they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial statements.
Management, supervised by the Board of Directors, maintains a comprehensive control system designed to ensure that transactions are carried out in accordance with management's authorization, assets are protected, and accounting records are reliable. In addition, management with the Board of Directors' supervision takes measures in order to ensure that the information and communications channels are effective and monitor implementation, including implementation of the internal control procedures.

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at March 31, 2014, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at March 31, 2014 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: May 27, 2014

AIG ISRAEL INSURANCE CO. LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

MARCH 31, 2014

AIG ISRAEL INSURANCE CO. LTD.

FINANCIAL INFORMATION FOR INTERIM PERIOD
(Unaudited)

MARCH 31, 2014

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

Introduction

We have reviewed the attached financial information of AIG Israel Insurance Co. Ltd ("the Company"), which information is comprised of the condensed statement of financial position As of March 31, 2014 and the condensed statements of comprehensive income, changes in equity and cash flows for the three-months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting'(hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. Our responsibility is to express a conclusion with respect to the financial information for this interim period, which conclusion is based on our review.

Scope of review

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

Conclusion

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

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

Tel-Aviv, Israel
May 27, 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.

CONDESED STATEMENTS OF FINANCIAL POSITION

AS OF MARCH 31, 2014

	March 31		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
Assets			
Intangible assets	14,265	14,808	14,799
Deferred acquisition expenses	146,443	137,464	140,520
Fixed assets	14,210	17,832	15,248
Reinsurance assets	686,846	632,006	647,666
Premiums collectible	195,526	189,630	186,414
Current tax assets	55,118	-	70,879
Other receivables	39,382	35,526	39,043
	1,151,790	1,027,266	1,114,569
Financial investments:			
Marketable debt instruments	1,166,095	1,129,100	1,174,216
Non-marketable debt instruments	139,508	91,366	128,704
Marketable shares	80,017	68,485	77,352
Other	24,512	83,338	24,593
TOTAL FINANCIAL INVESTMENTS	1,410,132	1,372,289	1,404,865
Cash and cash equivalents	110,776	93,954	67,616
TOTAL ASSETS	2,672,698	2,493,509	2,587,050

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

Date of approval of financial information for interim period by Board of Directors of Company: May 27, 2014

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF FINANCIAL POSITION

AS OF MARCH 31, 2014

	March 31		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Other capital reserve	11,084	11,084	11,084
Retained earning	407,821	331,487	381,313
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	669,512	593,178	643,004
LIABILITIES:			
Liabilities in respect of insurance contracts and without-profits investment contracts	1,636,700	1,493,431	1,569,722
Liabilities in respect of deferred taxes, net	29,451	9,121	26,889
Liabilities with respect to employee rights upon retirement, net	2,232	2,537	2,445
Liabilities towards reinsurers	261,041	269,619	256,185
Liability with respect to current taxes	-	56,269	-
Payables	73,762	69,354	88,805
TOTAL LIABILITIES	2,003,186	1,900,331	1,944,046
TOTAL EQUITY AND LIABILITIES	2,672,698	2,493,509	2,587,050

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

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Three months ended March 31		Year ended December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
Gross earned premiums	222,887	213,668	882,315
Premiums earned by reinsurers	(39,688)	(44,641)	(173,387)
Premiums earned on non-ceded business	183,199	169,027	708,928
Investment income, net and financing income	25,720	12,770	75,241
Commission income	11,879	12,211	42,617
TOTAL INCOME	220,798	194,008	826,786
Payments and movement in liabilities with respect to insurance contracts, gross	(151,811)	(150,302)	(587,544)
Share of reinsurers in increase of insurance liabilities And payments with respect to insurance contracts	50,737	55,982	170,053
Payments and movement in liabilities with respect to insurance contracts, retained amount	(101,074)	(94,320)	(417,491)
Commission, marketing expenses and other acquisition expenses	(43,610)	(*) (40,469)	(167,520)
General and administrative expenses	(32,494)	(*) (32,436)	(133,847)
Financing expenses, net	(911)	(1,523)	(1,025)
TOTAL EXPENSES	(178,089)	(168,748)	(719,883)
PROFIT BEFORE TAXES ON INCOME	42,709	25,260	106,903
Taxes on income	(16,201)	(9,186)	(41,003)
PROFIT FOR PERIOD AND TOTAL COMPREHENSIVE INCOME FOR PERIOD	26,508	16,074	65,900
BASIC EARNINGS PER SHARE -	4.71	2.86	11.71
number of shares used in computation of basic earnings per share	5,630	5,630	5,630

* Reclassified, see note 3c.

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

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Share capital	Share Premium	Other capital reserves	Retained earnings	Total
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2014 (audited)	6	250,601	11,084	381,313	643,004
CHANGES DURING THE THREE MONTHS ENDED MARCH 31, 2014 (unaudited) **-** total comprehensive income for the three months ended March 31, 2014				26,508	26,508
BALANCE AS OF MARCH 31, 2014 (unaudited)	6	250,601	11,084	407,821	669,512
BALANCE AS OF JANUARY 1, 2013 (audited)	6	250,601	11,084	315,413	577,104
CHANGES DURING THE THREE MONTHS ENDED MARCH 31, 2013 (unaudited) **-** total comprehensive income for three months ended March 31, 2013				16,074	16,074
BALANCE AS OF MARCH 31, 2013 (unaudited)	6	250,601	11,084	331,487	593,178
BALANCE AS OF JANUARY 1, 2013 (audited)	6	250,601	11,084	315,413	577,104
CHANGES DURING THE 2013 (audited) total comprehensive income for year ended December 31, 2013				65,900	65,900
BALANCE AS OF DECEMBER 31, 2013 (audited)	6	250,601	11,084	381,313	643,004

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

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Three months ended March 31		Year ended December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash provided by (used in) operating activities (Appendix A)	29,956	(7,765)	84,298
Interest received	12,122	12,102	39,693
Dividend received	436	195	2,234
Income taxes received (paid)	2,120	(1,723)	(143,050)
Net cash provided by (used in) operating activities	44,634	2,809	(16,825)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in asset cover for equity and non-insurance liabilities:			
Acquisition of fixed assets	(375)	(2,208)	(4,516)
Acquisition of Intangible assets	(1,114)	(579)	(4,871)
Net cash used in investing activities	(1,489)	(2,287)	(9,387)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,145	22	(26,212)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	67,616	93,540	93,540
INFLUENCE OF FLUCTIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	15	392	288
CASH AND CASH QUIVALENTS AT END OF PERIOD	110,776	93,954	67,616

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

AIG ISRAEL INSURANCE CO. LTD.

CONDESED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Three months ended ended March 31		Year ended December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES -			
Profit before taxes on income	42,709	25,260	106,903
Adjustments for- Income and expenses not involving cash flows:			
Increase in insurance contracts not depending on yield	27,797	37,617	98,248
Increase in deferred acquisition expenses	(5,923)	(7,273)	(10,329)
Increase (decrease) in liabilities with respect to employee rights upon retirement, net	(213)	211	119
Depreciation of fixed assets	1,413	1,260	6,153
Depreciation of intangible asset	1,648	1,503	5,804
Losses (gains), net on realization of financial investments:			
Marketable debt instruments	(8,952)	6,297	(14,121)
Non-marketable debt instruments	622	46	(939)
Marketable shares	(4,765)	(3,894)	(10,062)
Index linked certificates	(591)	(3,118)	(9,511)
Influence of fluctuation in exchange rate on cash and cash equivalents	(15)	(392)	(288)
	53,730	57,517	171,977
Changes in operating assets and liabilities:	4,856	15,135	1,701
Liabilities towards reinsurers	8,422	(32,276)	(30,891)
Investments in financial assets, net	(9,112)	(15,475)	(12,259)
Premiums collectible	(339)	(1,858)	(5,375)
Receivables	(15,043)	(19,011)	437
Payables	-	500	635
	(11,216)	(52,985)	(45,752)
Adjustments with respect to interest and dividend received:			
Interest received	(12,122)	(12,102)	(39,693)
Dividend received	(436)	(195)	(2,234)
Net cash provided by (used in) operating activities	29,956	(7,765)	84,298

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

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

NOTE 1 - GENERAL

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

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

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

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

DEFINITIONS:

1) The Company – AIG Israel Insurance Co Ltd.

2) The parent company – AIG Europe Holdings Limited

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

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

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

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

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

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

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

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

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

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

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.

NOTE 1 – GENERAL (continued):

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

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

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

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

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

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

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

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

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

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

23) Premium - Premium including fees.

24) The expression, ‘premiums earned,’ refers to premiums that relate to the period under review.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:

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

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

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

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

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:

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

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

2) New accounting standards applied for the first time:

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

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

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

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

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

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

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

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

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

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

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

NOTE 4 - SEGMENT INFORMATION

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

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

1) Life assurance sector

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

2) Health insurance sector

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

3) General insurance sector

NOTE 4 - SEGMENT INFORMATION (Continued):

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

- **Compulsory motor vehicle line**

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

- **Motor vehicle property line**

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

- **Flats insurance sector**

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

- **Professional liability line**

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

- **Other Property lines**

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

- **Other liability lines**

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

NOTE 4 - SEGMENT INFORMATION (continued):

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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended March 31, 2013 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
	NIS in thousands				
Gross earned premiums	24,278	49,061	140,329		213,668
Premiums earned by reinsurers	(5,404)	(3,629)	(35,608)		(44,641)
Premiums earned by non-ceded business	18,874	45,432	104,721		169,027
Investment income (losses), net	29	905	5,842	5,994	12,770
Commission income	833	1,128	10,250		12,211
Total income	19,736	47,465	120,813	5,994	194,008
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(7,532)	(18,252)	(124,518)		(150,302)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	2,579	1,745	51,658		55,982
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(4,953)	(16,507)	(72,860)		(94,320)
Commission and other acquisition expenses*	(5,362)	(9,551)	(20,289)		(35,202)
General and administrative expenses *	(6,183)	(10,030)	(21,490)		(37,703)
Financing expenses, net	-	(37)	(705)	(781)	(1,523)
Total comprehensive income (loss) before taxes on income	3,238	11,340	5,469	5,213	25,260
Gross liabilities with respect to insurance contracts as of March 31,2013	28,647	126,833	1,337,951		1,493,431

* Reclassified, see note 3c.

NOTE 4 - SEGMENT INFORMATION (continued):

	For the year ended December 31, 2013 (audited)				
	Life assurance	**Health insurance**	**General insurance**	**Not Apportion able to operating segments**	**Total**
	NIS 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 by non-ceded business	80,644	189,970	438,314		708,928
Investment income, net	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
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(42,978)	(91,795)	(452,771)		(587,544)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	11,121	10,935	147,997		170,053
Payments and change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(31,857)	(80,860)	(304,774)		(417,491)
Commission and other acquisition expenses	(26,110)	(43,001)	(98,409)		(167,520)
General and administrative expenses	(29,965)	(36,776)	(67,106)		(133,847)
Financing income (expenses)	-	(85)	(2,091)	1,151	(1,025)
Total comprehensive income (loss) before taxes on income	(3,849)	40,284	36,011	34,457	106,903
Gross liabilities with respect to insurance contracts as of December 31, 2013	37,566	135,796	1,396,360		1,569,722

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

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

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-month period ended March 31, 2013 (unaudited)						
	Compulsory motor vehicle	Motor vehicle property	Personal property	Professional liability	Other property branches *	Other liability branches *	Total
	NIS in thousands						
Gross premiums	36,832	61,706	27,551	13,245	14,646	11,378	165,358
Reinsurance premiums	(523)	(28)	(4,306)	(11,167)	(13,994)	(9,753)	(39,771)
Premiums relating to non-ceded business	36,309	61,678	23,245	2,078	652	1,625	125,587
Change in balance of unearned premiums relating to non-ceded business	(7,273)	(10,616)	(2,948)	(275)	(184)	430	(20,866)
Premiums earned on non-ceded business	29,036	51,062	20,297	1,803	468	2,055	104,721
Investment income, net	2,722	751	617	692	144	916	5,842
Commission income	-	-	1,247	2,895	3,137	2,971	10,250
Total income	31,758	51,813	22,161	5,390	3,749	5,942	120,813
Increase in insurance liabilities and payments with respect to insurance contracts	(30,962)	(38,671)	(11,599)	(7,527)	(19,397)	(16,362)	(124,518)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	11,466	-	1,375	5,866	18,669	14,282	51,658
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(19,496)	(38,671)	(10,224)	(1,661)	(728)	(2,080)	(72,860)
Commissions, marketing expenses and other acquisition expenses*	(3,502)	(5,770)	(3,591)	(2,880)	(1,910)	(2,636)	(20,289)
General and administrative expenses *	(4,964)	(6,453)	(6,362)	(1,851)	(935)	(925)	(21,490)
Financing expenses, net	-	-	(18)	(250)	(67)	(370)	(705)
Total expenses	(27,962)	(50,894)	(20,195)	(6,642)	(3,640)	(6,011)	(115,344)
Profit (loss) before taxes on income	3,796	919	1,966	(1,252)	109	(69)	5,469
Gross liabilities with respect to insurance contracts as of March 31,2014	601,855	140,276	59,797	193,574	74,716	267,733	1,337,951
Net liabilities with respect to insurance contracts as of March 31,2014	447,857	140,276	54,140	37,466	3,557	37,869	721,165

* Reclassified see note 3.3

** The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 89% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the third party warranty insurance line, the operations of which attract 40% of the total premiums attributable to these lines.

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment

	For year ended December 31, 2013 (audited)						
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches *	Other liability branches *	Total
	NIS in thousands						
Gross premiums	135,015	227,638	101,852	43,007	39,552	35,699	582,763
Reinsurance premiums	(1,895)	(108)	(21,435)	(35,842)	(37,650)	(30,323)	(127,253)
Premiums relating to non-ceded business	133,120	227,530	80,417	7,165	1,902	5,376	455,510
Change in balance of unearned premiums relating to non-ceded business	(7,609)	(10,582)	(546)	155	73	1,313	(17,196)
Premiums earned on non-ceded business	125,511	216,948	79,871	7,320	1,975	6,689	438,314
Investment income, net	16,359	5,116	3,555	4,198	831	5,153	35,212
Commission income	-	-	3,180	10,838	10,881	9,966	34,865
Total income	141,870	222,064	86,606	22,356	13,687	21,808	508,391
Payments and Change in insurance liabilities with respect to insurance contracts (gross)	(107,786)	(155,018)	(40,439)	(64,945)	(46,115)	(38,468)	(452,771)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	17,340	-	4,559	52,925	44,453	28,720	147,997
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(90,446)	(155,018)	(35,880)	(12,020)	(1,662)	(9,748)	(304,774)
Commission, marketing expenses and other acquisition expenses	(18,317)	(32,476)	(18,651)	(11,653)	(7,687)	(9,625)	(98,409)
General and administrative expenses	(14,766)	(18,659)	(19,599)	(7,162)	(2,702)	(4,218)	(67,106)
Financing expenses, net	-	-	(60)	(827)	(169)	(1,035)	(2,091)
Total expenses	(123,529)	(206,153)	(74,190)	(31,662)	(12,220)	(24,626)	(472,380)
Profit (loss) before taxes on income	18,341	15,911	12,416	(9,306)	1,467	(2,818)	36,011
Gross liabilities with respect to insurance contracts as of December 31, 2013	632,567	146,404	62,622	234,943	65,438	254,386	1,396,360
Net liabilities with respect to insurance contracts as of March 31,2014	477,611	146,404	55,283	45,546	2,946	40,320	768,110

* The results of other property lines reflect mainly the results of the property insurance line the operations of which attract 84% of the total premiums attributable to these lines.
The results of other liability lines reflect mainly the results of the product warranty insurance line, the operations of which attract 40% of the total premiums attributable to these lines.

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NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

Management and capital requirements:

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

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

Company's existing capital with respect to the capital requirements

	March 31		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
The amount required under capital regulations and supervisor guidelines (a)	515,616	452,892	516,896
Existing amount computed under capital regulations:			
Primary capital	669,512	593,178	643,004
Total existing capital existing computed under capital requirements	669,512	593,178	643,004
Surplus	**153,896**	**140,286**	**126,108**

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

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

	March 31		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS in thousands		
Operations related to general insurance	118,361	110,669	118,183
Exceptional life assurance risks	28,072	23,682	26,880
Deferred acquisition expenses in relation to life assurance	82,395	75,165	81,818
Investment assets and other assets	53,916	50,319	58,823
Catastrophe risk related to general insurance	203,193	165,958	202,881
Operating risks	29,679	27,099	28,311
Total	515,616	452,892	516,896

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

a. Fair value disclosure

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

b. The fair value of financial assets and financial liabilities

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

2. For details on the fair value of financial investments, see details of assets representing financial investments appendix.

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

NOTE 7 - TAXES ON INCOME

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

NOTE 8 - CONTINGENT LIABILITIES - CLASS ACTIONS:

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

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

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

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

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

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

On a hearing taking place on May 13, 2013, the claimant was convinced to withdraw the claim. In view of the claimant's exaggerated demands in connection with fees and remuneration to the class action claimant, it was agreed to leave the matter to the discretion of the court with each party submitting its claims to the court.

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

On September 10, 2013, the plaintiffs filed an appeal to the Supreme Court, requesting that the Court cancels the ruling of the District Court and resumes discussions relating to the compensation payable to the plaintiffs, to expenses and legal fees. Alternatively, the plaintiffs request that the Supreme Court increases the said amounts. The Supreme Court shall hear the appeal on 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 Company's legal counsels assess that the chances that the Court will allow the appeal do not exceed 50%.

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

According to the legal claim, the insurance companies are required to price the premium in accordance with the classification set in the Transportation Ordinance and since they have not done so they should refund the insured persons and entities with the amounts collected in excess of the lawful premiums.

The group in the name of whom the legal claim was lodged is the group of insured persons and entities the classification of the vehicles of which was changed in the last seven years.

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

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

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

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

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

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

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

c. A legal claim and an application to approve the claim as a class action were filed against the company and 14 other insurance companies on January 13, 2014.

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 NIS 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 relevance to 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 7 - CONTINGENT LIABILITIES - CLASS ACTIONS (continued):

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.

On March 25, 2014, the Court ruled that the claim against the company shall be stroked out since a claimant holding its insurance policy is not in attendance. Kindly be advised that the court case against the company was, indeed, closed, but if the attorneys of the claimants or other representing attorneys find a class action claimant against the company, a new claim may be filed in the future. We would like to indicate that a similar claim and application to approve as class action were filed by another representing attorney against other insurance company. The company is not a defendant in the said case.

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 7 - CONTINGENT LIABILITIES - CLASS ACTIONS (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 advertisements 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 accurate 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.

4. To determine the fee of attorneys representing the plaintiffs in this motion for class action certification.

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

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.

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

Pending applications for approval of legal claims as class actions:	**Number of claims**	**The amount claimed NIS in thousands**
An amount relating to the company was specified	3	717,762

APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS

Details of financial investments:

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

	As of March 31, 2013 (unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments	1,129,100	-	1,129,100
Non-marketable debt instruments	-	91,366	91,366
Marketable shares	68,485	-	68,485
Index linked certificates	83,338	-	83,338
Total	1,280,923	91,366	1,372,289

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

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

Details of financial investments (continued)**:**

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

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

	As of March 31, 2013 (unaudited)	
	Book value	Reduced cost
	NIS in thousands	
Government debentures	812,390	793,489
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	316,521	308,832
Other marketable debt instruments that are convertible	189	187
Total marketable debt instruments	1,129,100	1,102,508

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

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

Details of other financial investments (continued):

2. Composition of non-marketable debt instruments

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

	As of March 31, 2013 (unaudited)	
	Book value	Fair value
	NIS in thousands	
Bank deposits	72,305	73,320
Other marketable debt instruments that are not convertible	19,061	19,975
Total non-marketable debt instruments	91,366	93,295

	As of December 31, 2013 (audited)	
	Book value	Fair value
	NIS in thousands	
Bank deposits	113,448	114,511
Other marketable debt instruments that are not convertible	15,256	15,886
Total non-marketable debt instruments	128,704	130,397

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

Details of other financial investments (continued):

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

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

	As of March 31, 2013 (unaudited)	
	Book value	Cost
	NIS in thousands	
Marketable shares	68,485	64,818

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

APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS (continued)

Details of other financial investments (continued):

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

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

	As of March 31, 2013 (unaudited)	
	Book value	Cost
	NIS in thousands	
Marketable financial investments	83,338	77,156

	As December 31, 2013 (audited)	
	Book value	Cost
	NIS in thousands	
Marketable financial investments	24,593	24,593

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Embedded value report
AIG Israel Insurance Company Ltd
As of December 31, 2013

Date issued: May 27, 2014

Table of contents

1. General

1.1 Background and scope of disclosure

Under a circular of the Israel Supervisor of Insurance dated August 12, 2007 (Insurance Circular 2007-1-11) ("**the Circular**"), insurance companies are required to disclose annually, along with the financial information for the first quarter of each year, information about their embedded value ("**embedded value**" or "**EV**") of long-term insurance policies (life insurance and health insurance) for the end of previous year. In compliance with the circular, AIG Israel Insurance Company Ltd ("**the Company**") discloses below the embedded value of its long-term insurance business as of December 31, 2013.

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

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

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

1.2 Forward-looking statement

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

1.3 The main chapters in this document

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

1.4 Definitions

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

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

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

Cost of required capital (CoC)	The cost of required capital is the impact, from shareholders perspective, on embedded value due to the requirement mandating the Company to hold a minimum capital (see paragraph 2.5.3 below)
Value of in-force (VIF)	The value of the in-force portfolio is the present value of future profits less the cost of required capital
Embedded value (EV)	The embedded value is the aggregate of the following two components: Value in-force (VIF) and adjusted net worth. Note that the adjusted net worth is the equity relating to the operations of the entire company and not only those covered within the scope of EV. Also note that the value of in-force does not include: General insurance business (elementary) The ability to create additional business in the future (goodwill).
Value of new business (VNB)	The present value from the time of sale to the end of policy lifetime of expected profits for the covered businesses that were sold during the reported year.
Covered businesses	The businesses covered in the computation of in-force value: Long-term personal policies within the life insurance and health insurance portfolio in force as of December 31, 2013, including future premium increases

1.5 Comments, clarifications and limitations

1.5.1 General

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

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

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

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

1.5.2 Reforms and legislation

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

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

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

If adopted as mandatory provisions, the findings of the German Committee might affect the health insurance activities as well as the embedded value of this activity.

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

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

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

1.5.3 Addressing risk

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

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

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

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

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

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

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

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

1.5.4 Asset valuation at fair value

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

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

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

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

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

2. Embedded value calculation methodology

2.1 General

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

2.2 Treatment of risks

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

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

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

2.3 General assumptions

2.3.1 Return, discount interest and inflation:

The future return and discount interest is determined using the risk-free interest linked to the cpi. Risk-free interest rates (spot) as of 2013 year-end are:

Year-end	Interest rate	Year-end	Interest rate	Year-end	Interest rate
2014	-0.56%	2024	1.79%	2034	2.38%
2015	-0.68%	2025	1.92%	2035	2.40%
2016	-0.48%	2026	2.03%	2036	2.42%
2017	-0.11%	2027	2.11%	2037	2.44%
2018	0.30%	2028	2.17%	2038	2.46%
2019	0.66%	2029	2.22%	2039	2.48%
2020	0.96%	2030	2.26%	2040	2.50%
2021	1.21%	2031	2.30%	2041	2.51%
2022	1.43%	2032	2.33%	2042	2.53%
2023	1.63%	2033	2.35%	2043	2.54%

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

2.3.2 Tax

- Tax rate on financial institutions (including profit tax)

Year	2013	2014	+2015
Tax rate	36.22%	37.71%	37.71%

2.4 Demographic and operating assumptions

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

2.4.1 Demographic assumptions

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

2.4.2 Future administrative and general expenses

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

2.5 Computation method

2.5.1 Adjusted net worth (ANW)

The amount of net worth is taken from the December 31, 2012 financial statements of the Company. This amount was reduced by the amount of deferred acquisition expenses based on the related balance sheet information, less the allowance for deferred tax in their respect and less the expected tax benefit for the part of the deductible deferred acquisition cost.

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

2.5.2 Present value of future profits (PVFP)

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

2.5.3 Cost of required capital (CoC)

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

2.5.4 Value of new business (VNB)

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

The calculation of VNB was made for the following populations:

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

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

2.6 Treating options and financial promises

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

2.7 Analysis of change in EV and EV-based profit

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

1. Adjustments to embedded value as of December 31, 2012 – This item includes amendments relative to opening data, including changes to the calculation methodology. Some technical revisions to the model were made in 2013, with a total impact of NIS 3.7 million.

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

    a. Life insurance: the overall value of the portfolio increased due to increase of the rate of expenses and update of the rates of cancellations.

    b. Health insurance: the overall value of the portfolio decreased due to increase of the rate of expenses, update of the rates of cancellations and changes made to reinsurers' agreements.

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

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

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

    c. Profit expected to go from in-force portfolio to adjusted net worth during 2013 – In 2013, the expected profit for 2013 was transferred from the value of in-force to adjusted net worth, such that in total this source does not affect total embedded value as a whole. According to the method of determining adjusted net worth, this profit does not include the impact of reducing DAC, except for the tax credit and tax deduction on DAC.

4. The impact of variations from operating and demographic assumptions in 2013 – Naturally, actual experience around claims rates, cancellations, expenses etc, were different during the period from those assumed at the beginning of the year for the purpose of calculating embedded value. Those variations have impact on expected profits after year-end and also profits for that year itself, and the impacts are presented in this section separately for in-force portfolio and adjusted net worth, respectively. In addition, this section includes the effect of a number of factors that each is considered by the Company to immaterial, including, changes in existing insurance policies, reinsurance terms or commission agreements with agents.

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

6. Development expenses not covered in EV – This presents the impact of exceptional expenses that were not included in embedded value, but attributed to future sales, on actual profits in the year. In 2013, no expenses were excluded from EV.

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

7. Profit from exceptional items – No exceptional events occurred in 2013 that affected the change in EV and are not explained by other items in this report.

8. The effect of inflation in 2013 – This item includes the effect of inflation in the reported year (1.91%) on the opening balance. The following paragraphs present the effect of real returns on top of CPI.

9. Profit from variation from economic assumptions in 2013 and changes in economic assumptions – this item includes two components:

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

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

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

   c. One-off effect in 2013 on the value of the in-force portfolio due to changes in future tax rates applicable to profits. At the end of the reported year corporate tax rates increased compared with the tax rates which were in effect at the end of the previous year. This caused a NIS 13.8 million decrease in the portfolio value.

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

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

11. Capital movements – This item presents the change in embedded value that results from capital movements during the year.

2.8 Sensitivity tests

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

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

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

3. Sensitivity for new business relates to changes from the end of 2013 and thereafter, and not to the period from the time of sale through the end of 2013.

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

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

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

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

3. Results

3.1 The embedded value as of December 31, 2013

Million NIS	EV on covered business in life and health insurance
Adjusted net worth (see 3.3 below)	591.9
Present value of future profits, net of tax	629.6
Less cost of required capital	-20.7
Embedded value	**1,200.8**

3.2 Value of new business from sales in 2013

Million NIS	VBN on covered business in life and health insurance
Value of new business before cost of required capital	128.1
Cost of required capital on new business	-8.4
Total value of new business	**119.7**

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

	Million NIS
Equity (Company balance sheet)	643.0
Revaluation of assets corresponding to covered business and presented in the financial statements at cost to fair value less tax	0
Less deferred acquisition costs (DAC to balance sheet)*	-81.8
Add - reserve for deferred tax on DAC	30.7
Less value of acquired insurance accounts and goodwill thereon, included in equity, net of tax	0
Adjusted net worth on covered business	591.9

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

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

	Section	Adjusted net worth	Value of in-force	Embedded value
Embedded value as of December 31, 2012		529.7	526.1	1,055.8
Adjustments to embedded value as of December 31, 2012	2.7.1	-	3.7	3.7
Adjusted embedded value as of December 31, 2012		**529.7**	**529.8**	**1,059.5**
Operating profit from in-force as of December 31, 2012				
- Change in operating and demographic assumptions	2.7.2	-	9.9	9.9
- Expected real growth	2.7.3	3.7	4.0	7.7
- Total profit expected to move from in-force to net worth in 2013	2.7.3	67.2	-67.2	-
- Effect of variation from operating and demographic assumptions in 2012 and other changes to in-force	2.7.4	-12.8	-25.0	-37.8
Total		**58.2**	**-78.4**	**-20.2**
Profit from new business	2.7.5	-40.2	159.9	119.7
Development expenses not included in EV	2.7.6	-	-	-
Embedded value operating profit		**17.9**	**81.6**	**99.5**
Profit from exceptional items	2.7.7	-	-	-
Effect of inflation in 2013	2.7.8	6.5	10.2	16.6
Income from variation from economic assumptions in 2013 and change in economic assumptions	2.7.9	12.7	-12.6	0.0
Total embedded value profit		**37.0**	**79.1**	**116.2**
Profit from non-covered business	2.7.10	25.1	-	25.1
Total embedded value profit of all Company business		**62.1**	**79.1**	**141.3**
Movements in equity	2.7.11	-	-	-
Total change in EV		62.1	79.1	141.3
Embedded value as of December 31, 2013		**591.9**	**609.0**	**1200.8**

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

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

Net income	65.9
Items transferred through equity reserve	-
Comprehensive income (after tax)	**65.9**
Change in DAC before tax	-8.4
Tax on change in DAC	4.7
Change in asset valuation at fair value net of tax	0.0
Net change in value of in-force/goodwill on the balance sheet	0.0
Comprehensive income adjusted to basis of embedded value	62.2
Movement in equity	0.0
Total change in adjusted net worth	62.2

3.6 Sensitivity analysis for covered business in accordance with Circular requirements

	See section	Change in embedded value		Change in value of new business	
		Million NIS	%	Million NIS	%
Basic result		1,200.8		119.7	
0.5% reduction in risk-free interest	2.8.7	23.6	1.97%	7.0	5.85%
10% increase in administration and general expenses		-28.1	-2.34%	-6.0	-5.01%
10% increase in cancellation rate		-46.7%	-3.89%	-15.6	-13.03%
10% increase in mortality rate	2.8.4	-27.7	-2.31%	-8.5	-7.10%
10% increase in morbidity rate	2.8.6	-46.6	-3.88%	-7.3	-6.10%

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

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

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