AIG Israel Insurance Company Ltd

Interim Financial Report

(Unaudited)

As of March 31, 2013

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AIG Israel Insurance Company Ltd. ("the company")

Directors' Report of Company's Business for the Period Ended March 31, 2013

The Directors Report of the Company's Business as of March 31, 2013 ("directors' report") reviews the company and the development of its business as took place in the first quarter of 2013 ("the reported period"). The information in this report is as of March 31, 2013 ("the report date"), unless otherwise explicitly indicated.

The company is an 'insurer', as 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 at the Ministry of Finance ("the Supervisor of Insurance" or "the Supervisor"). The Directors' Report was drawn up under the assumption that the company's 2012 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 ("the Securities Law"). 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.

AIG ISRAEL Insurance Company Ltd. 25 Hasivim St. POB 535, Petach Tikva, Israel 4910001 Tel: 972-3-9272333 Fax: 972-3-9243417 ; www.aig.co.il

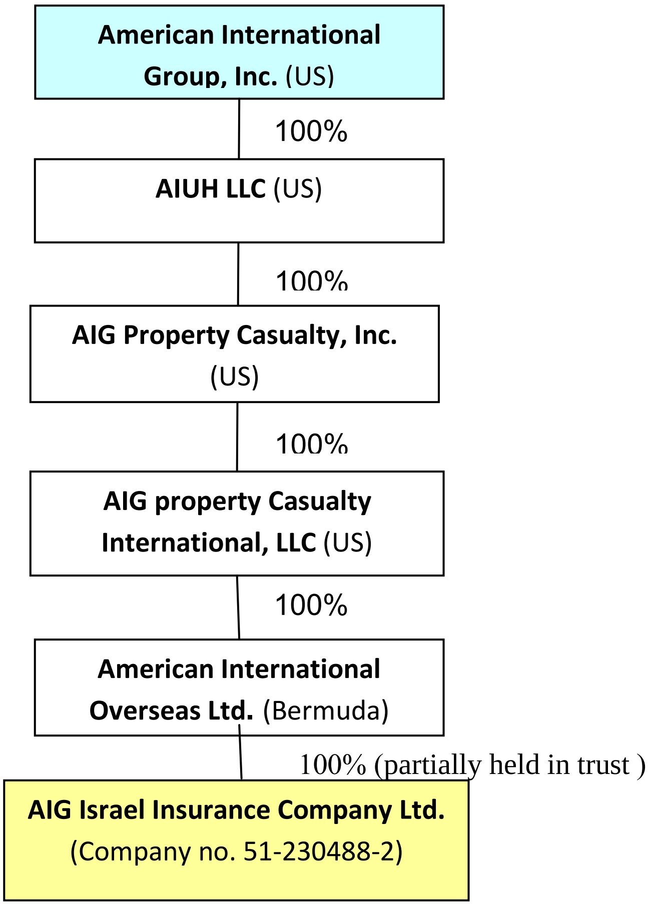
1. Condensed description of the company

1.1 Organizational structure

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 sole shareholder of the Company is American International Overseas Ltd ("AIO"), which holds the entire issued share capital of the Company. AIO is an insurance company in the global AIG Corporation (American International Group, Inc.), a leading international insurance and finance corporation. As of the date of this report American International Group, Inc. is rated A- by leading rating agencies Fitch, Standard & Poor's (S&P) and Moody's. As of the date of this report, AIO is rated A by Fitch.

The following is the holding structure of the company:



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In January 2013, AIO engaged in an agreement with Aurec Gold Investments Ltd ("Aurec") for AIO to purchase the entire interest in the Company, subject to the fulfillment of certain conditions as set out in the purchase agreement. On May 13, 2013, the transfer of shares to AIO was completed after the above conditions were met.

The Company has insurer licenses granted by the Israel Supervisor of Insurance to engage in general insurance lines and life insurance lines 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 comprises two business divisions (consumer insurance and commercial insurance), headquarter departments, sales, marketing and customer service.

The Company markets and sells insurance policies in the consumer insurance business, mainly directly to customers (without mediation of insurance agents) and through a telemarketing center and a central customer service operation.

Most of the commercial insurance business and collective health insurance as well as a small portion of the consumer business are carried out through the intermediation of insurance agents. The organizational structure of the company basis its activity at their 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
- Health insurance - health insurance business
- Life insurance - life insurance business (life assurance risk only).

The Company continued in the first quarter of 2013 to increase gross premiums, which grew by 7.7% versus the first quarter of 2012, with total gross premiums in the reported period of NIS 238.9 compared to NIS 222.0 in the corresponding period of 2012.

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Set forth below are the company's premiums by major lines of operating segments (in thousands of NIS):

1-3.2013	Life insurance	Health insurance	General insurance (*)	Total
Gross premiums written	24,403	49,135	165,358	238,896
Net Premiums written	19,003	45,508	125,587	190,098
% of total gross premiums	10.2	20.6	69.2	100.0
% of net premiums	10.0	23.9	66.1	100.0

1-3.2012	Life insurance	Health insurance	General insurance (*)	Total
Gross premiums written	21,168	46,811	154,060	222,039
Net Premiums written	16,171	41,013	109,938	167,122
% of total gross premiums	9.5%	21.1%	69.4%	100.0
% of net premiums	9.7%	24.5%	65.8%	100.0

1-12.2012	Life insurance	Health insurance	General insurance (*)	Total
Gross premiums written	89,476	197,205	553,774	840,455
Net Premiums written	68,476	175,510	411,798	655,784
% of total gross premiums	10.6	23.5	65.9	100.0
% of net premiums	10.4	26.8	62.8	100.0

(*) Additional data by major lines of business – see note 4 to the condensed financial statements.

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 3.1.4, 3.2.4, 3.3.4, 3.4.4 and 3.6.4 in Chapter A (description of company's business) in the company's 2012 periodic report.

1.4 Developments or material changes in agreements with reinsurers

For details regarding the company's reinsurers, see sections 3.1.6, 3.2.6, 3.3.6, 3.4.6, 3.5.6 3.6.6 and 5.4 in Chapter A (description of company's business) in the company's 2012 periodic report.

1.5 Unusual events since the issuance of the last financial statements

No events or matters were present during the reported period that go beyond the ordinary course of company business which may have had a material effect on the company, other than AIO transaction for the acquisition of Aurec's holding in the Company, as described above.

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2. Description of business environment

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, 2012, general insurance premiums amounted to NIS 14,413 million (without Karnit and Avner), while the share of the five largest insurance companies: Harel Insurance Company Ltd, the Phoenix Insurance Company Ltd, and Clal Insurance Company Ltd, Menora Insurance Company and Migdal Insurance Company amounted to NIS 8,696 thousand, or 60% of total general insurance premiums in the Israeli market.

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

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

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

For details see sections 3.1.1., 3.2.1, 3.3.1, 3.4.1, 3.5.1, 3.6.1 and 5.2 in Chapter A (description of company's business) in the company's 2012 periodic report.
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, letters and draft in the reported period:

- On January 15, 2013, the Supervisor of Insurance issued Financial Institution Circular 2013-9-2 titled "List of Proprietary Investment Assets of Financial Institutional at the Individual Asset Level", whose goal is to regulate financial institutions' reporting on the way they invest proprietary investment amount under their management through reporting a quarterly list of assets at the individual asset level.

- On January 28, 2013, the Supervisor of Insurance issued Insurance Circular 2013-1-1 titled "The Computation of General Insurance Reserves", whose goal was to clarify the mode of computation of general insurance reserves and computation of reserves of excess income over expenses in different insurance businesses.

- On February 18, 20013, the Supervisor of Insurance sent a letter, reference no. 2013-3026, to chief executives of insurance companies titled "Shortening the Financial Statements", in which it is indicated that insurance companies have to produce shorter and simpler financial statements.

- On April 21, 2013, the Supervisor of Insurance issued a draft Financial Institution opinion Paper on the mode of operation of a financial institution when engaging in a significant transaction. The draft opinion paper presents, among other things, the expectations of the Supervisor of Insurance on the engagement of a Financial Institution in a material transaction.

- On April 24, 2013, the Supervisor of Insurance issued Financial Institutions Circular 2013-9-5 titled "Adopting Insurance Plans and Articles of Provident Funds", whose aim was setting a procedure for filing a notice on an insurance plan or new articles or revisions thereof. The effective date for that circular on providing notice on insurance plans and new or revised provident fund articles is July 1, 2013.

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3 Financial position and results of operations

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

	March 31, 2013	March 31, 2012	December 31, 2012
Deferred acquisition expenses	137,464	126,481	130,191
Financial investments and cash	1,466,243	1,268,950	1,432,882
Reinsurance assets	632,006	567,767	585,532
Other assets	257,796	233,362	240,440
Total assets	**2,493,509**	**2,196,560**	**2,389,045**
Shareholders' equity	593,178	485,580	577,104
Liabilities in respect of insurance	1,493,431	1,378,397	1,409,340
Other liabilities	406,900	332,583	402,601
Total equity and liabilities	**2,493,509**	**2,196,560**	**2,389,045**

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

	1-3.2013	1-3.2012	2012
Profit from compulsory motor vehicle property insurance line	919	2,318	24,146
Profit from motor vehicle insurance line	3,796	86,408	121,185
Profit from home insurance line	1,966	6,190	25,697
Profit from commercial insurance line	(1,212)	(1,521)	(5,290)
Profit from health insurance line	11,340	(654)	40,027
Profit from life insurance line	3,238	(158)	3,924
Other – income not carried to lines of business	5,213	8,280	34,079
Profit before taxes	**25,260**	**100,863**	**243,768**
Taxes on income	(9,186)	(35,050)	(86,431)
Profit for the period and total comprehensive income for the period	**16,074**	**65,813**	**157,337**

Additional data by principal segments – see note 4 to the financial statements.

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Set forth below is an explanation of the development of some of the above presented data:

a. Profit before taxes in the reported period was NIS 25.3 million compared to NIS 100.9 million in the corresponding period of 2012. In 2012, and according to an approval obtained from the Supervisor, the Company changed the period for keeping the surplus reserve in compulsory vehicle business from five years to three years. This change significantly increased income before tax in the corresponding period by NIS 79.3 million and increased the profit and total comprehensive income in the corresponding period by NIS 51.3 million.

b. Income from net investments in the reported period was NIS 12.8 million compared to a NIS 21.5 million income in the corresponding period of 2012. The decrease in investment income resulted from poorer market performance in the period compared to the corresponding period of 2012.

c. Profit from property vehicle insurance was NIS 0.9 million in the reported period compared to NIS 2.3 million in the corresponding period of 2012. The decrease in profit is mainly from an increase in the claims ratio, and a significant part of this increase is attributed to damages caused by the floods in early January 2013.

d. Profit from compulsory vehicle insurance was NIS 3.8 million in the reported period compared to NIS 86.4 million in the corresponding period of 2012. The marked decrease in profit is from the decision of the company in the first quarter of 2012 to keep a compulsory vehicle surplus reserve for three instead of five years. See paragraph a. above.

e. Profit from home insurance was NIS 2.0 million in the reported period compared to NIS 6.2 million in the corresponding period of 2012. The decrease in profit was mainly due to an increase in claims, which is entirely attributed to damages caused by floods in early January 2013.

f. Loss from professional liability insurance was NIS 1.3 million in the reported period compared to a NIS 0.9 million loss in the corresponding period of 2012. The increase in loss stemmed from reduced investment returns.

g. Profit from other property business was NIS 0.1 million in the reported period compared to a NIS 1.0 million profit in the corresponding period of 2012. The decrease in profit was mainly due to an increase in claim ratios, part of which is attributed to damages caused by the floods in early January 2013.

h. Loss from other liabilities business was NIS 0.1 thousand in the reported period compared with a NIS 1.6 million loss in the corresponding period of 2012. The decrease in loss was mainly due to an improvement in the claims ratio.

i. Profit from health insurance was NIS 11.3 million in the reported period compared to a NIS 0.7 million loss in the corresponding period of 2012. The increase in profit was mainly due to an improvement in the claims ratio and expenses ratio.

j. Profit from life insurance was NIS 3.2 million in the reported period compared to a NIS 0.2 million loss in the corresponding period of 2012. The increase in profit was mainly due to an improvement in the claims ratio and expenses ratio.

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Shareholders' equity and capital requirements

As of March 31, 2013, the Company's shareholders' equity exceeds the shareholders' equity required under the Insurance Business Regulations (Minimum Capital Required from an Insurer) 1998, by NIS 140.3 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. Cash flows and liquidity

Net cash provided by operating activities in the first quarter of 2013 amounted to NIS 2.8 million, compared with NIS 21.1 million used in operating activities in the corresponding period in 2012.

Net cash used in investing activities in the reported period amounted to NIS 2.8 million, compared NIS 1.9 million in the corresponding period in 2012.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by NIS 0.4 million and amounted to NIS 94 million as of March 31, 2013 (after neutralization of the effect of exchange rate fluctuations on the balance of cash and cash equivalents).

5. 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.

6. The effect of external factors and exposure to risks

As to information regarding the effect of external factors, see section 5.1 in Chapter A (description of company's business) in the company's 2012 report. For information regarding the company's exposure to insurance risks, market risks, liquidity risks, credit risks and operating risks, see Part G in Chapter A (description of company's business) in the company's 2012 report and note 27 to the financial statements.

7. Financial statements

No significant events have taken place subsequent to balance sheet date, except for the acquisition transaction described in the "exceptional events since the last financial statements" in this report, and Mr. Shay Feldman beginning his role as CEO of the Company in April 2013.

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8. Disclosure regarding the company's internal auditor

No significant changes were made to the information included in the 2012 annual report regarding the internal auditor.

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, 2013 no change occurred to the internal control of the company over its 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	CEO

May 28, 2013

AIG ISRAEL Insurance Company Ltd. 25 Hasivim St. POB 535, Petach Tikva, Israel 4910001 Tel: 972-3-9272333 Fax: 972-3-9243417 ; www.aig.co.il

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, 2013 (hereafter – "the report").

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

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

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

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

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

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

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

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

expected to have a material effect on the insurance company's internal controls over financial reporting; and

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 28, 2013

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, 2013 (hereafter – "the report").

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

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

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

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

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

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

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

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

expected to have a material effect on the insurance company's internal controls over financial reporting; and

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 28, 2013

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, 2013, based on criteria set in the internal control model of the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on this evaluation management believes that as at March 31, 2013 the internal control of the Insurance Company over financial reporting is effective.

Chairman of the Board: Mr. Ralph Mucerino ____________________

CEO: Mr. Shay Feldman ____________________

CFO: Mr. David Rothstein ____________________

Date of approval of financial statements: May 28, 2013

AIG ISRAEL INSURANCE CO. LTD.

FINANCIAL STATEMENTS FOR INTERIM PERIOD
(Unaudited)

MARCH 31, 2013

AIG ISRAEL INSURANCE CO. LTD.

FINANCIAL STATEMENTS FOR INTERIM PERIOD
(Unaudited)

MARCH 31, 2013

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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, 2013 and the condensed statements of comprehensive income, changes in equity and cash flows for the three-months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, ‘Interim Financial Reporting’(hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. Our responsibility is to express a conclusion with respect to the financial information for this interim period, which conclusion is based on our review.

Scope of review

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

Conclusion

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

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

Tel-Aviv, Israel
May 28, 2013

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENT OF FINANCIAL POSITION

AS OF MARCH 31, 2013

	March 31		December 31,
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	NIS in thousands		
Assets			
Intangible assets	14,808	10,512	15,732
Deferred acquisition expenses	137,464	126,481	130,191
Fixed assets	17,832	17,795	16,885
Reinsurance assets	632,006	567,767	585,532
Premiums collectible	189,630	174,402	174,155
Other receivables	35,526	30,653	33,668
	1,027,266	927,610	956,163
Financial investments:			
Marketable debt instruments	1,129,100	992,110	1,099,646
Non-marketable debt instruments	91,366	56,671	77,925
Marketable shares	68,485	57,238	68,284
Index linked certificates	83,338	82,070	93,487
Total financial investments	1,372,289	1,188,089	1,339,342
Cash and cash equivalents	93,954	80,861	93,540
TOTAL ASSETS	2,493,509	2,196,560	2,389,045

Ralph Mucerino **Chairman of the Board**	**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 28, 2013

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENT OF FINANCIAL POSITION
AS OF MARCH 31, 2013

	March 31		December 31,
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	NIS in thousands		
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Other capital reserve	11,084	11,084	11,084
Retained earning	331,487	223,889	315,413
TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS	593,178	485,580	577,104
LIABILITIES:			
Liabilities in respect of insurance contracts and without-profits investment contracts	1,493,431	1,378,397	1,409,340
Liabilities in respect of deferred taxes, net	9,121	7,385	8,877
Liabilities with respect to employee rights upon retirement, net	2,537	1,944	2,326
Liabilities towards reinsurers	269,619	229,274	254,484
Liability with respect to current taxes	56,269	26,264	48,549
Payables	69,354	67,716	88,365
TOTAL LIABILITIES	1,900,331	1,710,980	1,811,941
TOTAL EQUITY AND LIABILITIES	2,493,509	2,196,560	2,389,045

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2013

	Three months ended March 31		Year ended December 31,
	2013	2012	2012
	(Unaudited)		(Audited)
	NIS in thousands		
Gross earned premiums	213,668	198,704	827,158
Premiums earned by reinsurers	(44,641)	(45,720)	(185,701)
Premiums earned on non-ceded business	169,027	152,984	641,457
Investment income, net	12,770	** 21,488	97,239
Commission income	12,211	13,626	47,628
TOTAL INCOME	194,008	188,098	786,324
Payments and movement in liabilities with respect to insurance contracts, gross	(150,302)	(62,189)	(403,690)
Share of reinsurers in increase of insurance liabilities And payments with respect to insurance contracts	55,982	47,048	152,790
Payments and movement in liabilities with respect to insurance contracts, retained amount	(94,320)	* (15,141)	* (250,900)
Commission, marketing expenses and other acquisition expenses	(35,202)	(36,735)	(147,372)
General and administrative expenses	(37,703)	(34,732)	(142,078)
Financing expenses, net	(1,523)	** (627)	(2,206)
TOTAL EXPENSES	(168,748)	(87,235)	(542,556)
PROFIT BEFORE TAXES ON INCOME	25,260	100,863	243,768
Taxes on income	(9,186)	(35,050)	(86,431)
PROFIT FOR PERIOD AND TOTAL COMPREHENSIVE INCOME FOR PERIOD	16,074	65,813	157,337
BASIC EARNINGS PER SHARE	2.86	11.69	27.95
Number of shares used in computation of basic earnings per share	5,630	5,630	5,630

* Following change to surplus reserve period in respect of the compulsory motor vehicle business, see note 3b.
** reclassified.

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2013

	Share capital	Share Premium	Other capital reserves	Retained earnings	Total
	NIS in thousands				
BALANCE AS OF JANUARY 1, 2013 (audited)	6	250,601	11,084	315,413	577,104
CHANGES DURING THE THREE MONTHS ENDED MARCH 31, 2013 (unaudited) **-**					
total net income and 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, 2012 (audited)	6	250,601	11,084	158,076	419,767
CHANGES DURING THE THREE MONTHS ENDED MARCH 31, 2012 (unaudited) **-**					
total net income and comprehensive income for three months ended March 31, 2012				65,813	65,813
BALANCE AS OF MARCH 31, 2012 (unaudited)	6	250,601	11,084	223,889	485,580
BALANCE AS OF JANUARY 1, 2012 (audited)	6	250,601	11,084	158,076	419,767
CHANGES DURING THE 2012 (audited)					
total net income and comprehensive income for year ended December 31, 2012				157,337	157,337
BALANCE AS OF DECEMBER 31, 2012 (audited)	6	250,601	11,084	315,413	577,104

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2013

	Three months ended March 31		Year ended December 31,
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	NIS in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash used in operating activities (Appendix A)	(7,765)	(37,853)	(15,557)
Interest received	12,102	13,530	40,660
Dividend received	195	919	3,680
Income taxes received (paid)	(1,723)	2,314	(25,021)
Net cash provided by (used in) operating activities	2,809	(21,090)	3,762
CASH FLOWS FROM INVESTING ACTIVITIES:			
Changes in asset cover for equity and non-insurance liabilities:			
Acquisition of fixed assets	(2,208)	(239)	(2,916)
Acquisition of Intangible assets	(579)	(1,644)	(11,202)
Net cash used in investing activities	(2,787)	(1,883)	(14,118)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22	(22,973)	(10,356)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	93,540	103,562	103,562
INFLUENCE OF FLUCTIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	392	272	334
CASH AND CASH QUIVALENTS AT END OF PERIOD	**93,954**	**80,861**	**93,540**

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

AIG ISRAEL INSURANCE CO. LTD.

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2013

	Three months ended March 31		Year ended December 31,
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	NIS in thousands		
APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES -			
Profit before taxes on income	25,260	100,863	243,768
Adjustments for- Income and expenses not involving cash flows:			
Increase in insurance contracts not depending on yield	37,617	(48,864)	(35,688)
Increase in deferred acquisition expenses	(7,273)	(7,823)	(11,533)
Increase (decrease) in liabilities with respect to employee rights upon retirement, net	211	(103)	279
Depreciation of fixed assets	1,260	1,187	4,775
Depreciation of intangible asset	1,503	1,115	5,453
Losses (gains), net on realization of financial investments:			
Marketable debt instruments	6,297	(2,934)	(40,324)
Non-marketable debt instruments	46	(229)	(1,072)
Marketable shares	(3,894)	(975)	(2,823)
Index linked certificates	(3,118)	(3,033)	(9,341)
Influence of fluctuation in exchange rate on cash and cash equivalents	(392)	(272)	(334)
	57,517	38,932	153,160
Changes in operating assets and liabilities:	15,135	17,864	43,074
Liabilities towards reinsurers	(32,276)	(55,259)	(160,121)
Investments in financial assets, net	(15,475)	(18,189)	(17,942)
Premiums collectible	(1,858)	203	(2,813)
Receivables	(19,011)	(6,955)	13,425
Payables	500	-	-
	(52,985)	(62,336)	(124,377)
Adjustments with respect to interest and dividend received:			
Interest received	(12,102)	(13,530)	(40,660)
Dividend received	(195)	(919)	(3,680)
Net cash (used in) operating activities	(7,765)	(37,853)	(15,557)

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

NOTE 1 - GENERAL

The company was incorporated in Israel on March 27, 1996 as a private company in which the shareholders have limited responsibility. The company commenced its insurance operations in May 1997. The company does not hold any subsidiaries or related companies.

In January 2013 AIG Corporation and Aurec Gold Investments Ltd. ("Aurec") entered into an agreement for the purchase of all of Aurec's holdings in the Company, subject to fulfillment of certain conditions as set out in the purchase agreement. On May 13, 2013 the transfer of shares to Global AIG was completed after the abovementioned conditions were met. The ultimate parent company of the company is American International Group Inc. (hereafter "AIG global Corporation" or "AIG"), which holds 100% of the ordinary shares of the company and 100% of the voting shares of the company.

Until the completion of the transfer of shares, AIG Global Corporation held 50% of the ordinary shares of the company and 51% of the voting shares of the company and Aurec Gold Investments Ltd. held 50% of the ordinary shares of the company and 49% of the voting shares of the company.

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

DEFINITIONS:

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

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

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

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

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

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

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

   As to change of surplus reserve period - see note 3.

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

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

NOTE 1 - GENERAL (continued):

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

10) Investment Method Regulations - The Supervision of Insurance Business Regulations (Investment Methods in Capital, Reserves and Liabilities of the Insurer), 2001 and amendments as amended.

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

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

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

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

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

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

17) Premium - Premium including fees.

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

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

a) The Company's condensed financial information as of March 31, 2013 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, 2012 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, 2012.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

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

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

2) New accounting standards applied for the first time:

a. New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2013

IAS 19 – "Employee Benefits" (Revised 2011)

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

- Actuarial gains and losses are renamed "Remeasurements of the net defined benefit liability (asset)" (hereinafter - remeasurements), which includes in addition to actuarial gains and losses certain elements as defined in IAS 19 Amendment. Remeasurements are recognized immediately in other comprehensive income. This eliminates the option to recognize actuarial gains or losses through profit or loss and the option to use the “corridor” approach.

- Past service costs will be recognized immediately in the period of a plan amendment; unvested benefits will no longer be spread over a future service period.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

- Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the "finance charge" and "expected return on plan assets" currently applied under IAS 19.

- The distinction between short term and long term benefits for measurement purposes shall be based on when payment is expected, not when payment can be demanded.

- Any benefit that has a future service obligation is not a termination benefit. A liability for a termination benefit is recognized when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs.

- There are additional disclosure requirements compared with IAS 19 in its present version.

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

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

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

The first-time application of the standard had no impact on the three months ended March 31, 2013. In connection with comparative information, there is no impact on the financial information.

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

b. 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 2012 financial statements, the Company specified new IFRS and additional amendments to existing IFRS, which have not yet become effective and have not been early adopted by the Company.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued):

b) According to an approval by the Supervisor, the company maintained prior to 2012 in the compulsory vehicle business a surplus reserve of five years compared to three years, as practice in the industry. Beginning in 2012, the company started maintaining a three-year surplus reserve, according to practice in the industry. For the three-month period ended March 31, 2012 and the year ended December 31, 2012, this change resulted in one-off decrease in the payments and the liabilities in respect of insurance contracts (gross); this change also resulted in a NIS 79.3 million increase in profit before taxes and a NIS 51.3 increase in total comprehensive profit and net income for the period.

NOTE 4 - SEGMENT INFORMATION

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

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

a. Life assurance sector

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

b. Health insurance sector

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

c. General insurance sector

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

d. Compulsory motor vehicle line

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

e. Motor vehicle property line

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

NOTE 4 - SEGMENT INFORMATION (Continued):

f. Flats insurance sector

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

g. Professional liability line

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

h. Other Property lines

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

i. Other liability lines

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

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, 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)
Profit 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

NOTE 4 - SEGMENT INFORMATION (continued):

	For the 3-month period ended March 31, 2012 (unaudited)				
	Life assurance	Health insurance	General insurance	Not apportionable to operating segments	Total
Gross earned premiums	21,001	48,094	129,609		198,704
Premiums earned by reinsurers	(4,994)	(5,801)	(34,925)		(45,720)
Premiums earned by non-ceded business	16,007	42,293	94,684		152,984
Investment income (loss), net	(253)	* 1,766	* 11,864	* 8,111	* 21,488
Commission income	944	1,882	10,800		13,626
Total income	16,698	45,941	117,348	8,111	188,098
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(8,179)	(26,957)	(27,053)		(62,189)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	2,431	1,173	43,444		47,048
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(5,748)	(25,784)	16,391		(15,141)
Commission and other acquisition expenses	(4,334)	(12,957)	(19,444)		(36,735)
General and administrative expenses	(6,774)	(7,809)	(20,149)		(34,732)
Financing income (expenses), net	-	* (45)	* (751)	* 169	* (627)
Profit (Loss) before taxes on income	(158)	(654)	93,395	8,280	100,863
Gross liabilities with respect to insurance contracts as Of March 31,2012	24,417	127,356	1,226,624		1,378,397

* Reclassified

NOTE 4 - SEGMENT INFORMATION (continued):

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

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

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)
Commission, 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 31,2013	601,855	140,276	59,797	193,574	74,716	267,733	1,337,951

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

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment:

	For the 3-month period ended March 31, 2012 (unaudited)						
	Compulsory motor vehicle	**Motor vehicle property**	**Personal Property**	**Professional liability**	**Other property branches (*)**	**Other liability branches (*)**	**Total**
	NIS in thousands						
Gross premiums	30,269	53,140	25,933	13,625	18,529	12,564	154,060
Reinsurance premiums	(427)	(28)	(3,770)	(11,299)	(17,797)	(10,801)	(44,122)
Premiums relating to non-ceded business	29,842	53,112	22,163	2,326	732	1,763	109,938
Change in balance of unearned premiums relating to non-ceded business	(4,279)	(7,257)	(3,352)	(342)	(85)	61	(15,254)
Premiums earned on non-ceded business	25,563	45,855	18,811	1,984	647	1,824	94,684
Investment income, net	6,532	1,376	* 914	* 1,332	* 236	* 1,474	* 11,864
Commission income	-	-	911	2,990	3,717	3,182	10,800
Total income	32,095	47,231	20,636	6,306	4,600	6,480	117,348
Increase in insurance liabilities and payments with respect to insurance contracts	58,006	(33,553)	(6,472)	(7,493)	(15,722)	(21,819)	(27,053)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	4,398	-	463	5,517	15,060	18,006	43,444
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	62,404	(33,553)	(6,009)	(1,976)	(662)	(3,813)	16,391
Commission, marketing expenses and other acquisition expenses	(3,048)	(5,236)	(2,573)	(3,281)	(2,614)	(2,692)	(19,444)
General and administrative expenses	(5,043)	(6,124)	(5,841)	(1,638)	(336)	(1,167)	(20,149)
Financing expenses, net	-	-	* (23)	* (311)	* (16)	* (401)	* (751)
Total expenses	54,313	(44,913)	(14,446)	(7,206)	(3,628)	(8,073)	(23,953)
Profit (loss) before taxes on income	86,408	2,318	6,190	(900)	972	(1,593)	93,395
Gross liabilities with respect to insurance contracts as of March 31,2012	566,411	125,859	55,564	180,777	69,744	228,269	1,226,624

* Reclassified

** The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 56% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 42% of the total premiums attributable to these branches.

NOTE 4 - SEGMENT INFORMATION (continued):

Additional information relating to general insurance segment

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

* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 86% of the total premiums attributable to these branches.
The results of other liability branches reflect mainly the results of the product warranty insurance branch, the operations of which attract 54% of the total premiums attributable to these branches.

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

NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:

Management and capital requirements:

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

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

   Company's existing capital with respect to the capital requirements

	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
The amount required under capital regulations and Supervisor guidelines (a)	452,892	405,717	436,785
Existing amount computed under capital regulations:			
Primary capital	593,178	485,580	577,104
Total existing capital existing computed under capital requirements	593,178	485,580	577,104
Surplus	**140,286**	**79,863**	**140,319**

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

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

	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	(Audited)
		NIS in thousands	
Operations related to general insurance	110,669	106,994	108,966
Exceptional life assurance risks	23,682	20,118	22,762
Deferred acquisition expenses in relation to life assurance	75,165	67,444	73,464
Investment assets and other assets	50,319	48,985	48,058
Catastrophe risk related to general insurance	165,958	137,316	158,058
Operating risks	27,099	24,860	25,477
Total	452,892	405,717	436,785

NOTE 6 - 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, 2013 is 35.90% (2012 – 35.53%).

NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS:

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

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

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

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

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

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

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

   On September 10, 2012, the plaintiffs filed an appeal to the Supreme Court, requesting that the Court cancels the ruling of the District Court and resumes discussions relating to the compensation payable to the plaintiffs, to expenses and legal fees. Alternatively, the plaintiffs request that the Supreme Court increases the said amounts. The Supreme Court shall hear the appeal on December 23, 2013. The plaintiffs are required to file the summary of their claims on August 15, 2013.

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

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

2) A legal claim and an application to approve the claim as a class action were filed against the company and 6 other insurance companies in December 2012. According to the plaintiffs, in 2007 the Transportation Ordinance was changed to the effect that the classification of the plaintiffs' vehicle was changed from a commercial vehicle to a private vehicle. Despite the change in classification as above, the insurance companies allegedly continued to classify the plaintiffs' vehicles as commercial vehicles for purposes of collection of comprehensive insurance/third party insurance and compulsory vehicle insurance, thereby collecting a higher premium. The premium was only collected in respect of vehicles through 2007, whereas for vehicles from 2008 and thereafter a lower premium was collected.

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

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

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

The Company's legal advisors are working on completing the answer to which is to be submitted to the court until May 30, 2013, fixed pre-trial case at July 7, 2013.

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

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

According to the plaintiff – Ms. Ilanit Nadav – she was insured under a compulsory vehicle insurance policy with the Israel Motor Insurance Pool (hereafter – "the pool").
According to the policy issued to the plaintiff, the insurance period commences at the date of payment of premium but not before April 1, 2008. The plaintiff paid the premium on April 7, 2008 – a day after she was injured in a car accident. The 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.

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

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 required to reply to the request for class action until May 31, 2013, fixed pre-trial case at July 14, 2013.

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

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	552,737

APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS

Details of financial investments:

	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 March 31, 2012 (Unaudited)		
	Measured at fair value through profit or loss	Loans and receivables	Total
	NIS in thousands		
Marketable debt instruments	992,110	-	992,110
Non-marketable debt instruments	-	56,671	56,671
Marketable shares	57,238	-	57,238
Index linked certificates	82,070	-	82,070
Total	1,131,418	56,671	1,188,089

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

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, 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 March 31, 2012 (Unaudited)	
	Book value	Reduced cost
	NIS in thousands	
Government debentures	725,995	718,640
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	266,115	264,147
Other marketable debt instruments that are convertible	-	-
Total marketable debt instruments	992,110	982,787

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

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, 2013 (Unaudited)	
	Book value	Fair value
	NIS in thousands	
Other marketable debt instruments that are not convertible	91,366	93,295
Total non-marketable debt instruments	91,366	93,295

	As of March 31, 2012 (Unaudited)	
	Book value	Fair value
	NIS in thousands	
Other marketable debt instruments that are not convertible	56,671	58,279
Total non-marketable debt instruments	56,671	58,279

	As of December 31, 2012 (Audited)	
	Book value	Fair value
	NIS in thousands	
Other marketable debt instruments that are not convertible	77,925	83,480
Total non-marketable debt instruments	77,925	83,480

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, 2013 (Unaudited)	
	Book value	Cost
	NIS in thousands	
Marketable shares	68,485	64,818

	As of March 31, 2012 (Unaudited)	
	Book value	Cost
	NIS in thousands	
Marketable shares	57,238	60,431

	As December 31, 2012 (Audited)	
	Book value	Cost
	NIS in thousands	
Marketable shares	68,284	68,141

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, 2013 (Unaudited)	
	Book value	Cost
	NIS in thousands	
Marketable financial investments	83,338	77,156

	As of March 31, 2012 (Unaudited)	
	Book value	Cost
	NIS in thousands	
Marketable financial investments	82,070	84,053

	As December 31, 2012 (Audited)	
	Book value	Cost
	NIS in thousands	
Marketable financial investments	93,487	89,488

Embedded value reporting
of
AIG Israel Insurance Company Ltd
As of December 31, 2012

Date issued: May 28, 2013

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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, 2012.

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 (ANW). 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, 2011, 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.

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.

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, mainly through the sensitivity to changes in discount rate. 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.

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 return curve of a Consumer Price Index (CPI) linked, risk-free interest. Risk-free interest rates (spot) as of 2012 year-end are:

Year-end	Interest rate	Year-end	Interest rate	Year-end	Interest rate
2013	-0.15%	2023	1.47%	2033	2.24%
2014	-0.19%	2024	1.59%	2034	2.30%
2015	-0.13%	2025	1.70%	2035	2.34%
2016	0.03%	2026	1.79%	2036	2.39%
2017	0.31%	2027	1.87%	2037	2.44%
2018	0.58%	2028	1.94%	2038	2.44%
2019	0.80%	2029	2.01%	2039	2.44%
2020	1.00%	2030	2.08%	2040	2.44%
2021	1.17%	2031	2.13%	2041	2.44%
2022	1.33%	2032	2.19%	2042	2.44%

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

Year	2012	2013	+2014
Tax rate	35.53%	35.9%	35.9%

- Profit tax (included in the above tax rates)
  The profit tax rate that was taken for preparing the calculations as follow:

Year	2012	2013	+2014
Tax rate	16.33%	17.0%	17.0%

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. In 2012, the capital requirements regulations were changed and the cost of capital is calculated in accordance with the new capital requirements.

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, 2011 – This item includes amendments relative to opening data, including changes to the calculation methodology. Some technical revisions to the model were made in 2012, with a total impact of NIS 1.3 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.

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 2012 – In 2012, the expected profit for 2012 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 2012 – 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 2012, 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 that affected the change in EV and are not explained by other items in this report.

8. The effect of inflation in 2012 – This item includes the effect of inflation in the reported year (2.55%) 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 2012 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. The one-time impact this year on the in-force resulted from changes in future tax rates on profits. At reporting period-end, the corporate tax rate and value added tax increased relative the rates that were in effect in the previous year, which caused a NIS 4.3 million decrease the in-force 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 2012 and thereafter, and not to the period from the time of sale through the end of 2012

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, 2012

Million NIS	EV on covered business in life and health insurance
Adjusted net worth (see 3.3 below)	529.7
Present value of future profits, net of tax	537.4
Less cost of required capital	-11.4
Embedded value	**1,055.8**

3.2 Value of new business from sales in 2012

Million NIS	VBN on covered business in life and health insurance
Value of new business before cost of required capital	86.04
Cost of required capital on new business	-4.55
Total value of new business	**81.49**

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

	Million NIS
Equity (Company balance sheet)	577.1
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)*	-73.5
Add - reserve for deferred tax on DAC	26.1
Less value of acquired insurance accounts and goodwill thereon, included in equity, net of tax	0
Adjusted net worth on covered business	529.7

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

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

	Section	**Adjusted net worth**	**Value of in-force**	**Embedded value**
Embedded value as of December 31, 2011		377.8	440.2	818.0
Adjustments to embedded value as of December 31, 2011	2.7.1	-	1.9	1.9
Adjusted embedded value as of December 31, 2011		**377.8**	**442.1**	**819.9**
Operating profit from in-force as of December 31, 2011				
- Change in operating and demographic assumptions	2.7.2	-	-15.3	-15.3
- Expected real growth	2.7.3	9.2	6.4	15.7
- Total profit expected to move from in-force to net worth in 2012	2.7.3	58.6	-58.6	-
- Effect of variation from operating and demographic assumptions in 2012 and other changes to in-force	2.7.4	-2.2	3.9	1.6
Total		**65.6**	**-63.6**	**2.0**
Profit from new business	2.7.5	-39.5	121.0	81.5
Development expenses not included in EV	2.7.6	-	-	-
Embedded value operating profit		**26.1**	**57.4**	**83.5**
Profit from exceptional items	2.7.7	-	-	-
Effect of inflation in 2012	2.7.8	3.5	6.4	9.9
Income from variation from economic assumptions in 2012 and change in economic assumptions	2.7.9	11.6	20.3	31.9
Total embedded value profit		**41.1**	**84.0**	**125.2**
Profit from non-covered business	2.7.10	110.8	-	110.8
Total embedded value profit of all Company business		**151.9**	**84.0**	**235.9**
Movements in equity	2.7.11	-	-	-
Total change in EV		151.9	84.0	235.9
Embedded value as of December 31, 2012		**529.7**	**526.1**	**1,055.8**

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	157.3
Items transferred through equity reserve	-
Comprehensive income (after tax)	**157.3**
Change in DAC before tax	-8.7
Tax on change in DAC	3.3
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	151.9
Movement in equity	0.0
Total change in adjusted net worth	**151.9**

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		1,055.8		81.5	
0.5% reduction in risk-free interest	2.8.7	18.0	1.7%	4.5	5.5%
10% increase in administration and general expenses		-38.0	-3.6%	-4.6	-5.6%
10% increase in cancellation rate		-51.3%	-4.9%	-10.4	-12.8%
10% increase in mortality rate	2.8.4	-54.5	-5.2%	-12.2	-15.0%
10% increase in morbidity rate	2.8.6	-73.8	-7.0%	-12.2	-14.8%

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

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