TRANSLATION

In the event of any discrepancy between the text of this document and the original in Hebrew, the latter will prevail.

PERIODIC REPORT
FOR THE YEAR 2010

PERIODIC REPORT FOR THE YEAR 2010

SECTION A:
DESCRIPTION OF THE BUSINESS OF THE CORPORATION

Contents

PART A: ACTIVITIES OF THE CORPORATION AND A DESCRIPTION OF THE DEVELOPMENT OF ITS BUSINESS

Pursuant to Regulation 8-C of the Securities (Periodic and Immediate Reports) Regulations, 5729-1970 (Hereinafter: "Securities Regulations"), the provisions of regulations 8(B), 8A and 8B of the Securities Regulations in relation to the period report, do not apply to the information in the periodic report of a corporation that has consolidated or has consolidated by relative consolidation - an insurer or where the insurer is an included company therein, insofar as this information concerns an insurer.

Since the main holdings of the Company are corporations that are insurers (Menorah Mivtachim Insurance Company Ltd. and via it also Menorah Mivtachim Pension Ltd. and Shomera Insurance Company Ltd.), the majority of this chapter was prepared in accordance with the circulars of the Commissioner of Insurance 3-1-2006, 1-1-2007, and 4-1-2010, which applied the aforementioned Securities Regulations with certain changes relevant to the nature of the activity of insurers, while sometimes establishing details that differ from those prescribed in the said regulations, as well as in accordance with other circulars that were issued by the Commissioner from time to time.

The chapter on financial services was prepared in accordance with the provisions of the Schedule to the Securities Regulations (Particulars of Prospectus, its structure and Form) 5729-1969).

1. Description of the general development of the Corporation's business

1.1 Definitions

The terms set forth below in the section entitled "Description of the Corporation's Business" shall have the meaning attributed to them, unless stated expressly otherwise:

"Institutional entity" – An insurer and a management company;

"Premium" – The sum which the insured pays the insurer for the policy;

"Contributions" – The sum paid by a member (employee, self-employed, or employer) of a pension fund, or a member of a provident fund, for the pension insurance or the savings in the provident fund, as the case may be;

"Fees" – Sums payable by the insured for covering the insurer's expenses, such as: registration fees, or for covering mandatory payments, such as various taxes and levies;

"The Financial Statements" – The Company's audited Financial Statements, as at December 31, 2010;

"The Company" – Menorah Mivtachim Holdings Ltd.;

"The Commissioner" or "The Commissioner of Insurance" or "The Commissioner" – The Commissioner of the Capital Market, Insurance and Savings at the Ministry of Finance, who is also the Commissioner of Insurance, as defined in the Supervision Law;

"The Group" – The Company and the companies which it controls, directly or indirectly;

"The Commissioner's Circulars" – Circulars, position papers and clarifications, published by the Commissioner or the Commissioner or the Commissioner;

"The Protection of Privacy Law" – The Protection of Privacy Law, 5741-1981;

"The Joint Investments in Trust Law" – The Joint Investments in Trust Law 5744-1994;

"The Companies Law" – the Companies Law, 5759-1999;

"The Insurance Contract Law" – The Insurance Contract Law, 1981-5741;

"The Pension Consulting Law" – The Supervision of Financial Services (Consulting, Marketing and Pension Clearance System) – 2005-5765 (in its former name: The Supervision of Financial Services Law) (Pension Consulting and Pension Marketing) Law – 2005-5765;

"The Securities Law" – The Securities Law 5728-1968;

"The Supervision Law" – The Supervision of Financial Services (Insurance) Law 1981-5741; (formerly: the Insurance Business (Supervision) Law, 1981-5741);

"The Provident Funds Law" – The Supervision of Financial Services (Provident Funds) Law-2005-5765;

"Underwriting" – The process of approving an insurance proposal form and the process of pricing the policy which is carried out, *inter-alia*, in accordance with actuarial assumptions (except in the matter of clause 7 below);

"Underwriting Commitment" – A commitment to purchase securities that are offered under a prospectus, if they are not purchased by the public, or a commitment to purchase securities that are offered under a prospectus for the purpose of selling them to the public;

"Underwriter" – A party bound by an underwriting commitment;

"Menorah Mivtachim Insurance" – Menorah Mivtachim Insurance Ltd.;

"Menorah Mivtachim Gemel" – Menorah Mivtachim Gemel Ltd.;

"Menorah Mivtachim Engineers" – Menorah Mivtachim and the Federation of Engineers Provident Fund Management Ltd.;

"Menorah Mivtachim Pension" – Menorah Mivtachim Pension Ltd.;

"Menorah Mivtachim Finances" – Menorah Mivtachim Finances Ltd., and the companies under its control, unless provided for expressly otherwise:

"Menorah Mivtachim Real Estate" – Menorah Mivtachim Real Estate Ltd.

"Income Tax Ordinance" or "The Ordinance" – The Income Tax Ordinance (New Version);

"Shomera" – Shomera Insurance Company Ltd. and the subsidiaries which it controls, unless otherwise expressly implied or stated;

“Retention” – The residual risk borne by the insurer after ceding part of the risk to the reinsurer;

“Manners of Investment Regulations” – The Supervision of Insurance Business Regulations (Manners of Investing an Insurer's Capital and Reserves and Management of its Obligations), 5760-2001;

“Minimum Equity Regulations” – The Insurance Business (Supervision) Regulations (Minimum Equity Required Of Insurer), 5758-1998;

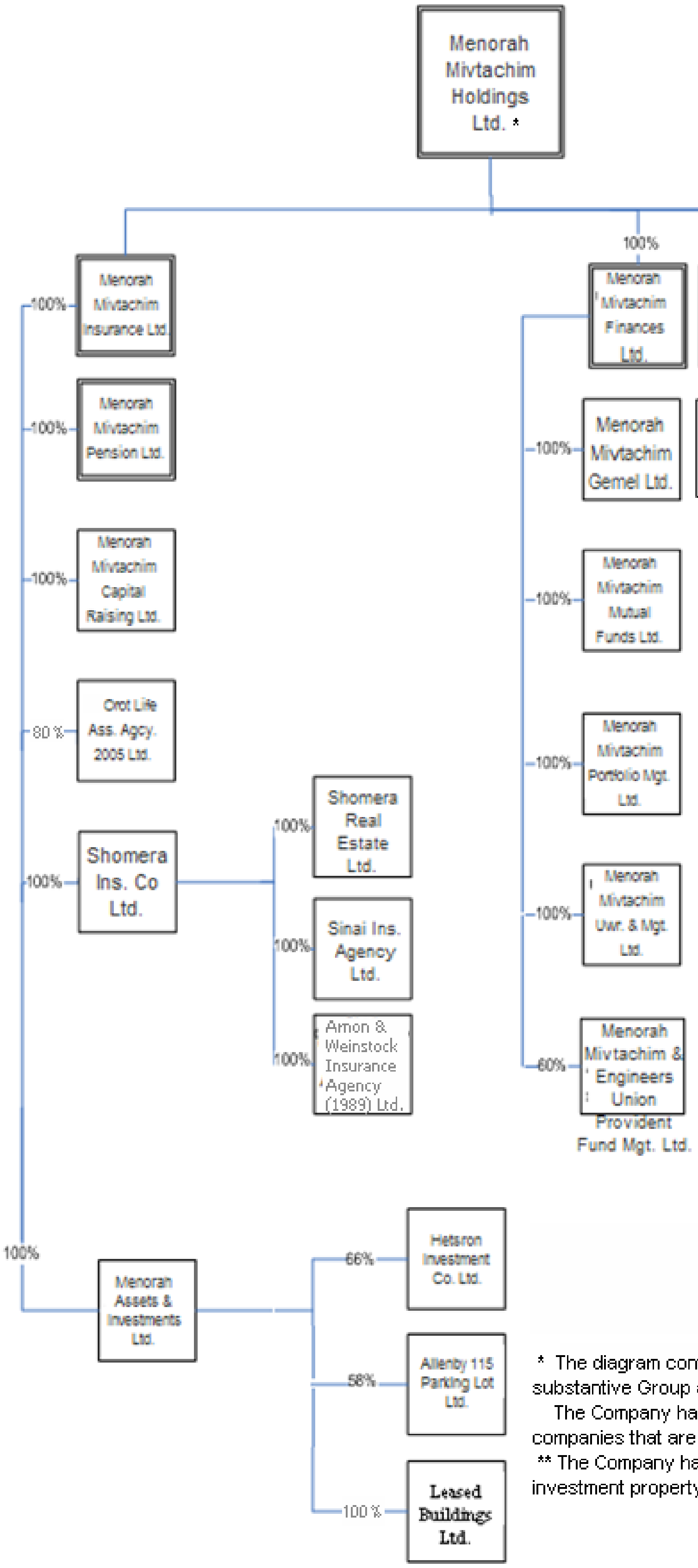
“Calculation Regulations” - Insurance Business (Supervision) Regulation (Manners of Calculating Allocations for Future Claims in General Insurance) 5745-1984;

“Details of Reporting Regulations” - Supervision of Insurance Business Regulations (Details of Reports), 1998-5758;

“Provident Funds Regulations” – Income Tax Regulations (Rules for the Approval and Management of Provident Funds), 1964-5724;

“S&P” **–** Standard & Poor's - an international credit rating company.

1.2 Organisational chart of the Group holdings as of 31st December 2010



* The diagram contains companies in which main and substantive Group activity takes place.
The Company has additional subsidiaries and dormant companies that are not included in the chart.
** The Company has further held companies involved in investment property.

1.3 Activities of the Corporation's activity and a description of its business development

1.3.1 Menorah Mivtachim Holdings Ltd. (Hereinafter: **"the Company"**) is a holding company, which as at the date of this report engages, through companies which it controls, in all major classes of insurance, including life assurance and long-term savings, motor insurance (compulsory and property) and other general insurance. In addition the Company engages, through companies which it controls, in activities in the capital market and financial sector, including the management of mutual funds, management of investment portfolios and underwriting. The Company engages in additional activities (which do not constitute "fields of activity", as the term is defined in The Securities Regulations (Particulars of a Prospectus and a Draft Prospectus, its Structure and Form, 5729-1969), such as investment in overseas real estate, through a company which it controls.

1.3.2 The Company was incorporated in Israel (Palestine) in 1935 as a private company under the name the General Liability Office Ltd. In 1948, the name of the Company was changed to "Menorah Liability and Reinsurance Company Ltd.". In 1976 the name of the Company was changed to "Menorah Insurance Company Ltd.", in 1998 the Company changed its name to "Menorah Holdings Ltd." (See, for this matter, clause 1.1.5), and in 2006 the Company changed its name to its present name.

1.3.3 In 1982 the Company made a public offering of the Company's shares on The Tel Aviv Stock Exchange Ltd. and it became a public company.

1.3.4 Since its incorporation, the Company has engaged in various classes of insurance, directly and through subsidiaries under its control.

1.3.5 In 1998 the insurance business of the Company was split into a subsidiary which it controls, that is currently called Menorah Mivtachim Insurance Ltd. (Hereinafter: **"Menorah Mivtachim Insurance"**).

In 2001, Manulife Menorah Insurance Company Ltd., a subsidiary of the Company that engaged in life assurance, was merged into another subsidiary of the Company, Menorah Mivtachim Insurance.

1.3.6 As of October 2004, the Company has been managing, through Menorah Mivtachim Pension Ltd. (formerly: "Menorah Pension Funds Ltd.") (Hereinafter: **"Menorah Mivtachim Pension"**), a company wholly owned and controlled by "Menorah Mivtachim Insurance" – the new comprehensive pension fund – "The New Mivtachim" (formerly: "Mivtachim Yoter"), which is the largest new pension fund in Israel (Hereinafter: **"The New Mivtachim"**) and the new general pension fund "The New Mivtachim Plus" (formerly: "Mivtachim Supplementary").

1.3.7 In 2005 the Company commenced, through a wholly owned subsidiary which is named today "Menorah Mivtachim Finance Ltd." (Hereinafter: **"Menorah Mivtachim Finance"**) engaging in operations in the capital market and financial sector. For details on the Company's activities in the financial sector, as at the date of this report see clause 7 below.

1.3.8 Menorah Mivtachim Gemel Ltd. (Hereinafter: **"Menorah Mivtachim Gemel"**) was established as a subsidiary of Menorah Mivtachim Pension in 1999 and commenced operations in the provident funds and advanced education funds sector in 2003. Since the transfer of activity, as aforementioned, Menorah Mivtachim Gemel has been managing provident funds, and its activity in this sector is expanding both by acquiring the operations of existing provident funds, as well as by forming new provident funds. For details about the activity of the management of the provident funds in the Group, see clause 3 below.

1.3.9 In August 2005, Menorah Mivtachim Mutual Funds Ltd. (Hereinafter: **"Menorah Mivtachim Funds"**) was established. In 2006 Menorah Mivtachim Funds commenced its operations, when it purchased the majority of the activities of the mutual funds management of Igud Mutual Funds Management (I.K.N.) Ltd. from Union Bank of Israel Ltd., as well as the majority of the activities of the mutual funds of Emda Mutual Funds Management Ltd. from Mizrahi Tefahot Bank Ltd. For further details about the management of mutual funds in the Group as at the date of this report, see clause 7 below.

1.3.10 In 2006 the Company began investing in real estate abroad through Menorah Mivtachim Real Estate Ltd.

1.3.11 In December 2007 Menorah Mivtachim Insurance purchased the shares of Shomera Insurance Company Ltd. (Hereinafter: **"Shomera"**), as well as the shares of Sinai Coverholders Insurance Agency (1989) Ltd. (in its new name Arnon and Weinstock Insurance Agency (1989) Ltd.) (Hereinafter: **"Arnon and Weinstock Agency"**). Shomera engages mainly in the motor vehicle insurance sector (compulsory bodily injury and casco) and property insurance, and it also has holdings in an insurance agency (Sinai Insurance Agency Ltd.) and real estate (via Shomera Real Estate Ltd.).

1.3.12 Furthermore, the Company has investments in several other subsidiaries as described in the aforementioned chart. Some of the real estate assets, offices and plots of land of the Company are held by Menorah Mivtachim Real Estate and Investments Ltd.

1.4 Fields of activity

The Group operates in the following main fields of activity:

1.4.1 Life assurance and long term savings: This field of activity includes the activities of life assurance and health insurance (long term), which provides cover for insured events arising from various risks in the course of a person's lifetime and includes also long term savings via Menorah Mivtachim Insurance.

Additionally the Group manages pension, provident and advanced education funds through the following subsidiaries: Menorah Mivtachim Pension, Menorah Mivtachim Gemel and Menorah Mivtachim Engineers. For further details see clause 1.4.7 below.

1.4.2 Compulsory motor bodily injury insurance: This sector provides insurance cover for bodily injury sustained as a result of using a motor vehicle, as required by law. The activity includes marketing and sales of compulsory motor bodily injury insurance policies, conducted in the Group through Menorah Mivtachim Insurance and Shomera.

1.4.3 Motor property (“casco”) insurance: This sector includes the Group’s activity in the marketing and sales of insurance policies covering third party property damage, including third party losses caused by insured vehicles and is conducted in the Group through Menorah Mivtachim Insurance and Shomera.

1.4.4 Other general insurance: This sector includes the remaining classes of insurance business. The main classes of insurance in this sector are liability insurance, property insurance, health insurance (short term), as well as activities that are not included in other fields of activity and is conducted in the Group via Menorah Mivtachim Insurance and Shomera.

Hereunder are details about the main classes included in the general insurance sector:

1.4.4.1 Liability insurance: This sector includes the Group’s activity in the marketing and sales of third party liability insurance policies.

1.4.4.2 Property insurance: In the framework of this class the Group engages in the marketing and sales of property insurance policies, other than motor casco insurance policies.

1.4.4.3 Health insurance (short term): In the framework of this class the Group markets and sells individual and group personal accident, illness and hospitalisation insurance policies (overseas travel insurance and cover for foreign workers and tourists)[1],

[1] The illness and hospitalisation classes of business also include medical expenses and dental insurance, but since they are long term policies, these classes of insurance are included under life assurance and long term savings.

This sector is conducted in the Group through Menorah Mivtachim Insurance and Shomera (on a small scale). For further details see clause 1.4.7 below.

1.4.4.4 **Remaining classes of general insurance:** Menorah Mivtachim Insurance has a minor involvement in other classes of general insurance such as: performance bonds and financial guarantees, surety insurance under the Sale Law, sick pay insurance (for covering the legal liability of employers towards their employees for paying sick pay) and other risks.

1.4.5 **Financial services and products:** In the framework of this sector the Group conducts the following activities: Management of mutual funds, management of investment portfolios and providing underwriting commitments, through the companies Menorah Mivtachim Mutual Funds Ltd., Menorah Mivtachim Management of Investment Portfolios Ltd., and Menorah Mivtachim Underwriting and Management Ltd., respectively that are owned by Menorah Mivtachim Finance.

1.4.6 **Other activities:** Additionally, the Company conducts other activities that are not included in the fields of activity described above since they are not significant enough to form a separate field of activity, among them development projects and investments in overseas real estate including investments in the solar energy sector through Menorah Mivtachim Real Estate, companies owned by the Company, and investments in other subsidiaries, all as detailed in clause 8.3.5 below.

A detailed description of the Group's fields of activity will be presented separately, except in matters relating to all the Group's fields of activity, which shall be described together in clause 8 below.

1.4.7 Starting from 1st January 2011, and due to a restructuring of the Group, the health insurance sector will be defined as a separate activity which will include, under this heading, various classes of health insurance (both short term and long term), and will similarly be reported as a separate sector starting with the financial reports of the Company for the first quarter of the year 2011. It should be pointed out that as of 2010, the information and the data presented in this periodic report reflects the Group activities as of 2010, as it was in practice, i.e. short term health insurance data is included in the general insurance activities sector and long term health insurance data is included in the life assurance and long term savings insurance sector.

1.5 Investments in the Corporation's equity and transactions in its shares

No investments have been made with the Company's equity in the two years preceding the date of this report, neither have any material transactions been executed by an interested party in the Company, outside of the framework of the stock exchange, other than the issue of shares in the framework of and by virtue of a share scheme to the CEO of the Company, to a trust company for him.

For further details regarding the share scheme for the CEO of the Company, see clause 8.6.10 below as well as note no. 32 to the Financial Statements.

1.6 Distribution of dividends

The Company has not distributed any dividends in the two years preceding the date of this report.

PART B: FINANCIAL INFORMATION REGARDING THE CORPORATION'S FIELDS OF ACTIVITY

2. Financial information regarding the Company's fields of activity

2.1 Summary of results of operations

Hereunder is financial information regarding the results of the fields of activity (in NIS thousands):

	Consolidated		
	2010	**2009**	**2008**
Profit from life assurance & long term savings	222,524	340,737	13,344
Profit (loss) from compulsory motor bodily injury insurance	79,219	74,815	(47,506)
Profit (loss) from motor casco insurance	6,948	40,008	(286)
Profit from other general insurance	71,765	100,056	336
Profit (loss) from financial services and products	10,339	29,868	(50,130)
Other	43,920	8,279	(215,339)
Pre-tax profit (loss)	434,715	593,763	(299,581)
Income tax (tax benefits)	152,768	190,793	(67,451)
Net profit (loss)	**281,947**	**402,970**	**(232,130)**
Attributed to:			
Company's shareholders	281,616	402,798	(231,784)
Minority interests	331	172	(346)
Net profit (loss)	**281,947**	**402,970**	**(232,130)**

The net profit in reporting period totalled approx. NIS 282 million compared to approx. NIS 403 million in 2009 and compared to a loss of approx. NIS 232 million in the year 2008. The decrease in profit arises from an decrease of approx. NIS 118 million in life assurance and long term savings activities, an increase of approx. NIS 5 million in the compulsory motor bodily injury insurance sector, a decrease of approx. NIS 33 million in the motor casco insurance sector, a decrease of approx. NIS 28 million in the other general insurance sector, a decrease of approx. NIS 19 million in the financial services and products sector and an increase of approx. NIS 36 million in other activities that were not attributed to the said sectors.

The decline in net profit in the year 2010 compared to 2009 arises predominately from an increase in administrative and general expenses (including expenses which were attributed to acquisition costs and expenses in respect of claim payments), from an increase in liabilities and payments for insurance contracts, from a decrease in profits from investments from insurance business (both life and general) and on the other hand an increase in profit from other activities.

For details on the changes in profitability of the various reported sectors, see explanations in clause 2.2 below. For details of total profit (loss) in accordance with the sectors of activity, see clause 3.4 of Part B (Directors' Report),

2.2 Financial information regarding the Corporation by fields of activity

2.2.1 Insurance activity

2.2.1.1 Class 'A' – Life assurance and long term savings

Data in respect of the life assurance and long term savings sector (in NIS thousand):

	2010	2009	2008
Gross premiums	2,001,514	1,827,732	1,783,022
Net retained premiums	1,793,209	1,624,483	1,583,737
Pre-tax profit	222,524	340,737	13,344
Total liabilities in respect of insurance contracts and investment contracts, gross	21,383,559	19,191,570	15,524,805
Total liabilities in respect of insurance contracts and investment contracts which are not yield-dependant	9,473,864	8,950,707	8,415,497
Total liabilities in respect of insurance contracts and investment contracts which are yield-dependant	11,909,695	10,240,863	7,109,308

Life assurance (in NIS thousands):

	2010	2009	2008
Gross premiums	2,001,514	1,827,732	1,783,022
Premiums retained	1,793,209	1,624,483	1,583,737
Pre-tax profit (loss)	73,914	198,449	(30,034)
Total liabilities in respect of insurance contracts and investment contracts, gross	17,039,228	15,004,175	11,889,518
Total liabilities in respect of insurance contracts and investment contracts which are not yield-dependant	5,131,032	4,765,981	4,661,675
Total liabilities in respect of insurance contracts and investment contracts which are yield-dependant	11,908,196	10,238,194	7,227,843

The life assurance premiums totalled NIS 2,002 million in 2010 compared to NIS 1,828 in 2009 and compared to NIS 1,783 million in 2008, increases of 10% and 3% respectively. The percentage increase in 2010 is higher than the percentage increase in 2009 due to the ongoing economic recovery (which commenced in the second quarter of 2009) and from one-off premiums of NIS 199 million (of which NIS 125 million were received for government office tenders for immediate payment to retirees of the same offices) compared to one-off premiums of NIS 74 million in 2009 (of which NIS 35 million in respect of government offices).

The pre-tax profit from life assurance and long term savings business in the year 2010 totalled the sum of approx. NIS 74 million compared to a profit of approx. NIS 198 million in 2009 and compared to a loss of approx. NIS 30 million in the year 2008.

The decline in profit from life assurance business arises from an increase of approx. NIS 92 million in liabilities for insurance contracts and payments for insured events (including in respect of updating reserves, actuarial assumption and estimates), from an increase in administrative and general expenses and commissions (including expenses which were attributed as acquisition costs and expenses in connection with claim payments) in the sum of approx. NIS 46 million mainly due to an increase in the number of staff and expenses in respect of depreciation and automation, from a decline in income from investments in respect of policies which do not contain a savings element (and which are not included in the financial margin) in the sum of NIS 34 million arising from the fact that in 2010 the capital market yield was lower than the yield in 2009. On the other hand, there is an increase in the financial margin including income from management fees and income from investments for yield dependant policies in the sum of approx. NIS 89 million arising from the fact that the management fees increased by approx. NIS 120 million owing to the fact that the Company charged variable management fees during the whole of the year 2010 compared to the year 2009 in which variable management fees were charged only in the last quarter of 2009, after investment losses for the year 2008 were covered (NIS 109 million in 2010 compared to NIS 10 million in 2009) in addition to which the fixed management fees increase from NIS 72 million in the year 2009 to NIS 92 million in the year 2010 due to an increase in the scope of managed assets whereas on the other hand income from investments in respect of policies containing a savings element declined by approx. NIS 51 million.

Pension funds (in NIS thousand):

	2010	2009	2008
Contributions collected	4,203,323	3,650,839	3,238,935
Income from management fees, net	279,447	246,964	226,562
Profit before taxes	96,015	91,872	78,706
Sum of managed assets	34,114,481	27,811,825	19,882,846

Income from management fees increased by approx. NIS 32 million, an increase of approx. 13% compared to the year 2009. This increase arises from an increase in the scope of income from management fees from contributions which were charged, at a rate of 15%, as well as from an increase in the scope of income from management fees from the accrual, in light of the increase in the scope of accrued assets which increased by a rate of 22%. The scope of managed assets increased due to the increase in income from investments over the scope of the managed assets as well as from a positive accumulation arising mainly from an increase in the collection of contributions in the year 2010 compared to 2009.

The marketing, administrative and general expenses increased in the period of the report by approx. NIS 21 million, an increase of approx. 14% compared to the year 2009. The increase arises mainly from an increase in the number of staff and from computer expenses in the management company of the pension fund.

Provident funds (in NIS thousand)

	2010	2009	2008
Contributions collected	1,460,761	1,540,266	1,300,341
Income from management fees	76,259	63,302	49,442
Profit (loss) before taxes	52,595	50,416	(35,328)
Sum of managed assets	12,618,235	11,357,486	9,155,116

Income from management fees rose by approx. NIS 13 million, an increase of approx. 20% compared to the corresponding period last year. The rise is due to an 11% increase in the volume of managed assets arising from increases in values in the capital market and on the other hand the net income in respect of yield guaranteeing provident funds declines declined by approx. NIS 2 million (NIS 40 million in the year 2010 compared to approx. NIS 42 million in the year 2009).

Marketing administrative and general expenses increased by approx. NIS 8 million – an increase of approx. 19% compared to the corresponding period last year, arising mainly from an increase in the number of staff.

2.2.1.2 Class B – Compulsory motor bodily injury insurance (in NIS thousand)

	2010	2009	2008
Gross premiums (including fees)	602,065	621,979	557,301
Retained premiums	490,029	600,968	539,512
Pre-tax profit (loss)	79,219	74,815	(47,506)
Total underwriting liabilities - gross	2,365,254	2,178,784	1,927,671
Reserve for unexpired risk	262,020	259,302	239,198
Outstanding claims:			
Actuarial estimate	1,941,557	1,836,849	1,649,270
Addition / deduction in respect of difference between actuarial estimate and provision in financial statements	17	28	6
Sum of accrual	161,660	82,605	39,197

In the year 2010 the gross premiums in the motor casco sector declined by approx. NIS 20 million compared to the year 2009. The decline arises from a change made in the sector according to which the outlay of approx. NIS 55 million for medical treatments (reflecting 9.4% of the premium) will be funded by the health funds (effective from January 2010) whereas the premium for the purpose of funding these expenses is transferred to Karnit. On the other hand the premium increased by a rate of approx. 5% which offset part of the decline in premium as aforementioned. The pre-tax profit in the year 2010 was approx. NIS 79 million compared to a profit of approx. NIS 75 million in the corresponding period last year. The increase in profit arises mainly from an increase in the release from accrual in the sum of approx. NIS 25 million and on the other hand a negative claims development (changes to the reserves for the closed years) in the sum of approx. NIS 12 million and in respect of a profit in the sum of approx. NIS 9 million which was registered in the year 2009 cancelling out a loss which was registered in the year 2008 in respect of the 2008 underwriting year due to the fact that according to the accounting method used in the industry (surplus income over expenses) the Company can recognise profits in the open years up to the amount of the losses which were registered in the previous years.

Distribution of profit (loss) in retention by field of activity (in NIS thousand)

	2010	2009	2008
Profit (loss) in respect of open years *	15,922	22,863	(44,414)
Underwriting year released	2007	2006	2005
Profit in respect of underwriting year released	40,418	15,010	16,061
Adjustments in respect of underwriting years released in previous years	22,879	36,942	(19,153)
Total profit reported	**79,219**	**74,815**	**(47,506)**
Activity not included in calculation of reserves	17,093	13,530	(52,884)
Loss from Pool business	(33,451)	(16,397)	(46,803)

* The profit (loss) in respect of the open years includes the profit (loss) in respect of activities which were not included in calculation of the reserves.

In the year 2010 the profit was generated from several sources: (1) Profit in respect of the underwriting year that was released this year in the sum of approx. NIS 30 million; (2) Profit that was recognised in respect of the open years and adjustments in respect of the underwriting years that were released in previous years. In the year 2010, a profit was generated arising mainly from activities that were not included in the calculation of the reserves in the sum of approx. NIS 17 million, and adjustments in respect of underwriting years that were released in the sum of approx. NIS 23 million.

The major factor in the adjustments in respect of the underwriting years released in previous years (closed years) arises from a change in the outstanding claims reserves. In 2010 there was a positive development (albeit less than the corresponding period last year) in claims on the one hand and on the other hand a decline in income from investments.

The amount in respect of activities that were not included in the calculation of the reserves arises from the difference between the actual administrative and general expenses and the expenses that were imputed in the calculation of outstanding claims and the amount of income from investments in the open years exceeding 3% in real terms, in accordance with the directives of the Commissioner.

Data on underwriting years 2003-2019 (in NIS thousand *)

	Open underwriting years			**Closed underwriting years**				
Underwriting year	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Gross premiums (incl. fees)	607,549	622,286	557,316	529,830	497,166	508,804	479,770	337,523
Profit (loss) in net retention for underwriting year accrued up to 31.12.09	(896)	3,836	4,527	48,823	23,592	44,956	117,799	83,924
Surplus income over expenses – retained	7,743	77,427	69,107	--	--	--	--	--
Impact of investment income on accrued profit / surplus for underwriting year	13,403	58,280	81,324	93,072	92,515	96,679	102,100	85,590

In 2003 there was a substantial increase in premiums, following the cessation of operations of Avner that operated as a co-insurer in the class of business. A loss was posted in the net retention in underwriting year 2010, as compared with previous years, mainly due to the policy of Menorah Mivtachim Insurance not to capitalise the outstanding claims, while the premiums collected were calculated on the assumption of capitalisation.

During the reporting year, there was an improvement in the result of underwriting years 2003-2007 other than the year 2005 in which there was a deterioration due to updated reserves.

2.2.1.3 Class 'C' – Motor casco insurance (in NIS thousand)

	2010	**2009**	**2008**
Gross premiums (including fees)	902,069	877,843	836,971
Premiums in net retention	668,572	675,426	774,784
Pre-tax profit (loss)	6,948	40,008	(286)
Total Underwriting liabilities, gross	578,640	551,567	526,999
Reserve for unexpired risks	391,432	375,675	364,021
Outstanding claims:			
Actuarial estimate	187,093	175,782	162,978
Addition / deduction in respect of difference between the actuarial estimate and the provision in the financial statements	115	---	---

In the year 2010 the gross premiums in this sector increased by approx. NIS 24 million compared to the year 2009.

The pre-tax profit in the reporting period is approx. NIS 7 million compared to a profit of approx. NIS 40 million in the corresponding period last year. In the reporting period there was a deterioration in the loss ratio compared to last year as well as due to an increase in income from investments.

Insurance premiums originating in insurance policies in respect of which more than 90% reinsurance has been purchased (in NIS thousand):

	2010	2009	2008
Total gross premiums (including fees)	65,138	105,607	-
Total net retained premiums	4,560	42,044	-

2.2.1.4 Class 'D' – Other general insurance (in NIS thousand)

The following data in this class of business distinguishes between liability insurance, property insurance, and other classes of insurance:

	2010	2009	2008
Gross premiums (including fees)	775,153	777,996	763,051
Net retained premiums	364,062	376,973	439,128
Pre-tax profit	71,765	100,056	336
Total underwriting liabilities, gross	1,388,812	1,244,770	1,155,049
Reserve for unexpired risks	283,930	278,551	275,486

In the year 2010 the premiums in this sector remained almost unchanged compared to the year 2009. Regarding the split of premiums between classes of business see below.

The pre-tax profit in the year 2010 was approx. NIS 72 million compared to a profit of approx. NIS 100 million in corresponding period last year. For details of the changes in profit see below.

Liability insurance (in NIS thousand)

	2010	2009	2008
Gross premiums (including fees)	239,570	245,908	243,834
Premiums retained	125,711	136,358	164,712
Pre-tax profit	35,697	48,577	(2,464)
Total underwriting liabilities, gross	984,473	897,395	808,994
Reserve for unexpired risks	99,521	98,473	99,328

Outstanding claims in respect of lines assessed by actuary:

	2010	2009	2008
Actuarial estimate	502,425	496,388	441,234
Addition (deduction) in respect of actuarial estimate	2,747	4,757	2,656
Sum of accrual	154,837	125,860	139,770

Outstanding claims in respect of lines not assessed by actuary:

	2010	2009	2008
Estimates by claims department of identified claims	105,409	94,577	44,834
Addition to outstanding claims in respect of IBNR	4,963	5,646	5,620
Sum of accrual	113,571	71,704	75,552

Insurance premiums originating in insurance policies in respect of which more than 90% reinsurance was purchased (in NIS thousand):

	2010	2009	2008
Total premiums, gross	55,971	49,652	34,327
Total net retained premiums	10,950	9,634	6,538

Split of profit (loss) in net retention of liability insurance (in NIS thousand):

Reporting year	**2010**	**2009**	**2008**
Profit (loss) in respect of open years *	(9,089)	(14,601)	(38,812)
Underwriting year released during reported year	2007	2006	2005
Profit in respect of underwriting year released during reported year	56,239	43,016	17,881
Adjustments in respect of underwriting years released in previous years	(19,891)	20,162	26,905
Total profit reported	35,697	48,577	(2,464)
Activity not included in calculation of reserves	(7,060)	(10,833)	(20,668)

*) The profit (loss) in respect of the open years includes the profit (loss) in respect of activities which were not included in calculation of the reserves.

The decline in profit from the liability classes of business in the sum of NIS 13 million (the sum of NIS 49 million compared in 2010 to NIS 36 million in the year 2009 arising from a reduction in the release from accrual compared to the corresponding period last year, due to large claims in the Directors and Officers Liability class of business in respect of the 2007 underwriting year and a decline in income from investments and on the other hand due to an underwriting improvement mainly in the Employers' Liability and Third Party Liability classes of business.

Data on underwriting years 2003-2010 in respect of liability insurance (in NIS thousands *)

	Open underwriting years				Closed underwriting years			
Underwriting year	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Gross premiums (incl. fees)	234,553	243,303	247,920	247,048	229,419	222,793	200,929	178,521
Profit (loss) in net retention for underwriting year accrued up to 31.12.10	(14,305)	(3,087)	(994)	(3,964)	29,331	52,332	66,990	47,159
Surplus income over expenses – retained	28,907	55,951	44,991	1,713	2,040	-	-	-
Impact of investment income on accrued profit / surplus for underwriting year	2,813	12,886	27,752	30,508	37,860	35,665	33,612	41,598

During the entire period from 2003 to 2007, there has been an increase in premiums in this field of activity as a result of an increase in the Group's activity in this field. The year 2008 was affected significantly by the decrease in the rate of exchange of the US Dollar and hence no growth in the year 2007 is apparent. Starting from 2009, there was a decrease in premiums in the Directors and Officers Liability Insurance class of business, which arose from a decline in activity in the financial institutions sector.

The decrease in losses in the open underwriting years arises, as aforementioned, from an improvement in the development of the Employers' Liability and Third Party Liability classes of business in the year 2010.

Property insurance (in NIS thousand)

	2010	2009	2008
Gross premiums (including fees)	535,583	532,088	519,217
Premiums retained	238,351	240,615	274,416
Pre-tax profit	36,068	51,479	2,800
Total underwriting liabilities, gross	404,339	347,375	346,055
Reserve for unexpired risks	184,409	179,878	176,158

Outstanding claims in respect of lines assessed by actuary:

	2010	2009	2008
Actuarial estimate of outstanding claims	219,930	167,497	169,897
Addition (deduction) in respect of difference between actuarial estimate and provision in financial statements	--	--	--

In 2010 there was an increase in gross premiums in this sector of approx. NIS 4 million as compared with 2009. In the year 2010 there was a decline in profit of approx. NIS 15 million compared to the corresponding period last year. The reduction in profit arises mainly from a deterioration of the loss ratio compared to last year and from a decline in income from investments.

Insurance premiums originating in insurance policies in respect of which more than 90% reinsurance was purchased (in NIS thousand):

	2010	2009	2008
Total premiums, gross	103,004	106,564	74,805
Total net retained premiums	17,204	17,482	11,316

2.2.2 Non-insurance activity

Financial services (in NIS thousand) (not including the share of the provident funds line in the results, which was included under Long Term Savings).

	2010	**2009**	**2008**
Total income	99,995	74,089	63,180
Income from management fees and commissions from external sources	2,468	5,961	1,072
Income from management fees and commissions from non-external sources	3,166	29,492	(12,303)
Income from investments, net	105,629	109,542	51,949
Total income	12,137	11,429	8,728
Costs that constitute income of other fields of activity	76,071	58,924	54,239
Costs that do not constitute income of other fields of activity	88,208	70,353	62,967
Total costs	7,082	9,321	39,112
Amortisation of goodwill and intangible assets	**10,339**	**29,868**	**(50,130)**
Operating profit (loss) before taxes	**211,271**	**203,800**	**203,922**
Total assets in balance sheet	99,995	74,089	63,180

The decrease in profit in the sum of NIS 19 million (NIS 11 million in the year 2010 compared to NIS 30 million in the year 2009) is from a decline in profits from investments in the sum of approx. NIS 26 million, an increase in distribution commissions, operational expenses and management fees in the sum of approx. NIS 15 million and on the other hand from an increase in income from management fees and underwriting commissions in the sum of approx. NIS 23 million, due to an increase in the volume of the assets managed by Menorah Mivtachim Mutual Funds and above which in underwriting commissions.

PART C: DESCRIPTION AND INFORMATION REGARDING THE CORPORATION'S FIELDS OF ACTIVITY

3. Life assurance and long term savings

3.1 General information about the fields of activity

This field includes the Group's activity in the classes of life assurance, pensions, and provident funds.

The life assurance sector provides cover for insurance events associated with a person's financial situation which arise from various risks, such as: death, incapacity to work, disability, long term care, critical illness, medical expenses, dental insurance (Hereinafter: **"risk"**), whereas some insurance schemes also include a component of monetary accrual (Hereinafter: **"savings"**). The combination of the two elements (risk and savings), in a combined policy, or in separate policies, depends on the insured's wishes and his personal needs. Life assurance policies are long term policies and can be purchased individually or in the framework of employment relationships (**"executive insurance"**). The Group's activity in life assurance is carried out through Menorah Mivtachim Insurance, a subsidiary controlled by the Company. As of 2006 the Group commenced selling life assurance policies that are based on pure savings (no risk), mainly in TOP FINANCE products.

The pension sector offers insureds the option of long term pension savings (old age pension), as well as cover in the case of disability (disability pension), and death (survivors' pension). The Group's activity in the pension sector is carried out through Menorah Mivtachim Pension, a wholly owned subsidiary of Menorah Mivtachim Insurance that operates as a management company of the pension funds.

The provident funds sector offers the saver (Hereinafter: **"member"**) a further long term or medium term savings plan, while receiving various tax benefits and the option (at certain conditions) of withdrawing the money accrued as a lump sum. Personal provident funds for social insurance are long term provident funds. (In personal provident funds for social insurance, the withdrawal in a lump sum will be allowed only in respect of sums deriving from deposits made therein until the end of 2007, in view of the provisions of the amendment to the Provident Funds Law, as detailed in clause 3.1.1 below, and with respect to deposits made therein from January 2008 onwards, they operate as non-annuity-paying provident funds). Advanced study funds are medium term provident funds. Personal provident funds for severance pay are for variable periods in accordance with the period of employment and the preferences of the member (in respect of deposits made therein from January 2008 onwards they also act as non-annuity paying provident funds, however the severance pay funds may be withdrawn from them as a lump-sum, even if they were deposited therein from January 2008 onwards). Central funds for severance pay (that were closed under the provisions of the Amendment to the Provident Funds Law, for deposits of employees, in respect of whom deposits were not made in 2007, and under the same provisions were closed to deposits from the year 2011 onwards) and provident funds for other purposes are usually short term provident funds designated for members of certain types only. The Group's activity in the provident funds sector is carried out through Menorah Mivtachim Gemel and Menorah Mivtachim Engineers (formerly – Engineers Advanced Study Fund Management Company Ltd.), wholly owned subsidiaries of Menorah Mivtachim Finances.

The nature of sales, types of policies, insurance plans, provident funds and pension funds sold to the public at large in the fields of life assurance and long term savings, are very much affected by regulatory amendments, the Group's policy and the customers' variable needs and preferences.

3.1.1 Structure of the field of activity and the changes therein

In recent years many changes have occurred in the life assurance and long term savings sector, which have affected or are liable to affect the Company's activity in this sector, including the changes effected following the recommendations of the Bachar Committee that were set out in legislation, as detailed at length in clause 3.1.2.1 below. The Bachar legislation includes, *inter-alia*, the definition of a consultant/distributor as distinguished from a salesman, while allowing the banks to act exclusively as consultants / distributors. Likewise, pursuant to this legislation, the customer shall be the one to choose the product and the company that suit him best, after having received the best advice from the consultant / distributor or the salesman. The change, as aforementioned, signifies shifting the focus of the market to the end customer i.e. the employee, such that the scope of his involvement and influence will be greater. Amongst other things by way of new definitions and rules applicable to the consultant / distributor or the salesman, as detailed at length in clause 3.1.2.1, this conceptualisation of shifting the focus in the market to the end customer is expected to continue and be reflected in directives that will be derived from the plan to increase competition in the pension savings market that the Commissioner recently published as detailed in clause 3.1.2.1 (W).

Enabling the banks to act as pension consultants, due to their extensive spread and considerable accessibility to the public, will result, almost certainly, in an increase in the share of the banks in the distribution activities in the sector, a matter which is liable to have ramifications on the existing marketing and distribution channels of long term savings products and their cost. The Group assesses that the entry of the banks into the field of distributing pension products is still at a preliminary stage. Only after the banks complete their preparations and start distributing all of the pension products both to self-employed and employed individual, will it be possible to assess the overall effect of the change, which at this stage has not yet been fully exhausted. **The Company's estimate is forward looking information, which is based on an analysis of the developments in the sector. These forecasts**

may not be realised, in the event of further legislative amendments, or in the event that consumer behaviour will change.

The government's policy in recent years is to encourage savings in the annuity tracks (executive insurance and self-employed insurance in annuity tracks and pension funds), rather than promoting the capital tracks (personal provident funds for social insurance and for severance pay and executive insurance in capital tracks), in order to ensure the dignified subsistence of citizens after retirement age. The main step that has been taken in this context in the last few years was Amendment 3 to the Provident Law, in January 2008, according to which all funds deposited in the provident funds for long term savings will be designated for annuity payments only.

In January 2008 the Extension Ordinance of the General Collective Agreement dated November 2007 came into force, which prescribes an arrangement for compulsory pension insurance for all employees, and applies the provisions of the said Collective Agreement to the general economy. The provisions of the Collective Agreement and the Extension Ordinance (Hereinafter together: **"Compulsory Pension Arrangement"**) prescribes that if an employee makes no other choice, he will be insured within the framework of a new comprehensive pension fund. It is from here that the Compulsory Pension Arrangement brought salaried employees, who in the past did not save at all, into the circle of long term savers, mainly in the pension sector. The Compulsory Pension Arrangement establishes a graded arrangement with respect to the rates of contributions from the insured wages, which is estimated as a relatively low wage, and consequently part of the contributions that were deposited in respect of these employees in the years 2008-2010 were relatively low and the Company estimates that also the contributions that will be deposited in the coming years – according to the provisions of the Compulsory Pension Arrangement, are not expected to be significant. **The Company's estimate is forward looking information, which is based on an analysis of the provisions of the Compulsory Pension Arrangement. These forecasts may not be realised, in the event of further legislative amendments, or in the event that consumer behaviour will change.**

In September 2010 a collective arrange was signed between the Histadrut and the Liaison Bureau of the Workers Organisations which amends the existing agreement for comprehensive pension insurance in the market (compulsory pension), according to which in the year 2014 the percentage deposits in the Compulsory Pension Arrangement will be increased to stand at 17.5%. As long as the Trade and Industry Minister anchors the amended agreement as aforementioned in and Extension Ordinance, the said arrangement will apply to all employees in the market in 2014.

The Government's policy in the last decade, as aforementioned, is to encourage long-term savings designated for annuities which begin at retirement age. Under the Income Tax Ordinance and the regulations enacted by virtue thereof, higher benefits are provided when a customer acquires a pension fund or an annuity policy. In the late 1990's amendments were made to the provident funds regulations, whereby a self-employed person who saves in an annuity track would be able to receive his accrued savings exclusively by way of annuities, since receiving the accrued savings as a capital sum would be liable to high taxation. Since 2000 this rule applies also to savings in executive insurance policies which are designated for annuities. The sum of the annuity which an Insured will receive is derived by dividing the insured's sum of accrued savings by an annuity coefficient which was determined in accordance with the provisions of the policy. Following the aforementioned change and in light of longer life expectancy, the insurance companies changed the annuity coefficients in the policies marketed from that date onwards. In the case of policies which are marketed after the said change, the customer will receive a lower monthly annuity than the annuity received by a customer who purchased a policy in the previous period, but who attained an identical sum of accrued savings. As of 2001 the Group issues annuity policies which, provided that certain conditions are met, entitles the insured to alter the annuity coefficient specified in the policy after having received the approval of the Commissioner to effect the change. In light of Amendment No. 3 to the Provident Funds Law it was decided to convert the coefficients detailed in these policies (that were issued from 2001 onwards) into guarantee coefficients which contain a life expectancy guarantee for the insured. Effective from 2008, predominately due to the Amendment to the Provident Law, the Group also began marketing life assurance policies that contain an undertaking for an annuity coefficient on the policy issue date, i.e. an undertaking to set an annuity coefficient based on the mortality rates known on the policy issue date (which is distinguishable from the mortality rates on the retirement date) however not to link it to the Consumer Price Index of the accrued monies, and to the amount of annuity payable to the pensioner which shall be linked to investment profits actually obtained. Similarly, Menorah Mivtachim Insurance decided in the year 2009 to grant an appendix guaranteeing an annuity coefficient in existing policies (including non-annuity paying policies) effective from January 2008. The Compulsory Pension Arrangement as well as the Amendment to the Pension Law, as detailed above, constitutes a further tier in consolidating the government's policy, as aforementioned. The Company estimates that the comprehensive pension arrangements in the Israeli economy will encourage many employees, who never saved in the past, to join the circle of long term savers however the main impact will be in the pension sector.

In January 2008 the Supervision of Financial Services Regulations (Provident Funds) (Amendment no. 3) – 2008 (above and hereinafter: "**The amendment to the Provident Law**") was enacted according to which all of the funds deposited in individual provident funds which were managed as capital funds until the end of 2007 (individual provident funds for pension payments and severance pay; capital fund life assurance policies subject to the provident regulations) – will be designated for annuity purposes alone, and the said provident funds will be converted into non-annuity paying funds i.e. funds which are entitled to pay the contributions which have deposited therein from 2008 and onwards solely by transferring them to annuity paying provident funds (which are the funds authorised to make monthly annuity payments to their members, such as the new pension funds and collective life assurance schemes). In the amendment to the Provident Law it was determined that there will be no change as regards withdrawing severance pay funds in a capital sum (provided that the requisite conditions for the same have been met) and as regards the status of the funds that were deposited in the capital funds in the past, and that it will be possible to capitalise annuity payments provided that the exceed the nominal annuity amount which has been determined in this regards. For further details regarding the amendment to the Provident Law, see clause 3.1.2.1 (T) below.

In March 2008 the Supervision of Financial Services Regulations (Provident Funds) (transferring funds between provident funds) – 2008, were enacted (Hereinafter: "**The mobility regulations**"), according to which it is possible to transfer accrued amounts between different provident funds, and in certain cases – even if they are of different types, whilst preventing the possibility of transferring from an annuity provident fund to a capital provident fund. The said regulations came into effect fully in January 2009, the transfer mechanism also being extended to apply to life assurance policies.

In 2010 several planned reforms were published (including bills and plans on behalf of the Commissioner) in the long term savings and life assurance market. These include reforms which have become effective by the publication date of this report, including adopting the recommendations of the Hodak Committee regarding investing in corporate bonds by the Commissioner, in a circular that was published by him with the aim of setting out guidelines for the institutional entities for investing in debentures as aforementioned (for further details see clause 8.2.15 (33) below), the establishment of a pension clearance bureau whose aim will be to form, establish and manage an information and fund clearance bureau in the long term savings sector for all of the institutional entities, the pension consultants and the pension agents, and to regulate the operational interfaces between them (for further details see clause 3.1.2.1 (Z) (6) below) and the Enforcement Processes Streamlining Law in the Securities Authority (Legislative Amendments) – 2011 (for further details see clause 8.2.14 below). Similarly, several planned reforms were published which have not yet come into effect as of the date of this report including a bill for an Increased Enforcement in the Capital Markets (Legislative Amendments) Law – 2010 (for details see clause 8.2.9 below), the plan to increase competition in the pension savings market (for details see clause 3.1.2.1 (X) below) and changes in the capital requirements of management companies and insurance companies. Since the aforementioned, reforms became effective several months before the date of this report and/or have not yet become effective and since it is possible that their provisions may well undergo changes, the Company is examining the ramifications of the said reforms. At this stage, the Company is unable to assess how all of the aforementioned processes will impact in an accumulative manner on the activities of the Group at this stage.

3.1.1.1 The life assurance sector

General

(A) The Group markets insurance policies that combine risk insurance and savings, including individual insurance policies, executive insurance policies, and insurance policies for the self-employed. The insurance covers marketed by the Group are risk covers, such as: death, incapacity to work, disability, long term care, critical illness, medical expenses, dental insurance as well as savings.

(B) A life assurance policy is a contract between an insurer and an insured/policyholder, which defines the obligations and rights of both parties. Any change in the contract may only be made with the consent of both parties. Life assurance policies are held as an asset by customers. The sum assured and the accrued savings are designed to provide a solution to a customer's needs during critical times (such as death, incapacity to work or retirement). During the 1950's it was decided to fully link the policies and all their various elements to the Consumer Price Index, i.e. linking the sum insured in the event of death, in the event of incapacity to work, surrender value (the sum of savings accrued in the policy) and the premium payable by the customer. Securing the linkage as aforementioned by the insurance companies was facilitated as a result of the Government of Israel issuing designated bonds for this purpose. (For details see clause 8.3.6.1 below). Until 1976 the linkage to the CPI was made every six months, in February and in August of every year (in accordance with the index published on 15 January in respect to December and in July in respect to June respectively). When the inflation in Israel increased it was decided to shift linkage to every month. In 1991 and as part of the reform in the capital market the State discontinued the issuance of designated bonds to the insurance companies as aforementioned, and since then policies have been marketed without linking the savings element to the index. These policies (that have been marketed since 1991) are called "**with-profits policies**". The savings element in the policies is invested by the insurance companies in accordance with the regulations on the ways of investment and the directives of the Commissioner. The profits obtained by the companies, less management fees, are credited to the insured's account. In recent years the companies have developed many diversified investment tracks and the insured instructs the companies in which of the different tracks to invest his savings, in accordance with his needs and preferences.

(C) As part of the trend to increase transparency, life assurance policies marketed as of January 2004 contain details of the policy conditions, the method for allocating the payment which is due to the insurer, i.e. the amount and the rate of the insurance premium which is allocated for covering expenses (management fees from premium/collection), the percentage and the sum allocated for purchasing insurance cover and the sum of the balance transferred to savings. As part of this procedure, all the life assurance plans that comprise the savings element were modified.

(D) Further to the Commissioner's Position Paper of December 2006, entitled "Guidelines for a Life Assurance Combined with a Savings Product", as of April 2007 the Company has been marketing new executive and self-employed policies, as well as new personal policies. These policies contain definitions of the scope and effective date of the Company's liabilities with respect to insurance covers, and fines for withdrawal have been repealed (see also clause 3.2.1 below). In the executive and self-employed policies, the period of insurance for all the elements of the policy was fixed for at least until retirement age, and in the executive policies the employer is no longer defined as the policyholder. It should be pointed out that in light of Amendment 3 to the Provident Law, the Company markets, effective from the year 2009, an executive and self-employed individuals' policy recognised as an annuity paying provident fund or as a non-annuity paying provident fund, as applicable.

<u>Health services as part of the life assurance sector</u>

(E) The Group has been involved in selling health insurance since the early 1990s. The Group is involved in all types of medical insurance: Insurance for medical expenses, critical illness and dental insurance. The Group markets both individual health insurance policies as well as group health policies. In this context it should be pointed out that effective from 1st January 2011, health insurance will be defined as a separate field of activity, comprised of the various types of medical insurance (including those mentioned above as well as those which form part of the general insurance field of activity). For further details see clause 1.4.7 above.

(F) Health services in Israel are comprised of several tiers. The first – the basic health basket in accordance with the National Health Insurance Law and the regulations enacted by virtue thereof; the second – supplementary health services in health funds which are provided by virtue of the National Health Insurance Law (Hereinafter – "**SHS**"); and the third – private health insurance covers via insurance companies.

The private health policies are designed to supplement the first and second tiers by adding a further tier to the national health services in the health funds and sometimes by adding to the basic health basket.

(G) The health insurance market is an emerging sector that is affected by an erosion of the basic basket vis-à-vis the medical needs of the population, which are constantly increasing, due, *inter-alia* to technological improvements in the medical field, increased life expectancy and an improvement in the quality and level of life.

(H) The supplementary services of the health funds do not fully address all of the various needs, especially with regards to transplants, surgery, medication and additional covers. In light of the above, over the last few years a trend has been developing where the health funds have expanded the SHS, with the backing of the insurance companies.

(I) Against the background of an initiative by some of the health funds to include additional cover within the framework of the SHS for life saving, and life prolonging medication which are not included in the basic health basket, a public debate is developing regarding this extension. In the Arrangements Law passed in the Knesset in December 2007 the health funds were prohibited from including life-saving and life prolonging medication in the SHS schemes. Likewise, the selection of a surgeon is subject to a deductible. Furthermore, in February 2008, the Commissioner issued a letter to insurance company managers informing them that he does not intend to approve a scheme for insurance cover of life saving and life prolonging medication under group health insurance schemes for health fund members. The Commissioner details the reasons for this decision in the letter by noting that he wishes, to prevent, *inter-alia*, a potential conflict of interests between the services provided under the basic health basket and those provided under group insurance, any harm to the principle of equality in the provision of public health services to all citizens, and the possibility that this insurance will create transfer barriers between the various funds. The Company estimates that the prohibition on including life savings and life prolonging medication in a SHS scheme may have positive implications for the Group and improve the sale of health insurance policies. In September 2010 a bespoke product was launched covering medication called “Perfect Medication” which provides a solution to the target market that in the past sought to purchase this cover as part of the SHS of the health funds.

(J) In July 2010 dental treatments for children up to the age of 8 were added to the national health basket for members of the health funds by virtue of the National Health Law – 1994. The services included in the reform are preventative and conservative dental treatments. Menorah Mivtachim Insurance is involved in the marketing of dental insurance in the main as part of the sale of group insurance covers, however also by way of individual covers. Since the majority of the individuals covered under dental insurance policies are adults and since the aforementioned policies contain wider cover, over and above the said amendment, the Company assesses that the said legislation will not have any significant impact. **This information is forward looking information, which is based on the Company’s estimations, and may not be realised, in the event of**

further legislative amendments, which the Company cannot foresee.

(K) For further details on products and services in this field of activity, see clause 3.2 below.

3.1.1.2 The pensions sector

The pension sector provides insureds with long term pension savings.

(A) The pension market includes old pension funds (whose admission was closed to new members as of 1995), new comprehensive pension funds, and new general pension funds. In 2003 the Minister of Finance appointed special managers for most of the old pension funds, instructed that the management companies of the new pension funds that were owned by the old pension funds be sold and introduced changes to the by-laws of the old pension funds, mainly for the purpose of coping with the problem of the actuarial deficit of those funds. The management companies of the major new pension funds were sold to the insurance companies and within this framework Menorah Mivtachim Pension was acquired by Menorah Mivtachim Insurance. The sale of the management companies of the new pension funds to the insurance companies brought about a change in the structure of competition in the long term savings sector in general, and in the pension sector in particular.

(B) Contrary to the situation that prevailed until the Bachar Legislation, in which the level of involvement of an employee in determining the type and features of his pension arrangements was relatively low, while the influence of the employers was higher, the trend that has emerged from the Bachar Reform is to divert the emphasis in the direction of the end-customer, i.e. the employee, so that his involvement and influence will be higher (see clause 3.1.2.1 below).

(C) Additionally, a trend has been developing in the pension market, where individuals are joining pension funds in their personal capacity, with the assistance of intermediaries who operate under the provisions of the Pension Consulting Law, under the auspices of “freedom of choice” granted to individuals by virtue of the Provident Funds Law.

(D) In this sector, the Group manages, through Menorah Mivtachim Pension "The New Mivtachim", which is a new comprehensive pension fund that is entitled to a partial yield subsidy via designated government bonds (that provides cover for old age pension, disability pension, and survivors' pension) and "The New Mivtachim Plus", which is a new general pension fund (that provides cover only for old age pension, disability and survivors' pension). The framework of the agreement with the insured is based on by-laws that may be amended by the management company after approval by, or at the request of the Commissioner.

(E) The Group's income in this sector is from management fees received from the funds, as aforementioned, and the Group's expenses in this sector are expenses for the current operation of the funds' activities. Menorah Mivtachim Pension has an insurer's license to engage in pension insurance, in accordance with the provisions of the Supervision Law, and it also holds provident funds approvals with respect to the said pension funds. For further details about products and services in this field of activity see clause 3.2 below.

(F) For further details about products and services in this field of activity see clause 3.2 below.

3.1.1.3 The provident fund sector

(A) This sector includes 4 sub-sectors: non-annuity paying provident funds (which also serve as personal provident funds for social insurance and for severance pay with respect to monies which were deposited therein until the end of 2007), advanced study funds, central funds (for severance pay, as well as a central provident fund for participation in budgetary pension) and provident funds for other purposes. The Company's activity in the provident fund sector combines new sales, as well as management of the assets, which in the past were deposited in the provident funds and have not yet been withdrawn.

(B) The provident fund sector was affected in the main by the Bachar Reforms which included, *inter-alia*, also includes a long list of changes pertaining to management companies of provident funds, including separation, as far as possible, between the banks and the owners of the provident funds. Likewise it includes limiting the market share of the various institutional entities in all matters pertaining to the holdings of means of control in the provident funds, changing the marketing and distribution patterns of the provident funds (definition of the function of a consultant/distributor as distinguished from a salesman), regulating the corporate governance of the management companies of the provident funds and increasing the supervision, liability (both civil and criminal), and enforcement with respect to these companies.

(C) For more about products and services in this field of activity see clause 3.2 below.

3.1.2 Limitations, legislation, taxation, regulations, and special constraints

The Group's activity in this sector is subject to the legal provisions which apply to insurers, pension funds, and provident funds, including the provisions of the Supervision Law and the Provident Fund Law and the regulations issued by virtue thereof, as well as the directives of the Commissioner, as published from time to time, and the directives of the Commissioner, as detailed below.

For details about the main legislative limitations applying to the Group's overall activities, see clause 8.2 below.

3.1.2.1 General

Hereunder are the details of the central legislative limitations applying to the Group in its activities in the life assurance and long term savings sector, as well as the main regulatory provisions published during the last two years in this sector (including bills and draft circulars):

(A) The Bachar Legislation

In November 2004, the Inter-Ministerial Committee for the Reform of the Capital Market headed by the then Director of the Ministry of Finance, Dr. Yossi Bachar published its report (above and below: "**The Bachar Committee**" and "**The Bachar Reform**"). The purpose of the Bachar Reform was to introduce a competitive structure in the capital market and to improve its performance, by reducing concentration and intensifying competition in the capital market, minimising conflicts of interests among the entities operating in the capital market and increasing the control and supervision of these entities and those who control and have holdings in them.

The main principles of the reform are separating the banks from ownership and control of provident funds and mutual funds, regulating the engagement in consulting or marketing in all matters related to the various types of pension products and the entry of the banks into the pension consulting sector, and regulating corporate governance among the institutional entities in the capital market. In August 2005 the Knesset passed three laws which were enacted at the initiative of the government, based on the recommendations of the Bachar Committee (above and below: "**The Bachar Legislation**"):

The Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law 5765-2005 (Hereinafter: "The Encouragement of Competition Law") - This law was designed to introduce a competitive structure to the capital market mainly by reducing concentration and minimising conflicts of interests among the entities operating in the capital market, and increasing the control and supervision of these entities and those who control them. For the purpose of implementing the aforementioned, the Law contains indirect amendments to a number of legislative acts, including the various banking Laws, mainly in the matter of regulating the separation of the banks' ownership of provident funds and mutual funds which they own, while prescribing transition provisions in this matter, taking into consideration the market share and equity of the bank or anyone on its behalf, prior to the Bachar Legislation, and prescribing new fields of activity in which the banks shall be permitted to engage, particularly pension consulting and investment consulting or marketing; The Regulation of Investment Consulting Law, while regulating the licensing for investment marketing activity, and The Joint Investments in Trust Law; The Supervision Law, while increasing and deepening the supervision and control of insurers and agents and those who control them (see more details in this matter in clause 8.2.2 below); and a number of additional Laws.

The Provident Funds Law – This law regulates for the first time, by way of primary legislation, the field of activity of the provident funds, which until now were enshrined in the Provident Funds Regulations. The Provident Funds Law prescribed, *inter-alia*, provisions for licensing a management company of a provident fund, permits of control in the company as aforementioned, limitations on holding the means of control in a management company, exclusivity in the occupation, appointment of organs and senior officers in a management company, regulating the approval of provident funds, the by-laws of the funds and the manner of their amendment, rules concerning payments into the fund and withdrawal of money thereof, ways of investing a fund's money and managing its assets, supervision of the fund and reports to the Commissioner and to members.

Within the framework of The Provident Funds Law, it was established for the first time that an employee has the right to choose the provident fund in which his employer will deposit the money for him, so long as the employee has the right to deposit money in his name in the provident fund (even if such right was originally established with respect to a specific provident fund). In this context it was established that if the entitled employee did not choose a specific provident fund in accordance with this right, then the deposit shall be made in a provident fund whose identity was established by law or by an agreement which grants the employee the right to deposit money in his name in a provident fund; likewise the relationship between the members and the management company was regulated in this law.

The Provident Funds Law authorises the Commissioner to impose monetary sanctions on those who violate any of the provisions of the Law. In this context, the Supervision of Financial Services (Provident Funds) (Reduction of the Sums of the Monetary Sanctions) Regulations 5768-2007 were published. Under these regulations, when the conditions, which are detailed therein are met, the Commissioner shall reduce the sums of the monetary sanctions that he is authorised to impose. In this context, see further details regarding a bill for the Increased Enforcement in the Capital Market (Legislative Amendments) – 2010 in clause 8.2.9 below.

In January 2008 the **Amendment to the Provident Funds (Supervision of Financial Services Law (Provident Funds) (Amendment No. 3), 5768-2008** was enacted (see clause 3.1.1 above). According to the Amendment to the Provident Funds Law, all the monies that were deposited in personal provident funds, which were managed as capital funds until the end of 2007 (personal provident funds for social insurance and for severance pay, capital life assurance policies) shall be earmarked for annuities only, and the said provident funds will be converted to non-annuity paying provident funds, i.e. funds that may only pay the monies deposited therein from 2008 and thereafter, by way of transferring them to annuity paying provident funds (which are funds that are authorised to pay monthly pension payments to members, such as the new pension funds and life assurance annuity plans).The Amendment to the Provident Funds Law states that there will be no change with respect to withdrawing severance pay in a capital sum (where the required conditions for this purpose are met), and with respect to the status of the monies that were deposited in capital funds in the past, and it shall also be possible to capitalise pension payments so long as they exceed the minimum sum of pension that was determined for that purpose. For further details see clause 3.1.2.1 (T) below.

Likewise, within the framework of the aforementioned Amendment the Income Tax Ordinance was also amended, and uniform tax benefits were established for all personal provident funds (pension funds, non-annuity paying provident funds and executive insurance), the ceiling was raised for the permitted expenditure on the acquisition of insurance cover for an employee's incapacity to work, and likewise expenditure for the purpose of acquiring annuity survivors' insurance for the survivors of the insured was recognised as a tax allowance (subject to the ceilings which were established for this purpose). Additionally, ceilings were prescribed for wages and for insurable income for the purpose of acquiring the aforementioned insurance cover.

By virtue of the Provident Fund Law various regulations are enacted have been enacted from time to time which regulate various issues in connection with provident funds and management companies including investment rules for institutional entities, expenses which can be deducted in institutional entities, the method of valuing various assets in the provident funds, the duty of each management company to participate in general meetings etc.

The Pension Consulting Law - This law regulates engaging in pension consulting and pension marketing. It prescribes, *inter-alia*, provisions concerning the requirements for being licensed as a pension consultant or a pension salesman, the terms and requirements of qualification for this matter, obligations, prohibitions and limitations with respect to pension consulting or marketing, adapting the product to the needs of the customer, the duty to provide the customer with "best advice", furnishing documents that explain in writing the benefits of pension savings and the consultant's recommendations, due disclosure about his being a salesman or consultant, his association with the various producers, while determining the duty of trust and the duty of care, and the prohibition of creating possible conflicts of interests between the consultant or the salesman and the customer, and provisions with respect to the Commissioner's supervision of the activities of the aforementioned professionals, and the duties of recording and reporting.

In March 2011 the Supervision of Financial Services (Engaging in Pension Consulting and Pension Marketing) Law (Amendment No. 3) – 2011 was published. In accordance with the amendment to the said law several sections were added to the Pension Consulting Law which relate to regulating the process of licensing a company to operate a pension clearance system. In this context, the Commissioner published, in December 2008, a clarification circular in connection with adding members to an institutional entity in connection with section 13 of the Pension Consulting Law and the relation between it and section 20(B) of the Provident Funds Law. In the circular it was clarified that any connection between the individual and the licence holder constitutes pension consulting or pension marketing, as the case may be, and this is so because of the nature of their engagement. Therefore, it is not possible to carry out a transaction without the procedure of pension consulting or pension marketing. It was similarly clarified in the circular that in certain cases section 13 of the Pension Consulting Law will not apply, such as a case in which the individual at his own initiative approaches an institutional entity and that institutional entity is completely passive and does not adopt any marketing activity with respect to that individual, such as joining via the internet website.

The Pension Consulting Law also prescribes provisions concerning pension consulting by a banking corporation, including conditions for receiving a permit as a pension consultant to a banking corporation, as well as provisions that limit, for a fixed term, the possibility of a banking corporation providing pension consulting with respect to pension products that are managed by the insurance company, even if they did not previously have a pension consultant licence per the said law. It was also established in the Pension Consulting Law that a pension consultant may receive a distribution commission from a management company, at such maximum rate that will be determined in the regulations, provided that the calculation of the commission shall be independent of the product recommended by the consultant to the customer. In this context the **Supervision of Financial Services (Provident Funds) (Distribution Commission) Regulations 5766-2006**, was issued in which the maximum distribution commissions which may be paid to a pension consultant were prescribed.

In September 2009 a **draft of the Financial Services (Provident Funds) (Distribution Commission) (Amendment) Regulations – 2009** was submitted to the Knesset Finance Committee. The draft proposed that the provisions therein will also apply to an insurer in respect of an insurance fund which it manages and to determine an equivalent rate of distribution commission, which will be paid to pension consultants in respect of the distribution of provident pension and life assurance products.

Furthermore, the draft states that distribution commission to consultants as aforementioned even in respect of insurance products which are pension savings products, and will enable pension consultants to distribute a range of long term savings products without concern of bias between the different types of products.

(B) Severance Pay Law, 5723-1963

This law prescribes, *inter-alia*, rules pertaining to deposits in provident funds of the severance pay element and all the deposits in provident funds for annuities, including policies that are subject to the Provident Funds (Executive Insurance) Regulations and pension funds as well as provisions for the protection of monies, deposited as aforementioned, against attachment, refund or transfer.

(C) Wage Protection Law, 5718-1958

In accordance with the provisions of section 19A of the Wage Protection Law, provident funds shall credit a member with the payments that the employer theoretically is liable to transfer, but in practise were not received by the fund, and to grant him full rights in respect of these payments, over the period prescribed in that section except in specific circumstances, which are detailed in the said section.

(D) Income Tax Ordinance

The Income Tax Ordinance establishes tax benefits which are granted with respect to monetary deposits in provident funds, including policies that are subject to the Provident Funds Regulations (for self-employed and executives insurance) and in pension funds, as well as tax benefits which are granted to funds paid from them.

In January 2008 the Ordinance was amended within the framework of the Amendment of the Provident Funds Law (see clause 3.1.1 above and paragraph (a) in this clause). The said Amendment prescribed uniform tax benefits with respect to all the personal provident funds (pension funds, non-annuity paying provident funds and executive policies), by equalising the rate of allowance granted in respect of deposits in these instruments to a uniform rate of 35% of the deposit up to the ceiling fixed for this matter. Likewise the ceiling was raised for the permitted expenditure on the acquisition of insurance cover for an employee's incapacity to work (from 2.5% of the wages to 3.5% of the wages) and expenditure for the purpose of acquiring annuity survivors' insurance (at a rate of up to 1.5% of insured income) was recognised as a tax allowance as aforementioned. Additionally, ceilings were prescribed for the insured wages and for insured income for the purpose of acquiring the aforementioned insurance covers.

In December 2009 the Amendment to the Income Tax Ordinance (Amendment No. 173) - 2009 was published which was designed to include supplementary legislative amendments in the Amendment to the Provident Funds Law. The amendment prescribes new rules with respect to the "consecutive severance pays" (the deposit of severance pay monies in a provident fund for the purpose of delaying tax payments in respect thereof). Since in view of the Amendment to the Provident Fund Law it is no longer possible to deposit severance pay monies as aforementioned in a personal provident fund for severance pay it has been prescribed that it shall be possible to make a deposit in an annuity provident fund, and at the same time it has been prescribed that the permitted deposit for the purposes of receiving "consecutive severance pay" shall not exceed a sum equal to four times the average wage in the economy, for each year of work.

(E) Health Insurance Law, 5764-1994

This law which came into force in January, 1995 establishes that every Israeli citizen is entitled to the health services that are detailed in the health services basket. These services are provided by the health funds.

(F) Comprehensive National Pension Arrangements

In July 2007 a General Collective Agreement (framework) for comprehensive pension insurance in the economy was signed, with the aim of applying compulsory pension insurance to all salaried employees in the Israeli economy, and which was replaced by an amended agreement in November 2007 (above and below: "**The Collective Agreement**"). In December 2007 the Minister of Industry, Commerce and Employment signed an Extension Ordinance which applies the major provisions of the Collective Agreement to all salaried employees in the economy and renders the Collective Agreement effective as from January 2008 (Hereinafter: "**The Extension Ordinance**"). According to the wording of the Collective Agreement and the Extension Ordinance, rates of provisions from wages which must be insured under pension insurance, shall rise gradually every year, commencing from the effective date of the Collective Agreement, i.e. the beginning of 2008 as aforementioned, until 2013. Additionally the Extension Ordinance prescribes various provisions with respect to the applicability of pension insurance, in terms of which the Collective Agreement and the Extension Ordinance shall apply to women from the age of 20 and men from the age of 21 and the liabilities in respect thereto shall not apply in the case of those who retired from work at the age of mandatory retirement and who receives annuities or to those who have better pension benefits – preferable to the arrangement described above. The wages covered under the Collective Agreement and the Extension Ordinance shall be the actual wages but not exceeding the average national wage. As of the date of this report, the obligation to pay pension insurance is effective after 6 months of work. However if an employee has a previously arranged pension insurance, then the obligation to insure him shall come into force as of his first working day, after only 3 working months has elapsed. In 2010 the percentage allocation to pension insurance totalled 7.5% (total allocations on account of the employee and employer) and from 2011 the percentage allocation for pension insurance reaches 10% (total allocations on account of the employee and employer). In September 2010 a collective arrange was signed between the Histadrut and the Liaison Bureau of the Workers Organisations which amends the existing agreement for comprehensive pension insurance in the market (compulsory pension), according to which in the year 2014 the percentage deposits in the Compulsory Pension Arrangement will be increased to stand at 17.5%. As long as the Trade and Industry Minister anchors the amended agreement as aforementioned in and Extension Ordinance, the said arrangement will apply to all employees in the market in 2014. For further details see clause 3.1.1.

(G) Income Tax Regulations (Rules for the Authorisation and Management of a Provident Fund) – 1964 (above and hereinafter: "provident fund regulations")

These regulations regulate various issues related to the management of provident funds, pension funds, executive insurance and life assurance for the self-employed. Among the major issues regulated in these regulations are: rules of investment, establishing the rates of provisions which may be provided in the pension savings in the case of employee members and self-employed members, as well as prescribing the options for withdrawing money accrued therein.

The regulations require the provident funds and the management companies that manage provident funds to purchase professional liability insurance to cover their liability due to negligent acts or omissions towards the members, as well as cover for the dishonest practises of their employees toward members. The insurance shall be arranged in the amounts and conditions prescribed in the **Joint Investment in Trust Regulations (Equity and Insurance of a Fund Manager and Trustee, Terms of Qualification of Directors and Members of the Investments Committee), 5756-1995**, in such a way that it will cover claims for events that occur during the period of the insurance policy, even if submitted within a year from the expiry of the period of the insurance policy. The deductible amount in the required policy is limited to the ceiling prescribed in the Provident Funds Regulations.

In February 2008 the Minister of Finance issued the Amendment to the Provident Fund Regulations Temporary provision in terms of which it shall be possible to deposit severance pay monies into all annuity provident funds (paying and non-paying) until 2013, even if the deposits in the employer contributions element are lower than the minimum deposits which are required in this regard, provided that the deposits in the contribution element are not lower than the deposits that are required according to the compulsory pension arrangement.

In December 2010 the Minister of Finance issued an additional Temporary provision to amend the Provident Fund according to which it will be possible during the course of 2011-2012 to deposit the severance pay component into a non-annuity paying provident fund even in the absence of the minimum deposit required in the benefits components in annuity provident funds in accordance with the Provident Fund regulations.

In February 2008 the Minister of Finance issued the Income Tax (Extension of the Period for Payment into a Provident Fund and Life Assurance Policy) (Temporary provision) Regulations, 5769-2009, in terms of which the deposits of self-employed members which were made in the provident funds, in the pension funds and in the life assurance plans over the course of January and February 2009 shall be considered for the purpose of tax laws, as a deposit which was carried out over the course of the 2008 tax year, if the member requests this in an application which is submitted until the end of March 2009.

(H) Supervision of Financial Services (Insurance) ((Licence Application, Training, Specialisation and Exams for Insurance Agents, Pension Consultants and Pension Salesmen) Regulations, 5766-2006; Supervision of Financial Services (Insurance) (Fees) Regulations, 5766-2006; Supervision of Financial Services (Insurance) (Exemption from Specialisation or Examinations of Insurance Agents, Pension Consultants and Pension Salesmen) Regulations, 5766-2006 (Hereinafter: "The Exemption Regulations")

The aforementioned regulations regulate the procedure for training pension consultants and pension salesmen, the procedure for their licensing, as well as the payment of fees involved in licensing and the exemptions from the said procedures that will be granted fully or partially.

These regulations replaced the Supervision of Insurance Business (License for an Insurance Agent) Regulations, 5729-1969. In March 2007 the exemption regulations were amended and provided for certain allowances – some concerning the granting of a permanent exemption, and some for granting only a temporary exemption.

(I) Prohibition on Money Laundering (Obligation of Identification, Reporting, and Keeping Records by an Insurer and by an Insurance Agent) Ordinance, 5762-2001 (Hereinafter in this paragraph "The Insurance Ordinance"), and the Prohibition on Money Laundering (Obligation of Identification, Reporting, and Keeping Records by a Provident Fund and a Management Company of a Provident Fund) Ordinance, 5762-2001 (Hereinafter in this paragraph "The Provident Fund Ordinance")

These Ordinances impose on insurance companies, insurance agents and management companies of provident funds, the obligation of identifying customers, reporting, managing, and keeping various documents on file. The Insurance Ordinance applies only to life assurance policies with a savings element.

In January 2008 the Commissioner published a Circular with respect to the reporting duties which apply to provident funds in the case of an irregular act, and made it clear that the reporting duties also apply where an act is viewed by the fund or the insurer as being related to money laundering or financing of terrorism, even if there is no information or suspicion of any relationship between the said act and the original crime.

(J) Supervision of Financial Services (Provident Funds) (Transfer of Money between Funds) Regulations, 5768-2008 (Hereinafter: "The Portability Regulations")

In March 2008 the Portability Regulations were published, which are concerned with prescribing rules which are designed to enable members to execute transfers of money, in as easy and simple way as possible, between the provident funds of the same class (including pension funds and insurance funds) and even transferring money between capital provident funds and annuity provident funds. The regulations were designed to intensify competition in the market and to make it more sophisticated. The regulations entered into force and became fully effective in January 2009.

In August 2008 the Commissioner published a circular which was concerned with transferring money between the provident funds. The circular was published following, and supplementary to the Portability Regulations. The circular, *inter-alia*, outlines the provisions with respect to the manner of handling an application to transfer money between the provident funds, and regulates the procedure for giving notice that an application for a transfer has been dismissed, for sending confirmations to an insured who transfers, the format which one uses to execute a transfer of information between the entities, and other technical provisions.

Since the new pension funds market facilitated the transfer of funds between pension funds, in a relatively simple and straightforward manner without any costs to the customer – enactment of the regulations did not bring about a significant change in the context of competition amongst the pension funds, which in any case existed prior to enactment of the regulations. Since the regulations have come into effect transfers of assets are also taking place between pension funds and other provident funds (mainly non-annuity paying provident funds and managers insurance schemes), and in the estimation of the Company the scope of assets which are transferred from the pension funds to other funds as aforementioned is lower than the scope of assets which are transferred from the same other funds to the pension fund. For further details see clauses 3.1.1 and 3.1.5.

(K) Supervision of Financial Services (Provident Funds) (Provident Funds under Personal Management) Regulations, 2009 (Hereinafter: "Provident Fund under Personal Management Regulations")

In October 2009 the Commissioner published the Supervision of Financial Services (Provident Fund) (Provident Funds under Personal Management) Regulations - 2009. As part of the regulations is it proposed that it be possible to manage different types of saving funds of a self-employed member that are defined in the regulations and advanced study funds via a personally managed provident fund which is managed by the member or a portfolio manager he appoints, under investment restrictions will which we monitored by the management company with whom the savings funds are managed.

In June 2010 Supervision of Financial Services Regulations (Provident Funds) (Individually Managed Provident Funds) (Amendment No. 2) were published, relating to limitations on brokerage activities via a related party and determine that subject to the existence of a competitive process, a management company or institutional investor, as applicable, is entitled to buy or sell securities via a related party provided that: (1) The commissions for buying or selling as aforementioned must not exceed 20% of the total commission paid for all purchases and sales which the institutional investor has made during the course of the year; (2) The commission which is paid to a related party for the purchase or sale as aforementioned must not exceed the commission paid to the winner in a competitive process, who is not a related party, for an identical or similar transaction. The proposed amendments took effect on 1st July 2010 and replaced the provision according to which effective from 30th June 2010 a management company or institutional investor, as applicable, are not entitled to buy or sell securities via a related party.

(L) Draft Supervision of Financial Services (Provident Funds) (Investment Rules which Apply to Management Companies and Insurers) Regulations, 5768-2008 (Hereinafter: "Draft Investment Rules Regulations")

In 2009 the third draft of the Investment Rules Regulations was published. The draft concerned the establishment of investment rules for all institutional entities. The draft prescribes uniform rules for investing monetary provident funds, monetary yield guaranteeing life assurance policies ("with-profits" executive insurance plans) and monetary pension funds which are not invested in designated bonds. The draft also prescribes investment rules for the equity of management companies, pension funds and provident funds, and other investment rules which pertain to insurance companies.

The draft also includes provisions that pertain to the structure of the market in which insurance companies control most of the new pension funds, and a significant portion of the provident funds market.

Within this framework it was determined that the investments of insurance companies, of pensions funds and of provident funds under their control shall be viewed as investments of an "investors' group", to whom investment limitations apply over and above the investment rules that apply separately to each of the entities in the group.

(M) Women's Employment (Dates and Rules for Payments to the Provident Funds) Regulations 5768-2008 (Hereinafter: Women's Employment Regulations

In August 2008 the Women's Employment Regulations were published. According to the provisions of the regulations, which came into force in September 2008, female employees who are on pregnancy bed-resting absence of leave and female employees on maternity leave are entitled to an uninterrupted continuation of the ongoing deposits that are made for them in the provident funds over the pregnancy risk period and over the period in which they are eligible to childbirth allowances from the National Health Institute. The aforementioned eligibility applies, mutatis mutandis, also with regard to a male employee who is on paternity leave as a result of his spouse's childbirth. The aforementioned regulations replace the Women's Employment (Secured Pension) Regulations 5751 – 1991.

(N) Supervision of Financial Services (Provident Funds) (Acquisition and Sale of Securities) Regulations, 5769-2009

These regulations establish the limitations with regard to the acquisition of securities by an institutional entity that manages yield dependent investments (pension fund, provident fund, with-profits life assurance policy) if those securities are marketed or distributed through a party which is related to an institutional entity, or if the aforementioned related party is the underwriter issuing those securities. In June 2010 an amendment to the said regulations was published which sets out the conditions and commissions at which a management company will be entitled to buy or sell securities via a related party. These provisions are identical to the amendment to the Supervision of Financial Services Regulations (Provident Funds) (Provident Funds managed individually) (Amendment no.2) – 2010. For further details see clause (K) above.

(O) Draft Supervision of Financial Services (Insurance) (Group Health Insurance) Regulations, 5769-2009

In September 2009 the Supervision of Financial Services (Insurance) (Group Health Insurance) Regulations - 2009 were published. As part of the regulations, general guidelines were established in relation to the manner in which an insurer manages group health insurance policies that it sells, including: Restrictions on the identity of the policyholder, directives in relation to the duties of the policyholder towards the insureds, the minimum number of insureds, restrictions on the sum insured charged, documents that must be submitted to the insureds as soon as they join the insurance, its renewal as well as the duty to advise of amendments to the premium, enabling an insured to continue the group insurance as a personal policy in certain cases in which the Commissioner directs, the manner in which the premium is collected and the manner in which the information is managed in relation to the group policy.

(P) Second Draft Supervision of Financial Services (Provident Funds) (Establishing Default Track) Regulations – 2010

In July 2010 the Commissioner published a second draft of the aforementioned regulations, together with a second circular regarding **tailoring the savings track to the characteristics of the member and a second draft Supervision of Financial Services (Provident Funds) (Established Default Track) Regulations ("the drafts").** In accordance with the drafts, all institutional entities are required to establish at least four investment tracks which will constitute a default for members' funds in the provident fund it manages, to which members who have not selected a specific investment track (including existing members) depending on the individual characteristics which will be determined for this purpose (starting with the age characteristic). It is also proposed that the funds which secure the liabilities to pensioners (in annuity-paying provident funds, pension funds and group managers' insurance schemes) will be invested in a separate investment track. The proposed model is not intended to apply to central provident funds, old pension funds, advanced study funds, individually managed provident funds, yield-guaranteeing provident funds and provident funds for other purposes.

(Q) Supervision of Financial Services (Provident Funds) (Participation of Managing Company in General Meeting) Regulations – 2009

In July 2009 the Commissioner published the Supervision of Financial Services (Provident Funds) (Participation of Managing Company in General Meeting) Regulations – 2009. The regulations determined, *inter-alia*, the duty to participate in voting of institutional investors in respect of the members' funds in the general meeting of a corporation in which it has voting rights in the matters detailed in the regulations, whilst defining cases in which the approval of external representatives for voting is required and directives relating to entering into an agreement with a professional entity in order to devise recommendations for voting at the meetings. In addition to the regulations, the Commissioner published, in August 2009, a circular regarding **increasing**

the involvement of the institutional entities in the capital market. The circular determines, *inter-alia*, a duty on an institutional investor to state and publish in its internet site the following matters: voting policy; the actual manner of voting including stating the fact that the voting was in accordance with its voting policy or of the professional entity that it appointed; criteria in relation to the corporate governance policy in corporations in which it is considering investing in. The directives of the circular apply to institutional entities in respect of funds they manage.

(R) Draft Supervision of Financial Services Regulations (Provident Funds) (Transfer of Funds between Provident Funds) – 2010, and a draft circular entitled "Transfer of Funds between Provident Funds"

In April 2010 the Commissioner published draft Supervision of Financial Services (Provident Fund) (Transfer of Funds between Provident Funds) – 2010, and a draft circular entitled "Transfer of Funds between Provident Funds" as well as a set of clarifications which is intended to address various issues which were raised in connection with the aforementioned regulations and circular. As part of the said publications a list of amendments to the Supervision of Financial Services Regulations (Provident Funds) (Transfer of Funds between Provident Funds) (Amendment) – 2008 and the Transfer of Funds between Provident Funds circular (Hereinafter: "**the regulations**" and "**the circular**") including the following amendments: Enabling the accounts of the member in a provident fund to be consolidated independent of the age of the fund and this to differentiate from the situation which previous applied according to which it was possible to consolidate funds for a fund whose production date is later; it is clarified that in any case of defects, other than material defects, relating to the very ability of transferring funds in accordance with the regulations, the management entity of the receiving company and of the transferring company must act to rectify the defects and complete the deficiencies in accordance with the timetables determined; the time period for transferring funds between the managing funds by the same management entity was shortened from ten to three business days and new timetables were determined for cancellation applications in such cases; it was determined that in the case of a delay in transferring the funds by the transferring fund, the transferring entity will be required to submit the yield data of the transferring fund in the period of delay to the receiving fund. It should be pointed out that in accordance with the regulations, in a case in which the difference between the yield of the receiving fund and the yield of the transferring fund, in the period of delay, is higher than the arrears interest payable from the transferring fund, the management entity of the transferring fund must pay the receiving fund, out of the management fees it charges, the difference net of the arrears interest it has paid.

(S) Insurance Contract Law (Amendment No. 4) – 2010

The amendment was published in March 2010 in which it was established that an insurer in personal lines insurance (i.e. personal accident insurance, motor (casco) insurance, home and contents insurance, life assurance, and excluding liability insurance) which is in a legal process with the insured, and who has not paid indemnity payments which are not in dispute in good faith, on the dates on which it is meant to pay them – the court is required to order it to pay special interest on the indemnity payments as detailed in clause 28A of the Law. For the purpose of an insurer as aforementioned in non-personal lines insurance – the court is entitled to order it to pay special interest as aforementioned. The amendment comes into effect 30 days after it publication.

(T) Supervision of Financial Services Law (Provident Funds) (Amendment no. 5 and temporary provisions) – 2010

In November 2010 the Supervision of Financial Services Law (Provident Funds) (Amendment no. 5 and temporary provisions) – 2010 was published, containing, *inter-alia*, amendments regarding matters arising from amendment no. 3 to the Provident Fund Law in addition to which certain restrictions on management companies were removed. The amendment to the Law enables a management company to engage in other business related to pension products. Similarly, in the past it was forbidden for a management company to engage in other business related to pension products. Similarly in the past it was forbidden for a management company of an old pension fund to manage other products and it was forbidden for a management company to manage more than one pension fund entitled to Arad type designated debentures. The amendment enables a management company of an old fund to manage other products (including other old funds). Nonetheless, the prohibition of managing more than one new comprehensive pension fund remained in force. Furthermore, the temporary provisions were intended to clarify the legal situation in relations to members who were not aware of the legislative change which arose from Amendment no. 3 and enables each of the following entities to approach the management company and request a refund of the funds (subject to pay of capital gains tax): (A) Anyone who was a self-employed member on 31.12.2007 and continued to deposit funds in a non-annuity paying provident fund and who had passed the age of 60 on 31.12.2007; (B) Anyone who was a self-employed member in a non-annuity paying provident fund on the effective date of this law and who had passed the age of 60 on 31.12.2007; (C) Anyone who was a beneficiary of a member who died, and the accrued funds in the account of the deceased have been transferred to non-annuity paying provident fund; (D) Anyone who was a member in an individual provident fund for severance pay, who was entitled to withdraw the funds from the said fund, and the said funds (the severance pay) was transferred to the return component in the account of a member in a non-annuity paying provident fund.

Subsequent to the aforementioned the Commissioner published, in December 2010, a circular containing several clarifications in connection with the provisions of the amendment to the law and the temporary provisions.

(U) Interoffice report to examine the custodian market

In August 2010 the interoffice report to examine the custodian market was published, which was established before the global capital market crisis in order to examine the custodian services in Israel and in order to examine the need to improve the regulation in this sector. The report contains several recommendations to regulate the provision of custodian services in Israel. At this stage the committee recommends that the regulator as well as the Commissioner of the Capital Markets adapts the regulatory framework to the principals detailed in the report in accordance with the specific needs of the entities which it supervises.

(V) In Feb and March 2010 several **legislative bills were raised in the Knesset in which a proposal was raised to limit the level of management fees that an institutional entity is entitled to charge** (insurance companies, management companies of pension funds and management companies of provident funds) out of the total assets which have accumulated in the account of the member / insured as well as from the regular deposits. As of the date of this report, the legislative process regarding these bills has not yet commenced. In the event that it is determined that the management fees that the company is entitled to charge at present are to be reduced, this will have an impact on its profitability. In light of the unclearness regarding the results of the aforementioned legislative process the company is unable to assess the ramifications on its results.

(W) Plan to increase competition in the pension savings market

In November 2010 the Commissioner published a plan to increase competition in the pension savings market in order to reduce the differences between the various pension saving products, to increase the transparency of the pension savings market of all the players therein, to improve the quality of the products offered and their prices and to create a basis for a uniform comparison between the products (Hereinafter: "**the plan to increase competitiveness**").

A central tier of the plan to increase competitiveness relates to altering the mechanism of charging management fees in the provident funds and applying a uniform model of capping management fees in pension products. In accordance with the plan, effective from 2010 and until 2014, the management fees will be at a rate of 1.5% of the accrual or management fees at a rate of up to 1.2% of the accrual and up to 5% of the deposits; whereas starting from 2015 and onwards the maximum rate of management fees will stand at 1.2% of the accrual and up to 5% of the regular contributions. In this context it should be pointed out that in the pension funds there will be no change at all and the maximum management fees will stand at 0.5% of the accrual and up to 6% of the regular contributions.

Furthermore, provident fund management companies will be given the possibility of selling supplementary insurance covers in provident funds (insurance covering an event of death and permanent health insurance) in order to compete with the built-in saving of the provident fund in relation to alternative products (pension funds and insurance policies). Similarly, the plan contains various provisions relating to increasing the transparency in the management fee arrangements with the customers (determining minimal discount time, charges by prior notification prior to increase the management fees and illustrating the changes in the rate of management fees).

The increased competitiveness plan also addresses the relationship between the distributor and the customer and between the distributors and the institutional entity. The provisions of the plan addressing the relationship between the distributor and the customer, relate, *inter-alia*, to extending the right of a salaried employee to choose an agent via who he makes the deposits into any pension product and this in addition to the right of choice conferred upon him in choosing the pension product; determining a uniform, straightforward and concise wording including explanations, illustrations, due disclosure to the customer and the automation and standardisation of the forms in the consulting and pension marketing processes.

As part of the connection between the institutional entity and the various distributors, the Commissioner is intending to apply various measures relating, *inter-alia*, to regulating the payment of commissions to a distributor when a customer moves between distributors (establishing that commission will not be paid to more than one distributor); permitting payment of commission solely to the latest distributor who has been appointed by the customer; restricting the provision of prizes, benefits and size commissions to insurance agents and setting a uniform distribution commission for pension consultants for all the pension savings products and limiting them to a maximum distribution commission of up to 0.2% of the accrual and up to 2% of the total regular contributions.

As of the date of this report, the plan is purely a preliminary plan, whose provisions are under discussion between the Ministry of Finance and the institutional entities. Accordingly, the company is unable to assess how the plan might affect its activities if and to what extent it is implemented.

As part of the plan to increase competition the Commissioner of Insurance published, in March 2011, several draft regulations and circulars, as follows:

1. **Draft Amendment to the Supervision of Financial Services Law (Consultancy, Marketing and Pension Clearance Systems) – 2005**. The said amendment relates to enabling the customer to choose the license holder who will recommend the pension license to him (in this manner for example it is proposed in the

amendment to determine that the employer may not condition the execution of a pension product transaction on its execution by a specific license holder) and giving the Commissioner the authority to prescribe temporary provisions relating to bank pension consultancy with an employer.

2. **Draft Supervision of Financial Services Regulations (Provident Funds) (Management Fees) – 2011.** These regulations establish a uniform model for capping management fees in pension products and forbidding increasing management fees which have been agreed with the customer for a period of at least two years. As part of the draft regulations it is proposed to enable management fees to be charged both from the accrual as well as from the regular contributions and to set a uniform rate of management fee charges both by provident funds as well as insurers in executive insurance, and this in order to consolidate the structure of the management fees currently in place in the provident funds (limiting management fees from the accrued balance only) and the management fees charged in executive insurance and pension funds (in which it is possible to charge management fees both from the regular contributions as well as from the accrual). Similarly, the regulations determine the maximum management fees that may be charged in a new general fund and in a comprehensive new fund and to ensure that the fund cannot increase management fees for pension survivors and disabled individuals. The regulations also establish a gradual transitory model between the situation in place at present in relation to the collection of management fees and the uniform model being proposed in the regulations.

3. **Amendment to the Supervision of Financial Services Regulations (Provident Funds) (Distribution Commission)**

   The said amendment relates to applying a uniform distribution commission model to all pension savings products. As part of the amendment, it is proposed that an insurer will also be prohibited from paying distribution commission for pension products it manages in respect of which the customer is provided with pension advice. Similarly, in order to enable objective advice which is tailored to the customer it is proposed that a uniform distribution commission model be established in the three types of pension products: provident funds, new pension funds and executive insurance. The uniform distribution commission model proposed takes into consideration both the volume of assets accrued to the benefit of the customer in the pension product as well as the regular deposits for the same products.

4. **Draft management fees circular in pension saving instruments.** The draft determines that an institutional entity will be entitled to offer a member a lower rate of management fees than the maximum rate of management fees per legal provisions, provided that the said offer is valid for a period of two years or more. Similarly, the draft determines that an institutional entity must sent to the member and the license holder prior notification of any change to the management fees charged to the member and this in order to increase transparency when making changes to management fees.

Due to the fact that it is a preliminary wording of the regulations and the drafts as aforementioned, to which various comment have been published, it is not certain that the wording of the regulations and the drafts which will be authorised will be identical to that published on the said date. Accordingly, the Company is unable to assess, at this stage, the impact of the said drafts on its activities.

(X) Commissioner's circulars

1. In July 2008 the Commissioner published a circular regarding **initial calculation of investment assets in institutional entities.** The circular determines the manner in which the value of negotiable and non-negotiable assets is calculated on the first recognition date of the asset.
2. In October 2008 the Commissioner published a circular which is concerned with supplemental insurance in the provident funds and in the pension funds. The circular prescribes rules in terms of which the management company of a pension fund or of a provident fund may acquire group insurance cover for members of the fund. Within the framework of the circular it was established, *inter-alia*, that with respect to acquiring supplemental insurance through a management company within the framework of the regular deposits that are made for the

member of the foundation or fund, that the management company and the insurance company from which it acquired insurance cover shall not be related parties, as this term is defined in the provident fund regulations, that the management company shall serve as the policy holder of the supplemental insurance, that group supplemental insurance shall cover cases of death only, and that payments for the insurance covers shall be made from management company funds only and not from monies of the pension fund or provident fund. Similar provisions apply to the acquisition of group life assurance from the monies of the members of the provident fund. In January 2010 the Commissioner published a draft circular regarding altering the applicability dates of the said circular.

3. In February 2009 the Commissioner published a circular which is concerned with provisions with regard to the substantiation document and its delivery to the customer, pursuant to the provisions of the Pension Consulting Law. Pursuant to the aforementioned law the holder of the consulting licence or a pension salesman must match the customer with the pension product after he has clarified with him the purposes of his savings and the other relevant circumstances, and accordingly must deliver to the customer a written document which details, *inter-alia*, the reasons for his recommendation with respect to the profitability of his or of his relative's savings through the pension product. The circular details the mode of preparing the substantiation document, the information that must be included in it, and the various procedural provisions. In July 2009 an amendment was published to the said circular which postpones the commencement date of the circular until 1st January 2010. In August 2010 the Commissioner published an update to the provisions regarding substantiation documentation and its submission to the customer, as part of which the commencement date for completing the substantiation document in a computerised manner was postponed until 1st January 2011.

4. In March 2009 the Commissioner published a temporary provision regarding valuing investments in non-negotiable debt assets. The circular sets out rules according to which an institutional entity may decide

upon the manner of valuation as regards non-negotiable debt assets that an institutional entity has purchased in 2009, between two possible methods of valuation. The circular facilitates adoption of a valuation method that results in a reduction in the volatility of the values of non-negotiable debt assets in light of the swings that the capital markets experienced in the said period, whilst conducting a periodic review of the credibility of the estimates in relation to the inherent risks in these assets.

5. In May 2009 the Commissioner published a circular regarding the transfer of non-cash rights of members. The purpose of the circular is to regulate for the first time the conditions for transferring a member's non-cash rights between investment channels in the same provident fund and between various institutional entities. In accordance with the circular, the transfer of rights as aforementioned can be performed other than in cash solely if the total amounts transferred on the same business day exceeds NIS 5 million or exceeds 1% of the side assets of the employer, the lower of the two, and in accordance with a detailed working procedure that will be established by the investment committee of the institutional entity.

6. In August 2009 the Commissioner published **a memorandum of understanding for cooperation in promoting a central system for branding information and settling funds in the pension savings sector** (Hereinafter – "**the settlement bureau**"). As part of the memorandum, the Commissioner stated that he is intending to promote the establishment of a settlement bureau in order to improve the efficiency of work procedures connected to the transfer of information and funds in the pension savings market and this on the background of the developments in the last few years. The main functions of the settlement bureau will to transmit information bilaterally between the institutional entities, the pension consultants and the pension agents, transfer information between the employers and the distributors and the institutional entities and the settlement of pension fund savings. In May 2010 a private company was established called "The Clearance Bureau for Long Term Savings Ltd." whose purpose is to form, establish

and manage an information and fund clearance bureau in the long term savings sector for all of the institutional entities, the pension consultants and the pension agents, and to regulate the operational interfaces between them (as well as Menorah Mivtachim Pension) as well as banking corporations and other distributors. The Commissioner and his representatives are serving as observers in the institutions of this company and overseeing its operation. In June 2010 the Commissioner published interim provisions regarding the manner in which the pension clearance system will operate an in March 2011 the **Supervision of Financial Services Law (Engaging in Pension Consulting and in Pension Marketing) (Amendment No. 3) – 2011** was published in which the licensing process of the company operating the pension clearance system was regulated as well as the mechanism of supervision of the said company. The provisions of the amendment to the law regulate the authorities of the Commissioner to prescribe provisions relating to licensing the company operating the pension clearance system as well as provisions relating to the manner in which the pension clearance bureau will operate and be administered, as well as provisions regarding the corporate governance which will apply to it, with the aim of protecting the interests of parties using the clearance bureau and those receiving service from the users and preventing concentration in the field of pension consulting and marketing. Similarly, the amendment to the law establishes rules regarding supervision by the Commissioner of protecting data submitted to the clearance bureau. To the best of the knowledge of the Company, as of the date of this report, several alternatives are being examined regarding the manner in which the settlement bureau will be established and routinely administered.

7. In August 2009 the Commissioner published a draft circular regarding rules for approving investment tracks for pension savings products. The purpose of the draft is to increase the transparency whilst determining rules for the approval of investment tracks in pension saving products and rules for setting their names. Rules have been set out in the draft for approving the names of the specialist investment tracks and age-dependant tracks

that the institutional entities will be required to establish by the end of 2010 instead of the “general” tracks. For example, it is stated that institutional entities must not manage specialist investment tracks other than if they are prominently different from one another in addition to which an investment track must not be called by a name that might mislead the member public such as a name which would allude to it providing any type of guarantee to achieve or comply with a qualitative or quantitative criterion. Similarly, it was stated that in a specialist investment track in a specific investment channel, at least 75% of the track assets must be invested in the same investment channel.

8. In November 2009 the Commissioner published a circular regarding **amendments to annual reporting and quarterly report to members and insureds**, that amends a previous circular dated January 2007 and which extends the scope of information provided to investors in the framework of the annual report, the quarterly report and information retrieval services on the internet, predominately regarding the information related to the management fees and yields. The circular comes into effect from the first quarterly report of the year 2010.

9. In November 2009 the Commissioner published a circular regarding the mechanism for collecting management fees. In accordance with the circular, institutional entities must collect management fees in consecutive instalments at the end of each month or at the end of each business day, at the discretion of the institutional entity, in accordance with the agreed rate of management fees, and must not use the management fee refund mechanism. The circular applies to all institutional entities, other than in respect of insurance schemes containing a management fee refund mechanism, effective from 1st April 2010 and contains transitional provisions in respect of the applicability of existing arrangements.

10. In November 2009 the Commissioner published a circular regarding **modifying the annual reporting and quarterly reporting to members and insureds to amendment 3 and the nullification of capital gains tax,** according to which effective from January 2008 all of the funds deposited in pension savings are

designated for annuity and effective from July 2009 capital gains tax will not be charged in respect of interest and profits that have accumulated in provident funds, including in insurance provident funds. A summary table of members' rights was added to the report in a detailed manner in an appendix to the circular. The circular applies to all of the management companies of provident funds or non-annuity paying provident funds, which are not insurance funds, and to all insurers operating in the life assurance sector. The effective date of the circular commences from the 2009 report.

11. In August 2009 the Commissioner published a circular regarding a **uniform constrictive structure for transferring information from institutional entities to license holders** and determines a "uniform language" and uniform data structure when transferring information between parties involved in the pension savings sector. The circular regulates the processes of transferring information between institutional entities and license holders, for the purpose of conducting pension consultancy or pension marketing, and for the purpose of ongoing pension consultancy and sets out directives regarding the manner in which a request for the transmission of information is to be dealt with, including establishing timetables and the use of fixed and uniform files and appendices. In August 2010 a **Draft clarification to the institutional entities circular regarding a uniform constrictive structure for transferring information from institutional entities to license holders as defined in the circular** was published. In accordance with the clarifications, an institutional entity must take the steps at its disposal in order to locate the information in its possession regarding all of the products detailed in the circular and transfer it to the license holder in accordance with the provisions of the circular, even if the request for information did not relate to a specific product. Similarly, in February 2011 the Commissioner published a circular regarding "**Uniform structure for submitting information and data in the savings and pension market**". The provisions of the circular determine a "uniform record" which will be used by the institutional entities, licence holders and other information consumers in the pension savings sector,

with the aim of streamlining the work processes, removing technological barriers, encouraging and supporting the existence of a competitive, state-of-the-art and advanced market, whilst at the same time increasing transparency and improving the credibility and accessibility of the relevant information for the pension savings of the public. In February 2011 the Commissioner published a draft circular entitled **Institutional entities regarding Appendix C to the institutional entities circular** regarding "A uniform structure for transferring information and data in the pension savings market". According to the provisions of the draft, it is proposed that provisions are established regarding the portability interface including the details which a management entity of a transferring fund is required to submit to a management entity of the receiving fund when transferring funds between provident funds, as part of the interfaces detailed in the institutional entities circular 2001-9-1 regarding a uniform structure for transferring information and data in the pension savings market detailed above.

12. In April 2010 the Commissioner published a **Procedure for merging a provident fund with another provident fund, managed in trust by the same management company in accordance with Section 37 of the Supervision of Financial Services Law (Provident Funds) – 2005.** In accordance with the procedure, in cases which do not involve a merger that necessitates special directives from the Commissioner and his prior authorisation as detailed in Section 37 of the aforementioned law, the management company must prepare a detailed outline plan of action that will address, at the very least, several parameters detailed in the procedure.

13. In December 2010 the Commissioner published a circular regarding **Coding provident funds**. The purpose of the circular is to assimilate a uniform coding system to enable a unique identification of all pension savings products including provident funds, pension funds and insurance schemes.

14. In December 2010 the Commissioner published a circular regarding **the total long term savings assets**, according to which an individual will not be permitted to hold more than NIS 77.5 billion out of the total long

term savings assets. In this regard, this amount will include the long term savings assets managed by the same individual and by all institutional entities in his control, and as regards a joint controller, attributing the entire value of assets as aforementioned to each one of the controllers separately.

15. **Second draft of Supervision of Financial Services Regulations (Provident Funds) (Locating Members and Beneficiaries) – 2009**

    In March 2011 the Commissioner published a second draft circular regarding the procedure for locating members and beneficiaries, together with a second draft of the Supervision of Financial Services Regulations (Provident Funds) (Locating Members and Beneficiaries) – 2009 ("the drafts"). The purpose of the drafts is to create an active and feasible mechanism for institutional entities to locate members with whom contact has been lost. The draft circular sets out the actions necessary to update data regarding the members, determines that in establishing working procedures for locating the members and the beneficiaries, rules be determined for transferring the funds to the General Administrator, determining a periodic reporting procedure to the Commissioner, as well as provisions for using the internet site to locate the members or their beneficiaries. Similarly, in the draft circular duties have been placed on the board of directors to discuss the matter as well as a duty to include an inspection of the procedures as part of the annual audit program of the institutional entity. The draft regulations instruct that further action be taken by an institutional entity in order to locate members and beneficiaries, including initiating a process of investigation and examination, and also determines provisions regarding the maximum rate of management fees which can be charged to a member with whom contact has been lost.

16. In March 2011 the Commissioner published an **Agents and consultants circular – prohibition of gratuities for pension consulting.** The circular determines, with reference to Section 19 of the Supervision of Financial Services Law (Engaging in Pension Consulting and Pension Marketing) – 2005, the prohibitions applicable to an institutional entity in connection with providing

gratuities to pension consultants or bank staff and on a pension consultant in connection with receiving gratuities. In accordance with the provisions of the circular, an institutional entity is entitled to provide a gratuity as aforementioned including a gratuity equalling the amount of management fees subject to the gratuity being given to all of the staff of the entity employing the pension consultant and that the gratuity should be similar to the gratuity that the institutional entity gives to other entities having similar market characteristics. The provisions of the circular also relate to regulating the participation of pension consultants in conferences and events organised or funded by the institutional entity.

17. In March 2011 the Commissioner published **a clarification to the consultants and agents circular –** agreements for the provision of services; in the clarification it was determined that the provisions of the agents and consultants circular (from 2006) in this regard will be amended such that the members of the provident fund operated via a banking corporation will be able to obtain operational services as detailed in the circular via a banking corporation, and this during an interim period which will end in accordance with the provisions of the circular in the year 2012.

3.1.2.2 The life assurance sector

Hereunder are details of the main legislative limitations relating to the Company's activities in the life assurance sector, as well as the main regulatory provisions published during the past two years pertaining to this sector:

(A) Supervision of Financial Services (Group Permanent Health [Incapacity to Work] Insurance) Regulations, 5767-2006

The regulations were published in November 2006 and they establish basic principles in group permanent health insurance, aimed mainly to ensure the insureds' interests and to guarantee proper insurance coverage. The regulations came into effect on April 1st 2007 and they apply to group permanent health insurance policies that incept or renew thereafter. For insurers renewing a bulk of policies exceeding 300 in 2007, a lenient transitional provision was set, which delays the effective date of the regulations until 2010. In the regulations it was prescribed that the policyholder may only be an employer; a single insured shall be able to switch into an individual policy with the insurer on expiry of the group insurance at conditions similar to individual policies of the insurer at the time of the transition and without a re-underwriting process. The regulations also prescribe the duty of the insurer to provide every insurer in the group with a policy, a schedule, and an annual report. Pursuant to these regulations and pursuant to the Supervision of Financial Services (Group Life Assurance) Regulations – 1993, the Commissioner published a draft circular in January 2010 regarding the procedure for effecting group life assurance and permanent health policies, detailing the conditions by which an insurer will be permitted to affect a group policy.

(B) Supervision of Insurance Business (Group Life Assurance) Regulations, 5753-1993

These regulations contain provisions concerning group life assurance, term assurance (without the savings element) and include definitions of the groups and their minimal size, the period of the insurance, and the ceiling on commissions for agents. In August 2005 regulations were issued which established that a collective of insureds for the purpose of group insurance shall be 50 persons (instead of the 100 persons previously required).

Additionally the rule that stated that the period of the insurance shall be for one year was repealed, and the Commissioner was authorised to determine rules for continuing policies in the case of the termination of the group insurance, without a re-underwriting process. In January 2010 the Commissioner published a draft circular pursuant to these regulations. For further details see sub-clause (A) above.

(C) Supervision of Insurance Business Regulations (Manners of Separating Accounts and Assets of an Insurer in Life Assurance), 5744-1984

These regulations prescribe directives with regard to ways of separating the accounts and the assets of life assurance businesses from the entire insurance businesses of an insurer, and separating the assets of with-profits life assurance businesses from assets of other life assurance businesses.

(D) Supervision of Insurance Business (Terms of Linkage in a Life Assurance Contracts) Regulations, 5742-1982

These regulations contain, *inter-alia*, provisions with regard to the terms of linkage when calculating the payments due by the insurer in the case of policy surrender or an insurance event in a life assurance contract.

(E) **Supervision of Insurance Business (Terms in an Insurance Contract) (Provisions for a Previous Medical Condition) Regulations, 5764-2004**

In January, 2004 regulations were published which were designed to regulate the way in which an insurer invokes exclusions to the insurer's liability due to previous medical conditions, to ensure adequate insurance coverage over the course of the entire period of insurance, and to prevent underwriting at the time in which a claim for indemnity payments is made.

(F) **Draft Supervision of Financial Services Regulations (Conditions in Insurance Policies) (Provisions Regarding Proscription in Insurance Contracts including Disability Insurance Cover) – 2011**

In February 2011 the Commissioner published the aforementioned draft regulations. In accordance with the draft, an insurance contract containing insurance cover for disability must include a condition according to which if the occurrence date of the insured event is later than the date of the accident or discovery of the illness, as applicable, the proscription countdown will not commence prior to the occurrence date of the disability.

(G) In February 2010 **a draft National Health Insurance Bill was lodged – Transfer of Nursing Hospitalisation to the Responsibility of the Health Funds) – 2010**. In this law bill, it is proposed that the health funds will pay for the stay of the insured in accordance with the National Health Insurance Law in a recognised nursing treatment institution. The manner of the funding is not yet clear. Similarly, in order to fund this liability, it is proposed that health insurance contributions will be increased from 5% to 5.3%. In accordance with the proposal, the health funds will only pay for part of the hospitalisation expenses of the insured in a suitable institution. In light of the general data of the nursing market – the number of hospitalisation beds and number of nursing care patients being treated in nursing homes – it is not expected to have any significant impact on marketing LTC insurance programs, since it will still be necessary to increase the scope of cover which is provided by the health funds, as far as possible, also since the legislative bill does not relate to funding nursing treatment in the insured's home. Notwithstanding the aforementioned it is not yet possible to assess the full impact of the proposed amendment on the LTC insurance market, since the legislative bill is still at a preliminary stage. **The Company's estimation is**

forward looking information, which is based on the law bill and market data which it is aware of, and on the Company's assessment of its impact on the market. The forecast may not be realised due to changes to further legislation or due to other environmental facts which might cause the market to act in a different manner than that expected by the Company as of the date of this report.

(H) The Commissioner's circulars

1. In January 2009 the Commissioner published a circular regarding insurance cover for transplants. The circular prescribes guidelines with respect to applying the provisions of the Organs Transplant Law 5768-2008 (Hereinafter in this sub-clause: the **"Law")**, to plans which include insurance cover by means of damages or compensation to finance the carrying out of the transplant (Hereinafter in this sub-clause: **"transplant financing")** and *inter-alia* prohibits paying consideration for an organ that was taken from his body or from the body of another person, and also impose upon the insurer the obligation to investigate before financing the transplant whether the transplant was carried out pursuant to the provisions of the Law. Likewise a provision was prescribed with respect to providing proper disclosure to the insured in this regard, and provisions for applying the circular to various plans. The provisions of the circular apply to any insurance plan which includes insurance cover for transplants.
2. In March 2009 the Commissioner published a circular regarding **breakdown of indemnity payments in health insurance**. The purpose of the circular is to ensure that prior to execution of the insurance contract the insured is in possession of information regarding the indemnity payments in accordance with conditions of the scheme. The draft details the information that the insurer is required to submit to the insured regarding the indemnity amounts in accordance with the conditions of the scheme prior to execution of the insurance contract, including maximum indemnity payments that are not stated as a defined monetary amount. The circular includes a list of the cases in which the breakdown of indemnity payments published may be amended. The directives apply to health insurance schemes, other than to insurance covers for medical procedures which are performed overseas.
3. In June 2009 the Commissioner published a circular **regarding annual reporting to insureds in health**

insurance. The circular replaces a previous circular that regulated this reporting. In accordance with the circular insurers are required to submit to all insureds holding health insurance whose period of insurance in the policies they purchased exceeds one year, other than overseas travel policies and medical insurance for foreign workers and that the annual report must contain details regarding the health policies that the insured has arranged with the insurer. The report states, *inter-alia*, basic details and personal information of the insured, details of the policies of the insured, details of the covers under the policies, details of the premiums paid during the reporting period, details of premium discounts / refunds in respect of no claims, details of indemnity payments made in the last year, details of the exceptions to the no claims bonus, details of indemnity payments paid in the last year, details of exclusions in respect of previous medical conditions and changes which have been effected, if applicable, to the insurance scheme of the insured as well as a glossary. The circular comes into effect on a gradual basis, commencing from the annual report for the year 2009 until its full implementation in the framework of the report for the year 2010.

4. In August 2009 the Commissioner published a circular **obliging the insurance companies to provide information to the policyholder in group health insurance covers and permanent health insurance**. From now onwards, the policyholders must receive various data regarding the policies such as: the total premium divided between the years; information regarding claims paid (as one-off or interim payments); details as to whether the number of claims as of the reporting date is less or more than 20, and the insurer are required to state the total claims paid in accordance with the type of claim and the total premiums, divided between the years. Similarly, in the event of an adjustment to the premium, the insurer must provide details to the policyholder of each of the variables used for the purpose of determining the premium adjustment, 60 days prior to the date on which the said premium adjustment is affected.
5. In December 2009 the Commissioner published a circular regarding **group LTC insurance** which replaces the previous circular dated 2004. The circular updates, *inter-alia*, the directives regarding the cases and conditions in which the insurer is required to enable continuity in the

framework of a personal policy in a group LTC scheme, and this due to the characteristics of the LTC insurance necessitating that the insurance cover be viewed as a long term product which is intended to provide support mainly at old age. In accordance with the circular, group LTC insurers are required to enable a party covered under a group policy to move, subject to certain conditions being fulfilled, to a personal policy, for a whole life period of insurance, in accordance with the conditions of the circular, relating to the sum insured, the indemnity payment period, the premium and preservation of continuity of insurance.

6. In March 2010 the Commissioner published a draft circular regarding **the duty to obtain express agreement to add insureds to insurance.** In accordance with the draft, insureds may not be added to an insurance scheme under circumstances which are not part of a qualifying offer, rather subject to the express prior agreement of the insured, whereas the burden of proof that it involves a qualifying offer or that the express agreement of the insured has been obtained, as applicable, applies to the insurer.
7. In May 2010 the Commissioner published a circular concerning **publication to the public of the embedded value in long term policies in insurance companies**, and this being pursuant to the circular in this regarding that was published in Mat 2007, according to which insurance companies are required to publish the embedded value in long term policies, which include life assurance policies and health policies. The May 2010 circular contains directives regarding the reporting structure and the explanations, the manner of reporting to the Commissioner and the frequency and dates of the reporting.

3.1.2.3 The pensions sector

Hereunder are the details of the main statutory limitations applying to the Group's activities in the pension insurance sector, as well as the main regulatory provisions published during the last two years relating to this sector:

(A) The Supervision Law

The Supervision Law establishes the conditions for granting an insurer's licence to those wishing to manage a pension fund. Under the Supervision Law, as amended in the Amendment to the Provident Funds Law (for further details see clauses 3.1.1 and 3.1.2 above) Menorah

Mivtachim Pension may engage in the management of provident funds (of the various classes) only , and may hold the entire means of control in companies who hold a licence of an insurance agent (**"Corporate Agent"**).

(B) The Provident Funds Law

The Provident Funds Law regulates, through primary legislation, various issues related to establishing a provident fund and the management thereof (see also clause 3.1.1 and 3.1.2 above). Additionally, the Provident Funds Law applies the provisions of the Supervision Law with respect to the appointment of organs and officers to a management company of a provident fund, including a pension fund. Hence Menorah Mivtachim Pension is obligated to appoint an actuary, a risk manager, and an external auditor, in accordance with the provisions of the Supervision Law. Furthermore, and in accordance with the provisions of the Provident Funds Law, it is obligated to appoint an investment committee, the majority of whose members are external representatives, for the purpose of determining the policy on investment of the assets of the pension funds, and supervision of the management of investments, as aforementioned.

(C) The Provident Funds Regulations

These regulations provide, *inter-alia*, that the management company's equity in a pension fund shall be not less than NIS 7 million (The sum is linked to the CPI as from the index that was published in November 2001. An adjustment to the index shall be made at the end of every fiscal year). As of 31st December 2010, the capital of Menorah Mivtachim Pension stood at NIS 389 million, whereas the minimum capital required from the management company stood at approx. NIS 8.6 million.

In this context it should be pointed out that in January 2011 the Commissioner published draft regulations and a draft circular containing amendments to the capital requirements of management companies of provident and pension funds. For details regarding the proposed amendments see clause 8.2.15 (31) below.

(D) The Commissioner's circulars

In October 2010 an **Amendment to the pension circular regarding principals relating to members who joined pension funds in the moths of January – March 1995** was published. The said circular sets out principles for dealing with such members in pension schemes which did not operate in accordance with the directives of the Commissioner of Capital Markets, Insurance and Savings in this regard that were published in the years 1999 to 2002. In the amendment to the circular the definition of member in the interim period in the circular such that it will include all of the members who joined the pension fund between 1st January 1995 and 31st March 1995.

3.1.2.4 The provident fund sector

Hereunder are details of the main statutory limitations applying to the Group's activities in the provident funds sector, as well as the main regulatory directives published during the last two years relating to this sector:

(A) The Provident Funds Regulations

Provide, *inter-alia*, that the equity of a management company shall be no less than NIS 1 million (the sum being linked to the CPI, as from the index published in November 2001. Adjustment to the index shall be made at the end of every fiscal year). As of 31st December 2010, the capital of Menorah Mivtachim Gemel stood at NIS 64,675 thousand, and of Menorah Mivtachim Engineers stood at NIS 1,378 thousand, whereas the minimum capital required of the management company stood at approx. NIS 1.2 million.

In this context it should be pointed out that in January 2011 the Commissioner published draft regulations and a draft circular containing amendments to the capital requirements of management companies of provident and pension funds. For details regarding the proposed amendments see clause 8.2.15 (31) below.

(B) Prohibition on Money Laundering (Obligations of Identification, Reporting, and Keeping Records by a Provident Fund and by a Company that Manages a Provident Fund) Ordinance, 5762-2001

This Ordinance obligates a provident fund or a company that manages a provident fund, with respect to the provident fund that it manages, to register and save the details of the identity of a member who wishes to make deposits in an independent member account in a provident fund. The Ordinance likewise applies the duties of reporting and verifying details with respect to deposits and withdrawals in the sums specified in the Ordinance.

In September 2007 the Commissioner published a Draft Amendment to this ordinance which incorporates this ordinance into the Prohibition on Money Laundering (Obligation of Identification, Reporting, and Keeping Records by an Insurer and by an Insurance Agent) Ordinance, 5762-2001**.** For details, see clause 3.1.2(I) above.

(C) Economic Streamlining Act (Legislative Amendments for the Implementation of the Economic Program for the years 2009 – 2010) - 2009

In July 2009 the Economic Streamlining Act (Legislative Amendments for the Implementation of the Economic Program for the years 2009 – 2010) – 2009 was enacted, in the framework of which an amendment was effected to the Provident Law in respect of restrictions on the management of provident funds by a management company of a provident fund. In accordance with the amendment, a provident management fund is prohibited from managing more than one provident fund of any type of the provident funds detailed in the amendment, other than in certain specified cases. The Law authorises the Minister of Finance to determine conditions regarding the non-applicability of the prohibition on a management company in respect of which certain conditions are met that he has decided upon. Also in the framework of the Economic Streamlining Law, clause 23 of the Provident Law was amended which deals with the withdrawal and transfer of funds from a provident fund and it was determined that withdrawal of funds from a central annuity provident fund which is not indirectly held by a member-employer or its employees may be made solely by transferring to a central annuity provident fund or to the State. Pursuant to the said amendment according to which a management company is not permitted to manage more than one provident fund, in April 2010 **Draft Supervision of Financial Services Regulations (Provident Funds) (Permit to manage more than a single provident fund) – 2010** were published. In accordance with the draft, a management company which on the effective date of the Economic Streamlining Law (Legislative amendments for implementation of the economic program for the years 2009-2010), managed more than one provident fund, of a non-annuity paying provident fund type, pension fund, individual provident fund for severance pay or advanced study fund, via more than one operating entity, will be entitled, up until 1st January 2014, to manage a single provident fund of any type via each of the operating entities. Furthermore, a management company whose provident fund management has been transferred to it by another management company or which has merged with another management company and the management or merger transfer date was after 1st June 2010, will be entitled for up to six months from the management transfer or merger date, as applicable, to manage a single additional provident fund of the type of provident fund which has been transferred to it or which was under the management of the management company with which it has merged.

As part of the Economic Streamlining Law (Legislative amendments for implementation of the economic program for the years 2009-2010) (Amendment no. 6) – 2011 which was passed in January 2011, the said law was amended and the effective date of the provisions of the law regarding the prohibition of managing more than one provident fund of the same type until 1st July 2011.

(D) Supervision of Financial Services (Provident Funds) – Partial withdrawal from an advanced study fund) – 2011

In February 2011 the Commissioner published the Supervision of Financial Services Regulations (Provident Funds) - Partial withdrawal from an advanced study fund) – 2011 and the Income Tax Regulations (Rules for the Approval and Management of Provident Funds) – 1964. The regulations replace regulation 41 L (B) (2) of the Income Tax Regulations (Rules for the Approval and Management of Provident Funds) – 1964 which to date regulated this matter and determines a default for arranging a withdrawal from an advanced study fund for a member who wishes to make a partial withdrawal of the funds which have accrued to his benefit in the advanced study fund. According to the new arrangement, at first the funds which are liable for capital gains tax are to be withdrawn after which fund which are exempt from capital gains tax are withdrawn, and finally funds which were deposited after 31st December 2002, however the member will retain the right to request withdrawal of the funds in a difference order of withdrawal from those states in the regulations. Similarly, at the same time Income Tax Regulations (Rules for Approving and Managing a Provident Fund) (Amendment) – 2011 were published, which repeal the regulation of partial withdrawal of funds from an advanced study fund as part of the Income Tax Regulations (Rules for the Approval and Management of Provident Funds) – 1964.

(E) The Commissioner's Circulars

In July 2009 the Commissioner published an amendment to provident circular number 2005-2-5 regarding **requiring an employer to sign an application form for a provident fund**. In the framework of the amendment, the Commissioner instructed that the requirement detailed in clause 3.8 of the original circular be cancelled according to which the signature of the employer is required as a condition for adjoining a member to a provident fund. This amendment was affected in order to adapt the original circular to the directives of clause 20 (A) of the Supervision of Financial Services Act (Provident Funds) – 2005.

In August 2009 the Commissioner published a circular regarding the **risk management and control array in provident fund management companies**. The purpose of the circular is to establish an infrastructure in a management company to ensure, *inter-alia,* objective, comprehensive and continuous advice to the various organs of the company in respect of each significant risk to the savings managed in each provident fund managed by the management company, inherent in the investment assets held against the members' savings; the existence of tools, resources and adequate controls to identify market and credit risks inherent in the investment assets held against the members' funds in the provident fund, their measurement, monitoring and control thereof. The circular states that management companies must establish a risk management and control unit separately from the investment management unit and non-negotiable credit provision unit and must appoint a risk manager who is a member of management and subject directly to the general manager of the management company.

In the event of institutional entities controlled by the same controlling owner it is possible to establish a joint risk control and management unit for all of the same institutional entities, including for non-yield guaranteeing liabilities of insurance companies, and to appoint a single risk manager for the group.

The circular details the duties of the risk manager and his reporting duties to the various organs in the management company. The directives of the circular will apply gradually effective from 1st January 2010.

In February 2010 a draft second ruling was published regarding **compensation in respect of a delay in the withdrawal of funds or due to a delay in the transfer of funds between provident funds or between investment tracks**. The draft sets out mechanisms for compensating members due to a delay in the transfer of funds and calculating the loss caused, in each of the following cases – withdrawal of funds from a provident fund, transfer between provident funds in accordance with the Supervision of Financial Services (Transfer of Funds Between Provident Funds) – 2008 (after 1st October 2008), transfer between provident funds in accordance with regulation 41 (Q) 1 of the Income Tax Regulations (prior to 1st October 2008), and transfer between tracks.

The draft also states that institutional entities must not charge management fees due to funds that it managed in the period of delay and that the date on which the request is submitted for withdrawal or transfer of funds to the pension salesman will be considered as the date on which the request has been received by the management company.

3.1.3 Changes in the scope of activity in the sector, in its profitability and its customer mix

(1) The life assurance sector

Scope of activity

The life assurance premiums totalled NIS 2,002 million in the year 2010 compared to NIS 1,828 million in the year 2009 and compared to NIS 1,783 million in the year 2008; an increase of 10% and 3% respectively. The rate of increase in the year 2010 is higher than the increase in the year 2009 due to the ongoing economic recovery (which commenced in the second quarter of the year 2009) and due to a one-off premium of NIS 199 million (of which NIS 123 million were received for government office tenders for immediate payment to retirees of the same offices) compared to one-off premiums of NIS 74 million in 2009 (of which NIS 36 million in respect of government offices). For further details see clause 3.5.1 of the Directors Report.

The policies which were redeemed in the year 2010 totalled NIS 602 million compared to NIS 493 million in the year 2009, an increase of 23%. The percentage of redemptions from the average reserve in the year of the report was 4% (an identical rate to last year).

Additionally the Company has been marketing Top Finance policies. The majority of these policies are defined as investment contracts, and the receipts in respect of them are not recorded as premium income. Furthermore, in the year 2010 premiums which were attributed directly to insurance liabilities were received (without an insurance element) in the sum of NIS 400 million compared to NIS 238 million in the year 2009. Redemptions in respect of policies which were attributed directly to insurance liabilities (without an insurance element) totalled approx. NIS 189 million in the year 2010 compared to a total of approx. NIS 238 million in the year 2009.

Profitability

The Group's profitability in this sector is affected by a number of major factors. A substantial factor that has an effect on profitability is the financial margin deriving from the investment of the monies of life assurance policies, which were issued up until the end of 2003. This margin is affected by the results of the capital market in the reported period. Additionally profitability in this sector is affected by the scope of the accrual of assets in policies which were issued as of 2004. Another factor is the gap between the premiums collected based on the estimate of the risk element and its actual cost, taking reinsurance into consideration. The longer life expectancy affects profitability both in the risk plans and in the plans in which an annuity is paid during the entire life of the insured. Another factor that affects the Company's profitability is the life of the policy. The longer the life of the policy, the higher the profitability is from that policy.

Technical changes to the health sector, early detection of diseases and the medical treatments for them have at times made their mark upon the cost of treatments and as such have affected the insurer's expenditure for medical service providers within the framework of insurance cover under the policies and at the same time the willingness of the customers to acquire private insurance and, accordingly, its effect on profitability.

Furthermore, it should be pointed out that maintaining a low expenses ratio will result in a higher profit rate.

For an analysis of profitability, see clause 2.2.1 above.

For data about income and profit before taxes in this sector, see the table in clause 2.2.1.1 above.

Customer Mix

See clause 3.4 below.

(2) The pensions sector

Scope of activity

In 2010 there was an increase in collections of contributions into The "New Mivtachim" pension fund, whose management constitutes the main activity of the Group in the pension sector, at a rate of approx. 15.1%, as compared with 2009 (contributions which were collected in the year 2010 totalled approx. NIS 4,203 compared to NIS 3,651 million in the year 2009.

Profitability

Profitability in this sector depends mainly on revenues from management fees and the changes in the composition in administrative and general expenses. Management fees are collected in two ways: as a percentage of the contributions collected during the period and as a percentage of the accrual of assets in the fund. Adding new members increases the contributions collected, so that the accrual of assets increases accordingly.

For data on income and profit before taxes in this sector, see the table in clause 2.2.1.1 above.

In the "Mivtachim Plus New" pension fund management fees are collected exclusively from the accrual, and the management fees at a fixed sum are collected from the pensions that are paid to some of the pensioners in this fund.

In view of the competition in the sector, Menorah Mivtachim Pension grants the members of the pension funds discounts to management fees that are designed to increase their accrual in the fund, or supplementary insurance covers which are funded by Menorah Mivtachim Pension.

The benefits from management fees lead to a reduction in the rate of effective management fees that are collected from the members of the fund and the purchase of the supplementary insurance covers have an impact on the profitability. For an analysis of profitability, see clause 2.2.1.1 above.

Customer Mix

See clause 3.4 below.

(3) The provident fund sector

Scope of Activity

The management fees collected by Menorah Mivtachim Gemel in 2010 were approx. NIS 76 million compared to approx. NIS 63 million in 2009 and NIS 50 million in 2008.

This increase arises from an increase in the volume of managed assets of 11% due to increased values in the capital market and the collection of contributions.

Profitability

The income from management fees in the provident fund rose in the reporting period as a result of the positive change mentioned in the scope of managed assets. It should be pointed out that Menorah Mivtachim Gemel manages, *inter-alia*, minimal yield guaranteeing provident funds for its members whereas the surplus yield in excess of that guaranteed as aforementioned has an impact on the profitability of the management company.

For data on income and profit before tax in this sector, see the table in clause 2.2.1.1 above.

Customer Mix

See clause 3.4 below.

3.1.4 Critical factors for success in the field of activity and the changes occurring therein

In the Group's estimation, the critical factors for success in the field of activity are, *inter-alia*, identifying the needs of customers and the ability to maintain customers, and the development of products which meet these needs, the marketing and distribution capability to recruit new customers, a high standard of service to the customer, leadership in the area of yield to the customers, streamlining the production inputs, while preserving the standard of service and improving the information systems in this sector.

Other factors for success which are unique to the pension funds sector, are, *inter-alia*, access to channels of distribution and marketing, establishing competitive management fees, demographic yields, and quick deployment for regulatory changes.

Further factors for success which are unique to the provident funds sector are, *inter-alia*, operational efficiency and operating an efficient control of external factors.

3.1.5 Substitutes for products in the field of activity

The products in the field of activity are to a large extent replaceable by one another, but the interchangeability is not complete since the products of the various lines have different characteristics as detailed below.

All the sectors in the field contain savings products for retirement. The main replacement products which compete with them are the savings plans in the banks and various other deposits.

The risk elements, including the disability annuity, may be acquired in the pension fund as a replacement to life assurance products. Nonetheless, the lump sum ("compensation") payment when an insurance event occurs may be acquired only through an insurance company.

In the estimation of the Company, the regulatory changes with respect to the field of various tax benefits, to the issue of portability, the Bachar Legislation, the compulsory pension arrangement, the Amendment to the Provident Funds Law and the increased competition in the pension savings market plan, have had an effect on the internal interchangeability of the products in the sector and the degree of interchangeability between them and other savings products. Nonetheless, the Company estimates that in light of the scope of changes and their substance, a process of market restructuring continues to take place in the field of activities, in accordance with the new rules which have been determined as part of the said changes, as well as in accordance with future regulatory changes (such as in the context of maximum management fees in the various interchangeable products). **The company's estimation is forward looking information, which is based on the legislation in this sector and on the Company's estimate of its effect on the market. The forecast may not be realised due to further legislative changes, or due to other environmental changes which might cause the market to behave differently than that expected by the Company, as at the date of this report.**

3.1.6 Structure of competition and the changes that have occurred in the sector.

For details, see clause 3.8 below.

3.1.7 Changes in reinsurance arrangement in the sector

For a description of the changes in reinsurance arrangements in the sector, see clause 3.6 below.

3.2 Products and services

The products sold in this sector are: in life assurance – insurance policies, and in pension funds and provident funds – rights according to by-laws. Products are sometimes sold in combinations.

3.2.1 Life assurance

This clause contains a general and summarised description of insurance products and insurance covers. The complete binding terms and conditions are those detailed in every policy. The

description is only for the purpose of this report and shall not be used for interpretation of the policy.

(A) General description

The Group markets executive insurance policies, insurance policies for the self-employed (subject to the Provident Funds Regulations) as well as personal insurance policies. These policies (both those subject to the Provident Fund Regulations and those not subject to them) may contain a capital savings element or an annuity savings element, or a combination of the two (as the insured may choose at the time of issuing the policy, or at the time of changes therein, and subject to the Income Tax Regulations), as well as all types of risk elements, or each one of the elements mentioned above separately from the others (all types of risk only or all types of savings only).

Capital Track

This is a track which provides the insured with the possibility to withdraw the surrender value in a lump sum, subject to the terms of the policy and the provisions of the law.

Annuity Track

This is a track in which the insured is entitled to an annuity for all his life, in accordance with a formula that is prescribed in the policy. The major track grants a minimum period of annuity payments, even if an insured that begins receiving annuities and dies before the end of that minimum period.

Term Assurance Policy

An insurance policy which only contains a risk element.

Executive Insurance

An insurance policy which combines savings, term assurance (death) and cover for cases of incapacity to work (according to the needs of the insured). These policies constitute a component of the social conditions within the framework of the employment relationship.

The premium constitutes an agreed percentage of the insured's wage (for severance pay, social insurance, and incapacity to work) as shall be updated from time to time. These policies are subject to the Provident Fund Regulations.

The target market for executive insurance policies is employers and the controlling owners in companies who are interested in acquiring executive insurance for their employees and for themselves respectively, within the context of the employment relationship.

Private Insurance

Insurance policies for private customers which includes savings, term assurance or various covers and at times all the elements combined together.

The target market for private insurance policies is private customers, salaried employees and the self-employed where the policies for the self-employed are subject to the provident fund regulations.

(B) Classes of insurance plans in the life assurance sector

Hereunder are the details of the main classes of products and plans in life assurance that are marketed by the Group:

"Status" Policy

An insurance policy which the Company began marketing in 2004. In this policy there is an absolute separation between the elements of term assurance, savings, and expenses. The policy is marketed as an executive insurance policy, as a personal insurance policy, and as an insurance policy for the self-employed. In Status insurance policies the sum insured and the premium may be changed at the discretion of the insured, subject to the underwriting terms. As of July 2008 the Status annuity policy contains a guaranteed life expectancy coefficient. In light of Amendment 3 to the Provident Funds Law, the Group decided to also guarantee the annuity coefficient in Status policies, an annuity which was issued as of January, 2004. Effective from 2009 the Company markets a New Status Executives and Self-Employed policy that has been approved as an annuity paying fund or a non-annuity paying fund, as applicable, with an annuity coefficient guarantee, as well as a "Status Capital" policy which is designated to absorb capital accruals of funds that have been allocated up until December 2008. The accrued savings in the policy are invested in one or more of the diversified investment tracks, which are available to the insured and according to his instructions. Management fees are deducted from the said invested savings, as agreed upon between the Company and the insured, and as prescribed in the policy.

"TOP FINANCE" Policy[2]

This is an insurance policy that includes only a savings element and is marketed as a personal policy. The savings accrued in the policy are invested in one or more of the diversified tracks of investment, which are available to the insured and according to

[2] The data on premiums and claims of these policies are not included in the life assurance businesses statement.

his instructions. Management fees are deducted from the invested savings, as agreed upon between the Company and the insured, and as prescribed in the policy.

“TOP FINANCE” Policy – Central Fund for Severance Pay[3]

This is an insurance policy that includes only a savings element and allows the employer to accumulate his liabilities for payment of severance pay to his employees, all subject to the Provident Funds Regulations. The savings accrued in the policy are invested in one or more of the diversified investment tracks, which are available to the insured and according to his instructions. Management fees are deducted from the said invested savings, as agreed upon between the company and the employer, and as prescribed in the policy. In light of the Amendment to the Provident Funds Law, which states that marketing these classes of policies will no longer be permitted, the Company was permitted to continue to receive deposits to the existing policies up until the end of the year 2010 solely with respect to employees for whom the employer made deposits until the end of 2007.

“ADIF” Policy

Until the end of 2003 the Group marketed an insurance policy by the name of “Adif” in which the premium was split between the term assurance element (including expenses) and the savings element, where the ratio between the said elements was determined by the policyholder or by the insured. The accrued savings in these classes of policies which were marketed until 1990 are linked to the Consumer Price Index, plus interest as specified therein.

The policies marketed from 1991 until the end of 2003 are “with-profits policies”. The insured cannot choose the investment track, and the management fees are specified in the terms of the policy.

The “Status”, “Top Finance”, and “Adif” policies may be either capital oriented or annuity oriented. In view of the Amendment to the Provident Funds Law, the accrual in respect of deposits from January 2008 onwards (in these policies that are subject to the Provident Fund Regulations) is designated for annuity.

“Endowment” (Traditional) Policy

Until the end of June 2001 the Group marketed an insurance policy by the name of “Endowment” (Traditional), where the

[3] The data on premiums and claims of these policies are not included in the life assurance businesses statement.

sum insured was composed of a savings element plus a risk element combined together. Upon the occurrence of the insured contingency (death or end of period) the sum assured is paid in the amount stated in the policy. The savings accrued in these classes of policies that were marketed until 1990 is linked to the Consumer Price Index, plus interest as prescribed therein. The policies marketed from 1991 until the end of 2001 are “with-profits” policies. The insured cannot choose the investment track, and the management fees are specified in the terms of the policy. This is a capital oriented policy. In light of the Amendment to the Provident Funds Law, the accrual in respect of deposits from January 2008 onwards (in these policies that are subject to the provident fund regulation) is designated for annuity.

In all the classes of the above policies the insured/policyholder may surrender the policy before the end of the insurance period, in accordance with the surrender values specified therein, and subject to the Provident Fund Regulations, or any other legislative arrangement that applies to the policy, as the case may be.

Term life assurance

A class of risk policies that grants a payment to the beneficiaries of the sum insured, in one payment, in the case of the insured’s death, excluding cases of suicide during the first year.

Term life assurance is marketed by the Group both to individuals as “private risk” life assurance and as an extension to other life assurance policies, like “Status”.

Within the framework of “private risk” insurance the Group markets risk insurance policies which in the case of death serve as collateral for the mortgage provider (“Secure Home”). The sum insured is assessed at the amount of the balance on the loan. The policy makes it possible to combine it with building insurance on the home for which the loan was taken.

Group Term Assurance

Group Term Assurance policies are usually marketed to employers who wish to insure their employees with cover for death only. They are subject to the regulations of group life assurance, where the premium is usually collected through the policyholder for all those insured in the group and is financed by the employer and/or the employee, as the case may be.

Permanent Health Insurance

Permanent health insurance provides the insured, after a waiting period of several months from the date of the insured event, with a monthly payment as well as a release from payment of the premium over the period of incapacity in the event of disability that causes a full or partial incapacity to work, as a result of an illness or an accident. This cover is usually sold as an additional cover in other insurance policies, such as "Status" or "Risk".

As mentioned above, the policy is sold to employees, the self-employed and private individuals.

Group Permanent Health Insurance

Group permanent health policies are subject to the special regulations that were issued for this purpose and that became effective from April 2007 whereas the premium is usually collected through the policyholder on behalf of all the insured in the group and is financed by the policyholder and/or members of the group, as the case may be.

Long Term Care (LTC) Insurance

This is an insurance plan that grants the insured monthly compensation, after a waiting period of several months from the date of the insured event (the date on which the insured cannot perform all or some of the basic daily functions) and for an indemnity period specified in the policy, upon acquisition of the policy. The indemnity, as aforementioned shall be paid so long as the insured is in a disabled state, but not exceeding the period specified in the policy.

This policy is sold mainly to individual customers. There are also group policies for disabled insurance. Policies of this class are generally marketed to employers and occasionally in cooperation with work committees who wish to insure their employees with cover in the event of a disability.

Critical Illness Insurance

This policy guarantees the insured cash compensation in a lump sum, in the event of a diagnosis of a critical illness that appears in the list of recognised illnesses, and in accordance with the terms of the policy.

The policy is sold to individual customers. There are also group policies for critical illness insurance. Policies of this class are generally marketed to employers or occasionally in cooperation with work committees who wish to insure their employees with cover for critical illness insurance.

Health Insurance

Health policies in the life assurance sector include two main covers: medical expenses insurance and dental insurance.

Medical Expenses Insurance

The insurance cover in these policies is based on the model of compensation for medical expenses that are actually incurred, up to a limit specified in the policy. At times an element of monetary compensation which is not dependent on the actual incurred expenses is added to this insurance

The classes of cover that may be purchased include, *inter-alia*: cover for medicines that are not included in the health basket, organ transplants abroad, special treatments abroad, private surgery in Israel and abroad, technologies to replace surgery, consultations with medical experts, "preventative medicine" riders, complementary medicine, pregnancy check-ups, compensation for hospitalisation for illness, compensations for home recuperation, compensation for unforeseen/elective hospitalisation, additional riders: a doctor visit, first aid in dentistry and a nursing telephone service.

In order to provide insureds in the health sector with quality medical service, the Group entered into agreements with service providers who are specialist doctors and private medical centres of the highest calibre in Israel. Each one of the independent doctors signed a personal agreement with Menorah Mivtachim Insurance, in the framework of which the doctor is obliged to provide medical services in accordance with the cover in the policy, and this is done at the hospitals in which he works. The service which is included in the service manual is provided by an external provider.

The Group entered into agreements with leading international networks, in order to enable the insured, at the time of need and in accordance with the terms of the policy, to receive medical treatment abroad.

Dental Insurance

The group provides two main classes of dental insurance plans: (1) cover for preservation treatment (elementary dental care), (2) comprehensive cover for maintenance and rehabilitative care (comprehensive dental care) and orthodontic care for children.

Other

Accidental Death Insurance

Accidental Death Insurance is another cover, which grants beneficiaries a lump sum cash payment in the event of the insured's death as a result of an accident, in addition to the basic sum insured.

Personal Accident Disability Insurance

Personal Accident Disability Insurance is another type of cover which provides a lump sum cash payment in the event of disability as a result of an accident. In the event of a total permanent disability, the sum insured will be paid in full, and in the event of partial disability – a proportionate sum insured out of the total sum insured shall be paid in accordance with the table prescribed in the policy.

Personal Accident – Professional Disability

"Professional Disability" is an extension to the policy, which grants the insured a lump sum cash compensation in the event of an accident or an illness, as consequence of which the insured is totally and permanently deprived of his capacity to engage in his profession or to engage in any other reasonable and appropriate occupation. In the event of total permanent disability, the sum insured shall be paid in full, and the policy shall be cancelled together with all the other covers therein.

All the policies as aforementioned are sold to customers who wish to enhance their life assurance covers.

For details about the investment of the funds of the insureds and the members, and the profitability attributed to the Company by them in the life assurance branch, see clause 8.3.7 below.

3.2.2 Pensions

(A) New Comprehensive Pension Fund "New Mivtachim"

A new comprehensive pension fund, which was established in 1995, and which insures employees and the self-employed (self-employed workers, employee workers who deposit money in the fund in the capacity as self-employed, and the self-employed who are not workers), who started being insured in the pension fund from 1995 onwards. The fund provides cover in the events of death (survivors' pension), incapacity to work (disability pension) and retirement to pension upon attaining old age (old age pension) as detailed in the fund's by-laws. The deposits into the fund are limited to a monthly ceiling of up to 20.5% of double the average national wage (today – a deposit in the sum of approx. NIS 3,500 a month), that is calculated accumulatively for every tax year separately.

The volume of contributions which the management company collected from the members of the "New Mivtachim" pension fund over the periods described in the

report and the assets managed therein (in NIS million) are detailed below.

	2010	2009	2008
Contributions	4,154	3,610	3,209
Assets	33,815	27,579	19,732

The contributions increased by 15.1% for 2010 as compared with 2009 and the volume of the assets increased mainly due to an increase in contributions and capital market yields. Additionally over the period covered in the financial report there were surrenders by members and payments of compensation to employers at a volume of approx. NIS 616 million as compared with approx. NIS 584 million last year.

The rights and duties of the members of the fund are determined in the provisions of its by-laws, which prescribes that for every member of the fund an accumulated sum has accrued, whose distribution as an appropriate actuarial coefficient shall produce a yield for the old age pension to which he shall be eligible at retirement age, according to the pension data, which the member determined. Likewise the member shall be granted insurance cover for cases of disability and death before the retirement age. The amount of cover shall be determined in accordance with the pension track which the member chooses for himself (among several possible tracks as detailed above), according to the age at the time of joining the fund and the progression of his wages, and everything is subject to the constitutional arrangement.

The by-laws are amended from time to time, with the approval of the Commissioner or following his requirement, and it was most recently amended in January 2011.

Hereunder are details about the different insurance tracks enumerated in the by-laws:

General Track – this track is the default track in “New Mivtachim”, in which maximum permitted insurance cover for disability is provided. It also provides balanced cover for survivors, such that survivors' pension is designed to be similar to old age pension which is expected at retirement age; until March 2009 the insurance cover for cases of disability which was provided in this track is balanced cover as aforementioned;

Savings Intensive Track – designed for a person who wishes to receive a higher old age pension, and in exchange for receiving a lower disability pension or survivor’s pension (substantially lower);

Maximum Savings Track for Early Retirement – designed for a person who wishes to receive an old age pension, which is as high as possible, provides insurance covers only until the member attains the age of 60, so that the cost of risks deducted from the member's account is minimal;

Insurance Intensive Track – designed for a person who wishes to receive a higher disability pension or survivor’s pension, in exchange for a lower old age pension than that in the general track;

Maximum Insurance Track – provides the highest cover permitted for disability pension or survivor’s pension. However the cover is provided only until the member attains the age of 60;

Equalising Track – a balanced track designed for a person who wishes to receive a disability pension or survivors’ pension whose payment to him or to his family will be close to the old age pension expected at retirement age;

Enhanced Survivors Track – designed for a person who wishes to receive a higher survivors pension, in exchange for lower old age pension and disability pension (substantially lower) than those in the general track;

Combined Track – Savings Oriented – a combination of the general track and the savings intensive track;

Combined Track – Insurance Oriented – a combination of the general track and the insurance intensive track.

(B) New General Pension Fund “Mivtachim Plus New”

“Mivtachim Plus New” is a new general pension fund (named “General Fund” or “Supplementary Fund”), designed mainly for depositing contributions from wages, which exceed double the average wages in the economy, and for lump sum deposits for the purpose of acquiring an annuity at retirement age. The Fund was established in 1997.

The total contributions collected by the fund in the periods described in the statements and the assets managed therein (in NIS million), are detailed below:

	2010	2009	2008
Contributions	49.6	40.7	30.4
Assets	299.2	232.6	150.5

New by-laws were prepared in December 2007 for “Mivtachim Plus New”, prepared in accordance with the provisions of the relevant pension circulars. According to the new amendment, comprehensive pension cover (old age pension, disability pension in the event of incapacity to work at the working age, and a survivors pension in the event of death at the working age) will be provided to a member of "Mivtachim Plus New" who so wished, in various insurance tracks from which may have chosen, but the possibility remains to choose a basic pension track (without insurance covers for the event of disability or death during working age).

Pursuant to the provisions of the Commissioner in this context Menorah Mivtachim Pension acquires reinsurance for its insurance tracks in "Mivtachim Plus New". The insurance is acquired from Menorah Mivtachim Insurance and it is expected that it shall continue to be acquired until it reaches a critical mass of members in the New Mivtachim to whom the aforementioned insurance cover applies.

.In March 2010 the "Mivtachim Plus New" regulation was amended. As part of the amendment the name of the fund was changed and it was determined that effective from July 2010 onwards the general insurance track became the default track of the fund, and this for new members and depositors who renew their deposits after an interruption of six months or more. Furthermore, a change was effected to the insurance covers for death in the same track for relatively older individuals joining. Amendments were made relating to extending the insurance provided to an insured whose regular deposits have been interrupted in respect thereof in the fund, the transfer of funds to and from the fund have been adapted to the directives of the Mobility Regulations in addition to which several amendments have been effected relating to eligibility to payments from the fund.

Withdrawal of money from the pension fund otherwise than by way of annuities is done in accordance with the provisions of Regulation 41(29) of the Provident Funds Regulations and accordingly such withdrawal of money is made of the sum accrued to the credit of the member of the Fund.

For details about the investment of the funds of insureds and members, and the profitability which the Company derives from them in the pension branch, see clause 8.3.6 below.

3.2.3 Provident funds

Personal provident funds for social insurance and severance pay are designed for employees and for the self-employed unless provided otherwise in their by-laws. The deposits in the fund are on a monthly basis for employees while the self-employed may make their deposits once every period.

As detailed in clauses 3.1.1 and 3.1.2 above, within the framework of the Amendment to the Provident Funds Law, it was established that deposits in these provident funds, that will be made from 2008 onwards, shall be for annuity purposes, and the funds will become (for the purpose of these deposits) non-annuity paying provident funds.

Menorah Mivtachim Gemel manages 4 different types of provident funds: Non-Annuity paying provident funds (which in the case of funds deposited in them before the end of 2007 continue to be managed as personal insurance provident funds for social insurance and severance pay), advanced study funds, central funds (for severance pay as well as a central provident fund for participation in budgetary pension) and provident funds for other purposes.

3.2.3.1 Personal provident funds for social insurance and severance pay

Menorah Mivtachim Gemel manages several provident funds of this type as detailed below:

A. **Menorah Gemel which offers six tracks** and this after completion of the merger of the "Quatro Menorah Non-Share Bonds" into the Menorah Gemel for Retirement 2015 investment track in accordance with the approval of the Commissioner:

1. **Up to 10% Shares Track –** investment policy which is subject to the decisions of the investment committee of the fund, subject to the provisions of the law, however at no time may the rate of holdings in shares and securities which can be converted into shares exceed 10% of the assets of this track.
2. **Share Oriented Track –** the investment policy is subject to the decisions of the investment committee of the fund, however at no time may the rate of holdings in shares and securities which can be converted into shares be less than 50% of the assets of the track.
3. **Immediate Retirement Track –** in which no money in shares or in converted securities shares may be deposited and into which assets where the balance of time which remains until they may be redeemed exceeds one year likewise may not be deposited, and in which the investment policy is subject to the assumption that all the money in this track must be liquid at all times.
4. **2015 Retirement Track –** in which no money in shares or in converted securities shares may be deposited, and in which the investment policy is subject to the assumption that all the money in this track (except for liquid money that

is there as a result of fluctuations in the accounts of the track) shall be redeemed by 2015. In August 2010 the merger of the "Quatro Menorah Non-Share Bonds" into this track from the "Quatro Menorah Tagmulim" provident fund in accordance with the approval of the Commissioner:

5. **2020 Retirement Track –** The investment policy therein is subject to the decisions of the investment committee of the fund, however all the funds in this track (except for liquid money that is there as a result of fluctuations in the accounts of the track) shall be redeemed by 2020.
6. **2030 Retirement Track –** The investment policy therein is subject to the decisions of the investment committee of the fund, however all the funds in this track (except for liquid money that is there as a result of fluctuations in the accounts of the track) shall be redeemed by 2030.

B. **"Mivtachim Social Insurance and Severance Pay"** – A personal provident fund for social insurance and severance pay for self-employed and salaried individuals.

C. **"Menorah Gemel Meytar"** A personal provident fund for social insurance and severance pay for self-employed and salaried individuals.

D. **Menorah Mivtachim Amir (previously called "Menorah Gemel Amir"** to which the Menorah Gemel Palas provident fund was merged from 2010) – as part of the merger the change of the name of the fund was approved as aforementioned. The fund operates three tracks:

E. **Menorah Mivtachim Amir General Track** – A general track that is open to new members in which the assets are invested according to the discretion of the management company as determined from time to time, and subject to the provisions of the legislative arrangement and to the restrictions determined in accordance therewith.

F. **Menorah Mivtachim Amir Known Index Track** – A track that guarantees a yield, as this term is defined in the provident fund regulations, which is a track that is closed to new members. The guarantee annual yield is 5.5% plus indexation increments per the rate of increase of the index, at the ratio between the latest index published prior to crediting the profits and the known index in the month in which the funds have been deposited to the benefit of the member.

G. **Menorah Mivtachim Amir Begin Index Track** – A track that guarantees a yield, as this term is defined in the provident fund regulations, which is a track that is closed to new members. The guarantee annual yield is 5.5% plus indexation increments per the rate of increase of the index, at the ratio between the latest index published prior to crediting the profits and the known index in the month in which the funds have been deposited to the benefit of the member.

As detailed in clause 3.1.1 above, these provident funds operate, in respect of the deposits that will be made therein from 2008 onwards, as non-annuity paying provident funds, and shall continue to operate as personal provident funds for social insurance and severance pay, in respect of the deposits made therein until the end of 2007.

H. **Mor Menorah Mivtachim** – a personal provident fund for social insurance, designed for those serving in the standing army. The fund operates three tracks:

1. **Mor Menorah Mivtachim General Track**: In which the assets are invested at the discretion of the management company as decided upon periodically and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith.
2. **Mor Menorah Mivtachim General Track B**: In which up to 10% of the assets of the track are invested in shares whereas the remainder of the assets of the track will be invested, subject to the parallel conditions stated in respect of the investment in shares, at the discretion of the management company as decided upon periodically and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith.
3. **Mor Menorah Mivtachim Shares Track**: In which at least 50% of the assets of the track are invested in shares whereas the remainder of the assets of the track will be invested at the discretion of the management company as decided upon periodically and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith.

I. **Menorah Mivtachim IMI** – (in its previous name “Menorah Gemel IMI"). The fund currently operates 2 investment tracks and this following completion, in August 2010, of a merger of the “Quatro Menorah Tagmulim A” and “Quatro Menorah Tagmulim B” into the general track in the fund and a merger of the “Quatro Menorah Tagmulim Shares (M.H. 1364)” as a new track in the fund, in accordance with approval from the Commissioner. As part of the merger, a change of the name of the said track to “Menorah Mivtachim IMI – Share Track” was approved.

1. **<u>"Menorah Mivtachim IMI - General Track"</u>** - In which all of the assets in the track will be invested at the discretion of the Company, as may alter from time to time, and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith. In August 2010, a merger of the "Quatro Menorah Tagmulim A" and "Quatro Menorah Tagmulim B" investment tracks into "Quatro Menorah Tagmulim" investment track was completed.
2. **<u>Menorah Mivtachim IMI – Share Track"</u>** – In which 75% of the assets in the track will be invested in shares, convertible securities, share indices, participation certificates in mutual funds investing in shares or derivatives, any of which in Israel or overseas. The balance of the assets will be invested at the discretion of the Company, as may alter from time to time, and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith. In August 2010, a merger of the "Quatro Menorah Tagmulim Shares" into "Quatro Menorah Tagmulim" investment track was completed.

J. **<u>Menorah Mivtachim Yeter</u>** – A provident fund for social insurance, with four investment tracks: three yield guaranteeing tracks as this term is defined in the Provident Funds Regulations, and in respect of which there is a commitment to guarantee yields in accordance with the by-laws of the fund, and a fourth track that does not guarantee yields.

3.2.3.2 Advanced Study Funds

The advanced study fund is intended for employees and for the self-employed. The deposits in the advanced study fund are on a monthly basis for employees. The self-employed may deposit their contributions periodically.

Menorah Mivtachim Gemel manages 2 advanced study funds:

A. **<u>Menorah Advanced Study</u>**, which operates five tracks and this following the merger of the "Menorah Massad Advanced Study Fund" into this advanced study fund in accordance with the approval of the Commissioner was completed January 2010:

1. **<u>General Advanced Study Track</u>**: In this track all of the assets are to be invested at the discretion of the management company as decided upon periodically and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith.

2. **Menorah Advanced Study up to 10% shares:** Up to 10% of the assets of the track will be invested in shares, convertible securities and the balance of the assets are to be invested at the discretion of the management company as decided upon periodically and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith.
3. **Menorah Advanced Study Share Track:** At least 50% of the assets of the track will be invested in shares, convertible securities and the balance of the assets are to be invested at the discretion of the management company as decided upon periodically and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith.
4. **Menorah Advanced Study Indices Track:** At least 75% of the assets of the track will be invested in index linked assets without any investment in shares. In the month of January 2010 this track was merged into this advanced study fund from the Menorah Masad Advanced Study Fund.
5. **Menorah Advanced Study Shekel Track:** At least 75% of the assets of the track will be invested in assets bearing shekel interest and up to 25% in each other track. In the month of January 2010 this track was merged into this advanced study fund from the Menorah Masad Advanced Study Fund.

B. **Menorah Mivtachim Advanced Study**, which operates six tracks following a merger of the “Quatro Menorah Advanced Study Fund Shares” and the “Quatro Menorah Advanced Study Fund Non-Share Bonds” into this advanced study fund was completed in August 2010 in accordance with an approval from the Commissioner:

1. **General Track –** the investment policy here is determined by the investment committee of the fund, subject to the provisions of the law.
2. **Corporate Bonds Track –** where the investment policy states that at least 50% of the assets of the investment track shall be invested in corporate bonds of public companies.
3. **Government CPI Linked Bond Track –** in which the investment policy states that at least 50% of the assets of the investment track shall be invested in securities that are included in the “Government Indices” Index or in securities which follow the same Index.

4. **Government Shekel Bond Track** – in which the investment policy states that at least 50% of the assets of the investment track shall be invested in securities that are included in the "Non-Linked Government" Shekel Index" or in securities which follow the same Index. In August 2010 a merger of the "Quatro Menorah Advanced Study Fund Shares" was merged into this fund from the "Quatro Menorah Advanced Study Fund".
5. **Foreign Track** – in which the investment policy states that at least 50% of the assets of the investment track shall be invested in securities that are traded in foreign Stock Exchanges according to the geographic distribution that shall be determined in this regard or in securities which follow the foreign shares indices.
6. **Share Track** - In which the investment policy is to invest at least 75% of the assets in the track in shares, convertible securities, share indices, participation certificates in mutual funds investing in shares or derivatives, any of which in Israel or overseas. The balance of the assets will be invested at the discretion of the Company, as may alter from time to time, and subject to the directives of the legislative arrangement and the restrictions determined in accordance therewith. In August 2010, this track was merged into the "Quatro Menorah Advanced Study Fund" in accordance with approval from the Commissioner.

C. "**Lehav Advanced Study"**

Effective from 1st January 2011, management of the fund was transferred from Lehav Advanced Study Fund Management Company Ltd. and Lehav Self-Employed and Businesses in Israel Organisation (Non-Profit Making Organisation) to Menorah Mivtachim Gemel, in accordance with an approval from the Commissioner. The fund operates 2 active investment tracks:

1. **"Lehav General Track"** – In which the investment policy is that the assets in the track are invested depending on developments in the capital market, at the professional discretion of the management company and subject to the regulatory directives in the legislative arrangement.
2. **"Lehav Shekel Track"** – In which the investment policy is that at least 50% of the assets of the track are invested in Consumer Price Index linked investments. In this track there will be no investment in shares and/or in options and/or in convertible securities and/or in mutual funds which specialise in investments as aforementioned.

D. **Omega Advanced Study Fund**

In September 2008, 60% of the shares of Menorah Mivtachim and the Union of Engineers Provident Fund Ltd. which manages the Omega Advanced Study Fund Ltd. (formerly Engineers Advanced Study Fund Management) (Hereinafter for the purpose of this clause: "**the fund**") were transferred to Menorah Mivtachim. This was in accordance with the acquisition agreement in terms of which all the means of control belonging to the State and 20% of the means of control of the Engineers Union in Menorah Mivtachim Engineers would be transferred to Menorah Mivtachim Finances.

As of the date of the transfer of control to Menorah Mivtachim Finances, the fund is no longer a sectorial fund which operates according to actual expenses and which is designed exclusively for engineers and therefore the by-laws of the fund were amended accordingly.

The fund operates a general track whose investment policy is determined by the investment committee of the Fund subject to the provisions of the law as well as two further tracks as detailed hereunder:

1. **"Omega Bond Track"** – In this track at least 75% of the assets of the track shall be invested in government bonds, and up to 25% of the assets of the track in corporate bonds.
2. **"Omega Shares Oriented Track"** – In this track at least 50% of the assets of the track will be invested in shares and convertible securities and accordingly alterations were made to the fund bye-laws in order to adapt it to the bye-laws of the provide fund track.

3.2.3.3 Central Funds (for Severance Pay and Participation in Budgetary Pension)

Menorah Mivtachim Gemel manages central funds for severance pay is designed for the employer who wishes to accumulate money for securing severance pay for his employees. This is not a personal fund. The member is the employer and the accumulation of money is concentrated in the name of the employer on behalf of his employees. The provisions made to the fund are recognised as an expenditure of the employer and the money remains in his ownership until its release for the benefit of his employees.

As detailed in clauses 3.1.1 and 3.1.2 above, in the Amendment to the Provident Funds Law, it was established that from 2008 onwards it is forbidden to make deposits in the central funds for severance pay (transition provisions in the said Amendment provide that deposits in the fund may be made only by existing employer members and only in respect of employees of those employers in respect of whom deposits were made in December 2007 – until the end of 2010). In accordance with the provisions of the amendment to the Provident Law, effective from January 2011, the Central Funds for Severance Pay have been closed to new deposits.

Menorah Mivtachim Gemel manages two central funds for severance pay after completion, in January 2010, of a merger of the central severance pay fund "Menorah Central for Severance Pay Morag" into the "Mivtachim Central for Severance Pay" and in August 2010, merger was completed of the central provident fund for severance pay "Quatro Menorah Central for Severance Pay" into the "Mivtachim Central for Severance Pay" in accordance with approval from the Commissioner. Similarly, Menorah Mivtachim Gemel manages a single central fund for participation in budgetary pension, as detailed hereunder:

A. **Mivtachim Central Severance Pay Fund** – In accordance with the approval of the Commissioner, in January 2010 the merger of the Morag Central Mivtachim for Severance Pay into this fund was completed, and in August 2010 the merger of "Quatro Menorah Central for Severance Pay" into this fund was completed.

B. **Menorah Central Severance Pay Fund** – which operates three tracks:

   1. **General Track** – the investment policy in it is determined by the investment committee of the fund, subject to the provisions of the law.

   2. **Up to 10% Shares Track –** the investment policy in this track is subject to the decisions of the investment committee of the fund, subject to the provisions of the law; however the rate of holdings in shares may at no time exceed 10% of the assets of this track.

   3. **Non Shares Track –** The investment policy in this track is subject to the decisions of the investment committee of the fund, subject to the provisions of the law, however there may be no investment in shares or securities convertible into shares.

C. **Menorah Mivtachim - Participating in Budgetary Pension** – This fund is a designated fund for the purpose of depositing monies that were deducted from the salaries of employees who are entitled to budgetary pensions, according to the rates and terms prescribed in sections 89 and 90 of the Israel Economy Recovery Plan (Legislative Amendments to Attain Budgetary Targets and Economic Policies for the 2003 and 2004 financial years) Law 5763 – 2003. In this fund, two investment tracks are managed:

1. **General Track** – the investment policy in it is determined by the investment committee of the fund, which may alter from time to time, subject to the provisions of the legislative arrangement and the restrictions determined in accordance therewith.
2. **Non Shares Track** – investment policy in this track is subject to the decisions of the investment committee of the fund, subject to the provisions of the legislative arrangement and the restrictions determined in accordance therewith, with no investment in shares or securities convertible to shares.

3.2.3.4 Provident funds for other purposes

Menorah Mivtachim Gemel manages one provident fund for another purpose: “Mivtachim Provident Fund for Holidays and Recuperation” – a personal provident fund for another purpose designed for employees. The deposits in the fund are made by the employer and registered in the name of the employee. The deposits in the fund are for the purpose of covering the employer’s liabilities to pay for holidays and recuperation to his employees. The rates of deposits out of the insured wages are prescribed in the by-laws of the fund as a default, however – in a collective agreement it is possible to determine different rates of deposits than those prescribed as the default. The provisions to this fund are recognised as expenses by the employer. The fund pays its members the monies accumulated in their account once a year (on a date determined in coordination with the employer) or when the employee retires from work (at which time the employee may withdraw his money without the need for the employer’s approval).

For details about the investment of the monies of insureds and members and the profitability which the Company derives from them in the provident funds sector see clause 8.3.6 below.

Hereunder is a breakdown of the data with regard to of the assets managed by the funds (in NIS million) in the periods described in the report:

	2010	2009	2008
Personal provident funds for social insurance and severance pay	8,330	7,769	6,637
Advanced study funds	3,626	3,091	2,251
Central funds for severance pay	634	472	247
Provident funds for other purposes	28	26	20

3.3 Breakdown of data about products and services

3.3.1 Life assurance

Premium income in life assurance[4] in the periods described in the statements was as follows:

	2010	2009	2008
Total premium income in life assurance	2,001,514	1,827,732	1,783,022
Rate of income from Group's premiums	46.8%	44.5%	45.3%

The following data detail the proportionate share of premiums in various life assurance policies, which are marketed by the Group in the periods described in the report:

[4] Premiums and claims of Top Finance policies are not included in the life assurance businesses statement.

Data for the year 2010:

Premiums (in NIS thousand)	**With-profits**	**Yield Guarantee**	**Other**	**Total**
Executive insurance:				
Adif	334,355	33,640	-	367,995
Traditional	8,519	19,884	-	28,403
Policies issued since 1.1.2004	419,287	124,738	-	544,025
Individual insurance:				
Adif	88,594	7,142		95,736
Traditional	52,069	30,491	-	82,560
Policies issued since 1.1.2004	91,877	-	-	91,877
Individual term insurance	221,455	5,966	-	227,421
Group term insurance	-	-	9,978	9,978
Permanent health insurance	169,624	9,966	6,627	186,217
LTC insurance	49,993	49	859	50,901
Critical illness insurance	70,451	3,494	134	74,079
Medical expenses insurance	-	-	205,231	205,231
Other	34,199	1,447	1,447	37,093
Total premiums	1,540,423	236,817	224,274	2,001,514
Receipts in respect of investment contracts	399,622	12	-	399,634
Total premiums including receipts in respect of investment contracts	1,940,045	236,829	224,274	2,401,148
Underwriting liabilities, gross as of 31.12.2010	11,908,196	4,937,339	193,693	17,039,228

Data for 2009:

Premiums (in NIS thousand)	**With-profits**	**Yield Guarantee**	**Other**	**Total**
Executive insurance:				
Adif	353,504	28,736	-	382,240
Traditional	12,562	22,651	-	35,213
Policies issued since 1.1.2004	361,380	36,331	-	397,711
Individual insurance:				
Adif	89,312	6,698	-	96,010
Traditional	58,609	36,947	-	95,556
Policies issued since 1.1.2004	43,358	-	-	43,358
Individual term insurance	200,520	6,307	-	206,827
Group term insurance	-	-	14,739	14,739
Permanent health insurance	177,445	9,429	13,586	200,460
LTC insurance	44,161	66	1,407	45,634
Critical illness insurance	66,902	3,850	589	71,341
Medical expenses insurance	-	-	202,772	202,772
Other	30,660	3,816	1,395	35,871
Total premiums	1,438,413	154,831	234,488	1,827,732
Receipts in respect of investment contracts	237,787	95	-	237,882
Total premiums including receipts in respect of investment contracts	1,676,200	154,926	234,488	2,065,614
Underwriting liabilities, gross as of 31.12.2009	10,238,194	4,598,807	167,174	15,004,175

Data for 2008:

Premiums (in NIS thousand)	**With-profits**	**Yield Guarantee**	**Other**	**Total**
Executive insurance:				
Adif	386,807	28,630	-	415,437
Traditional	13,774	24,146	-	37,920
Policies issued since 1.1.2004	350,540	-	-	350,540
Individual insurance:				
Adif	105,031	5,518	-	110,549
Traditional	70,994	41,706	-	112,700
Policies issued since 1.1.2004	41,801	-	-	41,801
Individual term insurance	180,147	6,542	-	186,689
Group term insurance	-	-	12,153	12,153
Permanent health insurance	160,358	11,844	14,596	186,798
LTC insurance	40,417	49	339	40,805
Critical illness insurance	61,846	4,216	640	66,702
Medical expenses insurance	---	---	190,969	190,969
Other	27,247	1,456	1,256	29,959
Total premiums	1,438,962	124,107	219,953	1,783,022
Receipts in respect of investment contracts	239,665	294	---	239,959
Total premiums including receipts in respect of investment contracts	1,678,627	124,401	219,953	2,022,981
Underwriting liabilities, gross as of 31.12.2009	7,227,843	4,487,751	173,924	11,889,518

The total premium in executive insurance constitutes approx. 49.8% of the total premiums in 2010 as compared to 50.6% in 2009.

3.3.2 Pensions

The following table shows data about the income of Menorah Mivtachim Pension from the pension funds which it manages:

	2010	2009	2008
Income from management fees:			
Management fees from assets	152,853	119,462	100,376
Management fees from contributions	250,691	218,178	193,352
(Less management fees designed to increase the accrual of the members in the fund)	(124,097)	(90,676)	(67,166)
Net total income from management fees	279,447	246,964	226,562
Profit before taxes	96,015	91,872	78,706
Contributions collected	4,203,323	3,650,839	3,238,935
Total assets managed	34,114,481	27,811,825	19,882,846

Income from management fees increased by approx. NIS 33 million arising from an increase in the collection of contributions of approx. 15% and due to an increase in the volume of assets managed by approx. 12%.

3.3.3 Provident funds

The following table provides data about the income of Menorah Mivtachim Gemel from the provident funds which it manages (in thousands of shekels):

	2010	2009	2008
Income from management fees:			
Total management fees	76,259	63,302	49,442
Pre-tax profit (loss)	52,595	50,416	(35,328)
Contributions collected	1,460,761	1,540,266	1,300,341
Total assets managed	12,618,235	11,357,486	9,155,116

Income from management fees increased by approx. NIS 13 million, an increase of approx. 20% compared to the corresponding period last year. This increase arose mainly from the rise in the volume of managed assets arising from capital market yields. On the other hand the income in respect of yield guaranteeing provident funds declined by NIS 2 million NIS 40 million in the year 2010 compared to NIS 42 million in the year 2009).

3.4 Customers

The customers of the Group in its field of activities are diverse, such that the Group is not dependent on a single customer or a small number of customers. Likewise, the Group does not have a single customer who makes up 10% or more of the total income in its financial statements.

3.4.1 Life assurance

The following table provides data as to the distribution of the premium amongst the employers, private insureds, self-employed individuals and groups (in percentages)*.

Customer	2010	2009
Employers	52.0%	50.6%
Private and Self-employed	45.6%	45.8%
Group	2.4%	3.6%
Total	**100.0%**	**100.0%**

The average rate of certified redemptions in the year 2010 stood at approx. 4% being an identical redemption rate to that registered in the year 2009.

It should be pointed out that to the best knowledge of the Group it does not have fixed customers or customers with fixed characteristics beyond the classification detailed in the table above.

3.4.2 Pensions

The following table shows the division of the contributions between employers and self-employed individuals:

Customer	2010	2009
Employers	97.1%	96.71%
Private and Self-employed	2.9%	3.29%
Total	**100.0%**	**100.0%**

The following table shows the division between the classes of members on the pension funds managed by the Group:

The customer	"New Mivtachim" 2010	"New Mivtachim" 2009	"Mivtachim Supplementary" 2010	"Mivtachim Supplementary" 2009
Active	421,613	384,904	4,869	3,724
Frozen	338,783	308,373	15,580	13,100
Other	-	-	-	-

3.4.3 Provident funds

The following table shows the distribution of the contributions between employers and the self-employed (in percentages):

Customer	2010	2009
Employers – employee members and central funds for severance pay	80%	76%
Self-employed	20%	24%
Total	**100%**	**100%**

3.5 Marketing and distribution

3.5.1 General

In the framework of the Bachar Reform (see also clause 3.1.2.1 above) two types of distributors were defined, as aforementioned, for pension products:

(1) A pension salesman – an insurance agent or pension salesman (who is an employee of the institutional entity) who has an interest in the insurer or in any other producer of pension products, who acts as a broker in the acquisition of the pension product following a procedure of personal consulting provided to the customer.

(2) A pension consultant – a person or a corporation who does not have an interest in the insurer and/or in any other producer of pension products, who recommends the pension product following a procedure of personal consulting provided to the customer.

According to the reform, both salesmen as well as consultants in the sector must provide best advice.

Best advice is divided under the law into two main phases. The first phase focuses on adapting the type of pension product, while the second phase focuses on choosing the right pension product and choosing the institutional entity, which manages the product (insurance company, pension fund or provident fund). The pension salesman is obligated, *inter-alia*, to disclose his interest in the institutional entities whose products he is marketing but in any event he must adapt the pension product to the customer's needs and preferences (although, after adapting a product, he is under no obligation to recommend the products of institutional entities in which he does not have an interest).

Pursuant to the duty imposed on the banks within the framework of the Bachar Reform to sell their holdings in the provident funds and mutual funds, the banks were permitted to act as pension consultants through employees who shall be trained and shall receive an appropriate licence, including the execution of transaction following that advice.

The banks were permitted, in the initial phase, to distribute pension funds, personal provident funds, and advanced study funds, and from 2009 onwards they may also distribute life assurance plans. This means that the banks, as pension consultants, and due to their extensive networks and accessibility to the public will almost certainly cause an expansion of the distribution activity in this sector. Nonetheless, in practice, the banks have not yet started distributing life assurance schemes. **The Company's estimation is forward looking information that is based on the legislation in the sector and on the Company's assessment of its impact on the market. This forecast may not materialise, due to further legislative changes or due to other environmental changes which may cause the market to behave differently than expected by the Company as at the date of this report.**

Another aspect of distinguishing between the banks and the insurance agents is the fact that the banks are only allowed to consult and distribute the pension product at the premises of their branches, while the insurance agents may contact and market the abovementioned products to customers at any place, including his place of work or his home and at a time that suits the customer.

It should be noted further that the requirements and certification of a new pension agent were extended and became more complex, therefore it may affect the supply of insurance agents.

The Group has a subsidiary company – Orot Life Assurance Agency (2005) Ltd., which is an insurance agency that engages in all fields of long term savings, and serves as an arrangement agency and caters, *inter-alia*, to enterprises most of whose employees are insured with the pension funds managed by Menorah Mivtachim Pension. The Orot agency works also with other insurers. (For details see clause 8.7.3 below.)

Traditionally the Group markets its products through independent agents. For a description of the Group's array of agents, see clause 8.7.1 below.

3.5.2 Life assurance

In life assurance the Group operates through the district offices which provide a complete service of sales and maintenance of the policies. Insurance claims are processed by the dedicated central departments in the Company's main offices. Additionally, the Company has a central CRM department which provides services to any of the customer's applications, by phone, through the Company's internet site, or face to face, at the Company's offices, at 115 Allenby Street, Tel Aviv.

The remuneration of insurance agents is composed of 4 main types: an ongoing commission, remuneration for achieving targets, collection fees and prizes for campaigns and is not identical for all salesmen.

Following are details about the rate of commissions on life assurance premiums:

	2010	2009	2008
Rate of commission from premiums	15.8%	14.3%	14.2%
Rate of commission from new annualised premiums	40.8%	33.2%	33.8%

The network of insurance agents constitutes the main channel of distribution of life assurance products. There is no single agent in the Group who premium income from his brokerage exceeds 10% of the total premiums in the life assurance sector.

Following the Bachar legislation and in view of the changes that occurred in long term savings, the insurance agents extended the diverse list of products which they are marketing, and they are now offering customers life assurance, pension, and provident fund products, obviously after providing best advice.

Following various regulatory changes, the Group, as of 2004, changed the structure of the majority of the commissions in life assurance to equal the commissions payable at a similar rate for long periods.

In January 2005 the Commissioner published a circular concerning provisions for granting loans to insurance agents which details the terms and limitations for granting loans. In accordance with the said circular, provision of loans to an agent is subject to the provision of collateral by the agent. Similarly, as part of the circular, certain restrictions were imposed regarding the provision of loans to agents secured by a lien on future commission due to him.

<u>Calculation of deferred acquisition costs in life assurance and pensions</u>

In the Particulars of Report Regulations a change was prescribed, *inter-alia*, in the rules of accounting reporting as of 1 January 1999, in terms of which acquisition costs of life assurance shall be spread over the life of the policy (Hereinafter: "Deferred Acquisition Costs – DAC").

Deferred acquisition costs are acquisition costs of life assurance business that are booked as expenditure upon their payment, and these are spent in the first years of the policy. Since the premiums that are collected during the entire life of the policy include an element for covering these expenses they may be regarded from the accounting aspect as deferred expenses to be amortised. In every case of cancellation or settlement of a policy, the balance of all the deferred acquisition costs in respect of that policy is written off.

According to the DAC method deferred acquisition costs shall be amortised at equal rates over the life of the policy, but not more than 15 years, unless the policy is cancelled beforehand. The Group reduces the DAC at equal biannual rates over the life of the policy but for no more than 15 years and with health insurance, not more than 6 years. A DAC which refers to policies that have been cancelled is written off at the time of the cancellation.

Deferred acquisition costs in respect of policies that were issued until December 31, 1998 shall continue to be included as aforementioned based on the "Zillmer Deduction" method, at rates of the premium or of the sum at risk in accordance with the various insurance plans. For details see Note 6 to the Financial Statements.

In the Commissioner's circular on the issue of implementing the amortisation of the deferred acquisition costs in life assurance it was made clear, *inter-alia*, that the surrender value of the various insurance plans shall be preserved.

In 2004 an amendment to the minimum capital requirements was published, in accordance with which the minimum equity requirements shall be from the date of issuing the policy in respect of policies that were issued as of 1 January 2005 at 100% of the deferred acquisition costs. This amendment also causes a change in the mechanism of remunerating agents by spreading the commissions over the life of the policy, while reducing the deferred acquisition costs.

The Group also markets pension products via insurance agents. The accounting arrangements with the insurance agents in respect of all of the Group's activities are conducted via Menorah Mivtachim Insurance. In light of the above, Menorah Insurance registered, deferred acquisition costs also in respect of pension products which are sold by the said insurance agents, effective from 2006.

As at 31st December 2010 the balance of deferred acquisition cost is approx. NIS 689.9 million. As at 31st December 2009, the balance of deferred acquisition costs was approx. NIS 632 million.

3.5.3 Pension

Menorah Mivtachim Pension markets its pension products through a network of customer portfolio managers who are spread around the country, and who are in continuous contact with employers and with insureds of the fund. Furthermore, Menorah Mivtachim Pension enables employers to market pension products via a customer liaison telephone network, and this in addition to the possibility of marketing pension products to individual insureds both via the customer liaison telephone network as well as via a network in which meetings can be arranged in the divisions and in the branches. As part of the customer liaison telephone network, Menorah Mivtachim Pension operates a network of pension salesman to preserve customers and transfers of insureds. The service network for insureds and for employers is comprised of a nationwide spread of 11 branches and service offices, personal service provided by a contact centre, an internet web site that provides, in addition to general information on pension issues, personal information for insureds, employers and managers of customers’ portfolios, who provide services at the level of the employer and the insured. The marketing network provides a sales marketing umbrella involving: adjoining new employers, adjoining new insureds, providing advice and training in the range of pension products of Menorah Mivtachim Pensions, dealing with termination of employment and the like.

Menorah Mivtachim Pension cooperates with several scheme agencies and insurance agents. This cooperation was established due to the interest of some of the employers in obtaining service including doe the social benefits of their employees, service which involves collection and a combination of various products such as pension funds, executive insurance, provident funds and sometimes also general insurance. Menorah Mivtachim Pension anticipates that this cooperation will continue and even expand in the coming years. **The Company's estimation is forward looking information that is based on the legislation in the industry and on the Company's assessment of the aforementioned cooperation in its business. This forecast may not materialise, due to changes in the member’s preferences and their criticism of the aforementioned services which may cause the market to behave differently than expected by the Company as at the date of this report.**

Part of the combined service with employers, most of whose employees are covered in pension funds managed by Menorah Mivtachim Pension is provided by Orot Insurance Agency (2005) Ltd., which is an insurance agency owned by Menorah Mivtachim Insurance; this agency serves as a scheme agency to all intents and purposes.

The scheme agencies and agents are usually remunerated by Menorah Mivtachim Insurance for adjoining new insureds to the new pension funds in accordance with the rules prevailing at Menorah Mivtachim Insurance and the other insurance companies. The said insureds are services by the agents.

The remuneration of agents and managers of the schemes is by payment of a commission at a percentage of part of the management fees and contributions collected by Menorah Mivtachim Pension.

Menorah Mivtachim Pension does not have, at this stage, any distribution channels that yield 10% or more of the distributions collected in the pension funds which it manages.

3.5.4 Provident funds

Menorah Mivtachim Gemel markets the provident funds which it manages through several channels of marketing and distribution, the major ones being the employees of Menorah Mivtachim Pension, pension insurance agents, investment advisors at the banks, direct contact with customers, *inter-alia* by way of participating in tenders that are published by them, by holding professional / marketing conferences and by advertising in the media and over the internet.

Menorah Mivtachim Gemel has entered into distribution agreements with a number of banks for the distribution of the provident funds which are managed by the Company via them.

The entry of the banking corporations into the activity of distribution of provident funds bears a potential for increasing the volume of assets managed by provident funds, due to the exposure of the management companies – the producers – to new population niches. On the other hand the distribution commissions might cause a change in the rate of the producer's expenses, and reduce the rate of profitability from their management of provident funds. Likewise, the entry of the banking corporations into the field of pension consultation could reduce existing market niches that are handled mainly by the insurance agents and the profitability rates therein that might be eroded. **The Company's estimation is forward looking information that is based on the entry of more players into the sector. This forecast may not be realised, due to further legislative changes or different consumer preference.**

Menorah Mivtachim Gemel has no one distribution channel that yields 10% or more of the contributions collected by the provident funds which it manages.

3.6 Reinsurance

The Group's reinsurance agreements as detailed below are long-term agreements, they are determined in accordance with the insurance schemes, and they are not limited by time except in the case of catastrophe cover (including war) where they are renewed every year. The reinsurance contracts are signed and/or renewed every year and the changes are usually valid solely in respect of new insurance policies.

Hereunder is a table of reinsurers whose share in reinsurance premiums exceeds 10% of the total reinsurance contracts in the life assurance and long term savings sector (in NIS thousand) in the periods described in the statements:

			2010		2009		2008	
Name of reinsurer	**S&P rating**	**Country**	**r/I premium**	**% of total r/I premium**	**r/I premium**	**% of total r/I premium**	**R/I premium**	**% of total r/I premium**
Swiss Re	A+	Switzerland	131,077	62.9%	124,591	61.3%	127,025	63.7%
Munich Re	AA-	Germany	41,138	19.7%	37,662	18.5%	36,899	18.5%
General & Cologne Life Re of America	AA+	USA	26,182	12.6%	29,344	14.4%	22,815	11.4%

(R/I = reinsurance)

The following table shows the distribution of reinsurance premiums in life assurance and long term savings, by central rating groups:

S&P rating summary group	**Premium registered to the credit of the reinsurer (in NIS thousand)**			**Percentage of total for class of business**		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
AA and above	71,834	72,713	67,702	34.5%	35.8%	34.0%
A	135,609	129,815	130,878	65.1%	63.9%	65.7%
Lower than BBB or not rated	862	721	705	0.4%	0.3%	0.4%
Total	**208,305**	**203,249**	**199,285**	**100.0%**	**100.0%**	**100.0%**

For details on the subject at the Group level, including a description of the major types of reinsurance and the Company's policy on reinsurance in the life assurance branch, see clause 8.4 below. For further details on reinsurance, see also Note 2 N (2) to the financial statements.

3.7 Suppliers and service providers

The Group acquires various products and services for its current operations in the field of activity from a large number of suppliers including suppliers of equipment and maintenance, suppliers of legal services, investigators, software and hardware suppliers, medical services suppliers etc., and with respect to provident funds the Company has agreements with three banks for the ongoing operation of the funds.

The Group is not dependent on suppliers and service providers except as detailed below:

In 2003 the Group signed an agreement with Sapiens Israel Software Services Ltd. (Hereinafter: "**Sapiens**") with regard to a project for the development of a comprehensive system for managing the life assurance system ("Topaz Life"). Against the backdrop of the acquisition of Menorah Mivtachim Pension in 2004 and regulatory changes in the field of activity as well as the business development of the Group, the Group in 2004 and 2005 entered into an agreement with the above supplier for another project for the development of a system for managing the pension and provident funds system **"Topaz Pension and Gemel"**) (Topaz Life and Topaz Pension and Gemel together – hereinafter: **"The Topaz System"**). The Topaz Life system has reached a stage that enables issuing and operating of new policies which are sold by Menorah Mivtachim Insurance. The Topaz Pension and Gemel system has reached the fully operational phase. Additionally, regular maintenance of the systems is being carried out, including updates as required from time to time. The Group paid Sapiens in 2010 approx. NIS 41 million, and approx. NIS 43 million in 2009.

3.8 Competition

3.8.1 The conditions of competition in the field of activity and the main competitors

3.8.1.1 General

The reforms which were introduced in the sector in the last few years, namely the reform in the life assurance sector, the reforms in the pension sector, and the entry of the insurance companies into pension activities, while expanding the array of distribution and marketing of pension through agents, cancelling the transfer barriers between pension funds, and the reforms in the capital market (the Bachar Reform), accelerated the competition in the long-term savings sector, mainly because of the disappearance of the significant differences between the various products in the sector. Consequently the interchangeability between the life assurance products and the other long-term savings plans, such as: pension funds, provident funds and bank's savings plans became finer. It should be noted in this regard that as a result of the restrictions imposed on the banks with respect to holding and managing provident funds (as owners) the banks' role in the competition in the field of activity focuses on the management of long-term savings plans, as well as pension consulting to the public.

Furthermore, since all the large insurance groups that operate in the market today offer all the different products of long-term savings ("One Stop Shop"), the competition focuses on the quality of the products and the extent of their suitability for the customer's needs and preferences.

In this context it should be pointed out that in November 2010, the Commissioner published a plan for increased competition in the pension savings market in order to reduce the differences between the various pension savings products, to increase the transparency of the pension savings market and all of the players therein, to improve the quality of the products offered and their prices and to create a basis for a uniform comparison between the products. Similarly, in March 2011 the Ministry of Finance published several drafts and regulations in order to implement the plan. For further details see clause 3.1.2.1 (W) above.

In the Group's estimation the establishment of a compulsory pension arrangement in the economy, the issuing of the portability regulations, and the changing of the objectives of the capital provident funds and the increased competition in the capital market plan (see clauses 3.1.1, 3.1.2 and 3.1.2.1 (W) above), may have an impact on competition in the market. Thus for instance, issuing licences to the provident funds, which up until now operated as capital provident funds, to operate as annuity provident funds against the backdrop of compulsory pension in the economy, may further develop competition in the sector. Since these reforms have only been implemented in the last few years, it is still not possible at this stage to estimate their impact on competition. **The Company's estimation is forward looking information, based on the recent reforms in the sector. This forecast may not be realised, in the event of legislative amendments, which the Company cannot foresee, or in the event that the market behaves differently than expected, by the Company, as at the date of this report.**

Regarding the implications of the increased competition in the capital market plan, see clause 3.1.2.1 (W) above.

Hereunder are specific characteristics of the competition in the various sectors in which the Company operates in the framework of its activity in the sector.

3.8.1.2 Life assurance

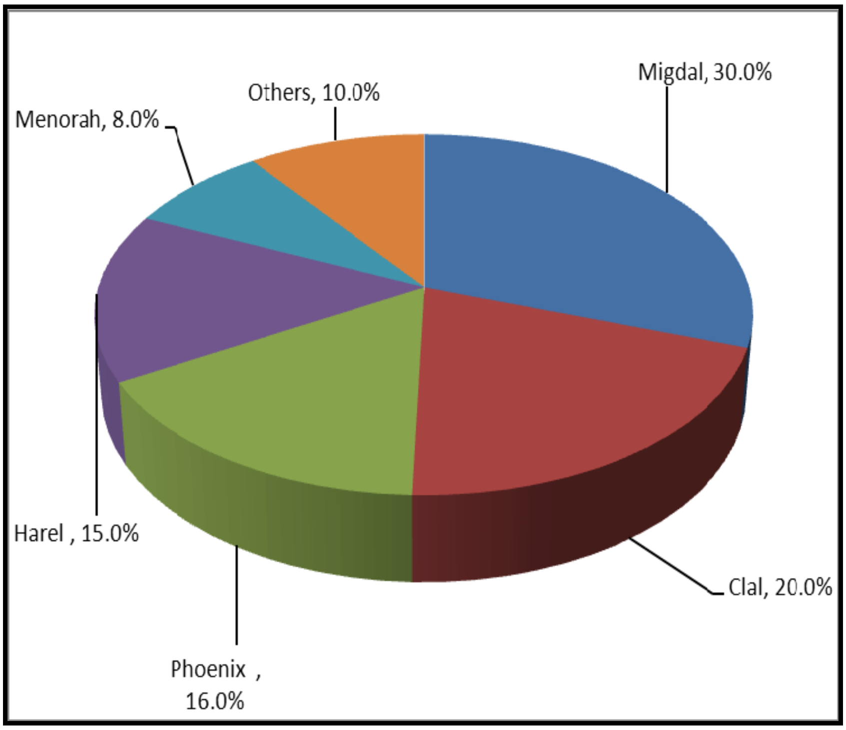
The competition in the life assurance sector is concentrated mainly around the range of insurance plans offered by the insurance companies including the payment of the annuity within their framework, the yield earned on assets over time, the level of the assets risk in relation to the earned / guaranteed yield, the service provided to insureds as well as the ratio between the premium and the management fees. Following the Bachar Reform and other regulatory provisions, which were designed to increase the transparency and the ability of insureds to choose the product that best suits them, there has been a more intense interchangeability of long-term savings products, as well as the accessibility and the awareness of the end-customer of these products.

The main competition tales place between the five largest insurance companies, according to the following market shares:

In accordance with data from the Capital Market, Insurance and Savings Division in the Ministry of Finance, as of 31st December 2010, it is as follows: Migdal 36%, Clal 24%, Phoenix 15%, Harel 13%, Menorah 9%, and other companies 4%.

In accordance with data from the Capital Market, Insurance and Savings Division in the Ministry of Finance, the split of premiums from life assurance business in the year of the report (up until 30th September 2010), between the companies competing in the market is as follows: Migdal 30%, Clal 20%, Phoenix 16%, Harel 15%, Menorah 8%, other companies 10%.

Split of premiums between groups and insurance companies in Israel in the life assurance industry as of 30th September 2010



The Group’s capacity to cope with competition in this sector depends *inter-alia*, on expanding the array of sales, streamlining the production inputs while maintaining the level of service, developing unique products, preserving the existing portfolio and branding the Group as a leader in yields to insureds.

The main factors which affect competition in the sector are insurance companies competing for their market share and insurance agents who also influence the market share of the various insurers. In the Group's estimation the recent prevailing trends which point to an expansion in the SHS offered by the health funds will affect the ability of the Group to expand its operations in this sector and will require the Group to expand its new unique products that will be made compatible to the changing market. **The Company's estimation is forward looking information that is based on the apparent trend. This forecast may not be realised if and insofar as the trend of extending the content of the SHS will be restricted by the legislator and/or if the Group does not manage to develop new products as aforementioned.**

The factors which strengthen the competitive position of the Group are: The rate of agents' remuneration and the attractiveness of the range of products and insurance tariffs offered by the Group as well as the yield to the insureds.

In medical expenses insurances the Group has focused more on private insurances and dental insurances, the Group is also more focused on group insurances. In group insurances the level of competition is especially high and is expressed, *inter-alia* in price erosion.

Critical factors for success in the sector, activities and changes that have occurred therein are monitoring the material differences (technological and others) in the health sector while adapting the insurance policy covers to the changing demands and creating new covers makes it possible to remain competitive in the health insurance sector which in recent years has been characterised by innovation and growth on the one hand and by high competition on the other. Likewise efficient and professional customer services will become a critical factor for the success of the Group in this sector.

3.8.1.3 Pensions

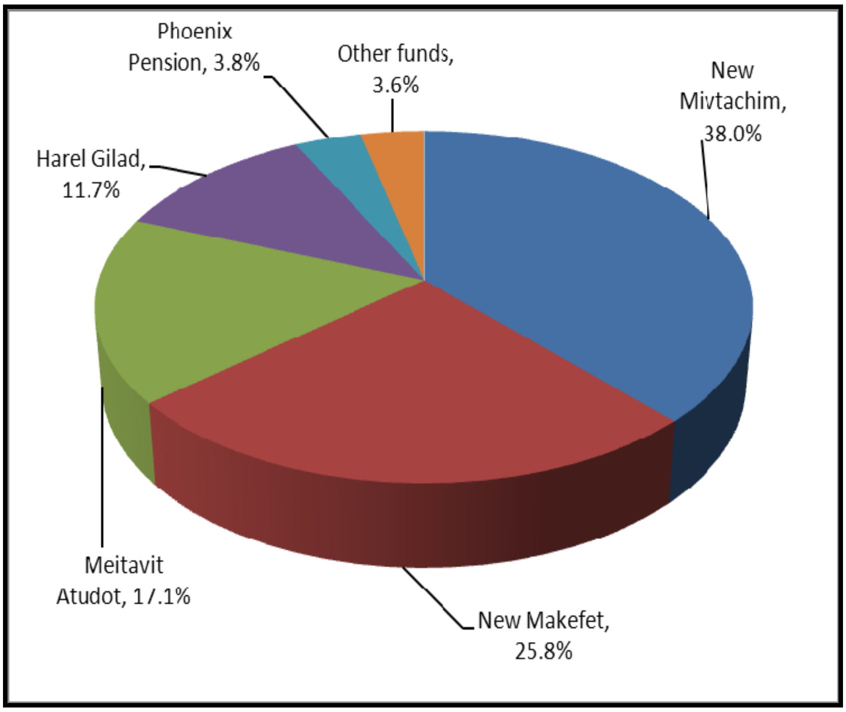
The competition in this sector is mainly between the insurance companies who own the pension funds management companies. The pension funds controlled by the insurance companies constitute over 90% of the market share of the new pension funds in the long-term pension market.

The major competitors in the pension sector are: Makefet Ishit controlled by the Migdal Group; Meitavit-Atudot controlled by the Clal Group; and Harel Gilad controlled by the Harel Group.

According to data from the capital market division the distribution of the assets of the pension funds between the competitors in the sector as at 31st December 2010 are as follows:

New Mivtachim – 38%, New Makefet – 25.8%, Meitavit Atudot – 17.1%, Harel Gilad – 11.7%, Phoenix Pension – 3.8%, other funds – 3.6%.

Scope of assets as of the end of the year 2010



The competition in this sector focuses on efforts to transfer members between the various pension funds and in recruiting new customers.

Following the Bachar Reform, the structure of competition in the entire field of activity and in the pension fund sector has changed as mentioned above. Following the introduction of the Pension Consulting Law, and the Amendment to this Law as detailed in clause 3.1.2.1 above, the banks have begun offering the public consultations on pensions. The general collective agreement and the extension ordinance on the issue of compulsory pension affect competition in the sector (for details see clause 3.1.2.1 above). Similarly, the Company estimates that the said changes also affect the preferences of the public and further distribution channels (such as agents) insofar as the ideal pension product is concerned. As a result of the aforementioned the banks will add a new population to the pension funds that was not covered by them in the past.

Granting licences to provident funds, which up until now operated as capital provident funds, to operate as annuity provident funds, against the backdrop of compulsory pension in the economy, is likely to open up further competition in the sector. This matter is expressed, in the estimation of the Company, both against the background of marketing the non-annuity paying provident funds as an alternative product to the pension funds, as well as in preparedness for establishing pension funds by entities that have significant involvement in the pension savings field and in the provident fund field, such as investment houses. **The Company's estimation is forward looking information, which is based on the latest reforms in the sector. This forecast may not be realised, in the event of legislative amendments, which the Company cannot foresee or in the event of the market behaving differently from that expected by the Company as at the date of this report.**

In order to preserve the existing portfolio of customers and with a view to expanding it, Menorah Mivtachim Pension is acting to limit the transfer of its members to the pension funds of the competition and at the same time to recruit new customers. In this framework Menorah Mivtachim Pension participates from time to time in pension tenders. Likewise it is working to emphasise the great advantage it has over the competing funds. Menorah Mivtachim Pension is also working to obtain a high yield for its insureds on their accrued part in the pension fund; to maintain a high demographic return; and on carrying out medical and business underwriting.

3.8.1.4 Provident funds

In the provident funds sector there is continuous fierce competition from a large number of competitors where the competition is focused on obtaining yields (in relation to the risk level), the rate of management fees, and the quality of service.

Following the Bachar Reform, the pattern of competition in the provident funds sector has changed, so that, over the last few years the majority of the banks sold the ownership of provident funds and started acting as providers of the operating services of provident funds and as pension consultants. Consequently, the main competitors of the Company are mainly non-banking entities, primarily the Harel Group, the Clal Group, the Migdal Group, the Phoenix Group (the controlling owner of Excellence Nessuah), Psagot Ofek and smaller private entities such as Dash

Securities and Investments Ltd., Meitav Gemel Ltd., Analyst EMS – Investment Management Services Ltd. and Altshuler – Shacham Ltd.

In recent years the prevailing trend in the sector has pointed to an increase in assets of the provident funds. According to the figures published by the Ministry of Finance, the assets of the provident funds increased from approx. NIS 237 billion at the end of the year 2005 to approx. NIS 306 billion at the end of 2010.

The company estimates that as at the date of approving the financial statement, its market share in this sector is approx. 4.1%. (The Company's estimation is based on assets managed by Menorah Mivtachim Gemel and Menorah Mivtachim Engineers in relation to the estimate of the total assets managed in this sector.)

3.8.2 Methods for coping with competition and the factors affecting the Group's competitive position in the sector

The Group's main methods for coping with competition are: a synergy between the various companies in the Group, in providing total solutions for the Group's customers in all channels of long term savings, while relying on the size and stability of New Mivtachim, the largest pension fund in Israel; improving the service to customers and streamlining its operations; extending the array of agents and using agents who work with the Group as a source for referring customers; and participation in major tenders in the sector, etc.

The central factors affecting the Group's competitive position in the sector are the leadership of Menorah Mivtachim Pension in the pension sector; the Group's financial immunity; leading in yield for insureds / members; the high level of service of the Group when it processes claims and pays insurance contributions, as well as its long term association with agents that are marketing the Group's products.

3.9 Material agreements and cooperation agreements

3.9.1 The Group has an agreement with Sapiens Israel Ltd. for developing a computerised system (for details see clauses 3.7 above and 8.5 below).

3.9.2 Between 2006 and 2009 Menorah Mivtachim Pension signed distribution agreements with Israel Discount Bank Ltd. Union Bank of Israel Ltd. Mizrahi-Tefahot Bank Ltd. First International Bank of Israel Ltd., Bank Leumi Le-Israel Ltd., Arab-Israel Bank Ltd., Mercantile Discount Bank Ltd., Bank Otsar Ha-Hayal Ltd., Bank Poaley Agudat Yisrael Ltd., U-Bank Ltd., Bank Hapoalim Ltd. and Bank Massad Ltd. In the distribution agreements it was prescribed that Menorah Mivtachim Pension would pay the bank distribution commissions pursuant to the provisions of the law in exchange for the distribution of its products. Each one of the agreements would not begin to take effect before the date on which the banks, with whom an agreement was entered into, was licensed to lawfully deal with pension consulting. A distribution agreement between Menorah Mivtachim Pension and Bank Hapoalim Ltd. was not extended by the parties, and hence on 30th September 2009 this agreement expired. As of the date on which this report was signed the said agreement has not yet been renewed.

3.9.3 Between the years 2006 and 2009 Menorah Mivtachim Gemel and Menorah Mivtachim Engineers signed distribution agreements with Israel Discount Bank Ltd. Mizrahi-Tefahot Bank Ltd. First International Bank of Israel Ltd., Bank Leumi Le-Israel Ltd., Arab-Israel Bank Ltd., Mercantile Discount Bank Ltd., Bank Otsar Ha-Hayal Ltd., Bank Poaley Agudat Yisrael Ltd., U-Bank Ltd. and Bank Hapoalim Ltd. In the distribution agreements it was prescribed that Menorah Mivtachim Gemel would pay the banks distribution commissions pursuant to the provisions of the law in exchange for the distribution of its products. With regard to each one of the banks, the effect of the agreement before the bank was given a pension consulting licence would be confined to the matter of products which the bank was permitted to distribute according to the provisions of the Regulation of Investment Marketing and Advice and Management of Investment Portfolios Law 5755-1995.

3.9.4 In June 2008 Menorah Mivtachim Finances entered into an agreement in terms of which it would acquire 60% of the shares of the Menorah Mivtachim Engineers (formerly Engineers Union Advanced Study Fund Management Company Ltd.) all of whose operations was in the management of the Omega Advanced Study Fund (formerly Advanced Study Fund for Engineers). In consideration for the acquisition Menorah Mivtachim Finances undertook to pay the sum of approx. NIS 24 million. In September, 2008 after receiving all the required approvals the acquisition was completed, and in February 2009 the company changed its name to Menorah Mivtachim Engineers Union Company for the Management of Provident Funds Ltd.

3.9.5 In May 2010 the Clearance Bureau for Long Term Savings Ltd. (Hereinafter: "**the clearance bureau**") was established whose purpose is to form, establish and manage an information and fund clearance bureau in the long term savings sector. The clearance bureau was established following head-office work which was initiated by the Commissioner and with his active participation since July 2009, with a view to creating the understandings required between the various entities whose activities will be affected by the clearance bureau as aforementioned (institutional entities, pension brokers, wage bureaus and employers) and the establishment of the contractual and legal infrastructure that will enable the clearance bureau to be established. Menorah Mivtachim Pension was a partner, on behalf of the Group, in the head-office work that was undertake as aforementioned since July 2009, and holds shares in the clearance bureau – a 7.14% holding – and is entitled to appoint a single director therein. In July 2010 an owners' loan agreement was signed between the clearance bureau and its shareholders including Menorah Mivtachim Pension, and this in order to fund its activities, in accordance with the statute of the clearance bureau and a resolution of its directors. Accordingly, Menorah Mivtachim Pension granted the clearance bureau, in July 2010, a loan in the sum of approx. NIS 154 thousand for a period of 15 years from the date on which the loan is provided in accordance with the conditions detailed in the agreement. In March 2011 a further owners' loan agreement was signed between the clearance bureau and its shareholders, including Menorah Mivtachim Pension, and this in order to continue to fund its activities, in accordance with the statute of the clearance bureau and a resolution of its directors. Accordingly, Menorah Mivtachim Pension granted the clearance bureau, in July 2010, a loan in the sum of approx. NIS 160 thousand for a period of 15 years from the date on which the loan is provided in accordance with the conditions detailed in the agreement.

3.9.6 In July 2010 Menorah Mivtachim Gemel entered into an agreement with Lehav Advanced Study Fund Management Company Ltd. and with Lehav Self-Employed and Businesses in Israel Organisation to purchase the management rights in the "Lehav Advanced Study Fund for Self-Employed and Salaried Individuals" which was amended by consent of the parties in an appendix amending the agreement dated 16th December 2010. The outline of the acquisition was approved a while ago by the Capital Market Division in the Ministry of Finance, and the management rights were transferred to Menorah Mivtachim Gemel effective from 1st January 2011.

3.9.7 In August 2008 a subsidiary of the Company won a tender in respect of the purchase of immediate annuity payments for employees who take early retirement from government offices and those who are intending to retire between the years 2008-2010. In consideration of a lump-sum payment transferred to the Company for each retiree - the Company undertakes to make a fixed monthly index-linked annuity payment for the entire life of the retiree and their heirs for their entire life, subject to the Civil Service Retirement Law – 1970. Over the course of the years 2009-2010 the government offices transferred approx. NIS 35 million and approx. NIS 125 million respectively.

4. Compulsory Motor Bodily Injury (No-Fault) Insurance

4.1 General information about field of activity

Compulsory motor bodily injury insurance is a statutory insurance, possession of which constitutes an essential precondition for using a motor vehicle. Anyone using a motor vehicle must acquire compulsory motor bodily injury insurance

The Group's activity in the compulsory motor bodily injury insurance sector is carried out through Menorah Mivtachim Insurance and through Shomera.

Hereunder are several characteristics, trends and developments that affect or, in the future, may affect the Group's activity in this sector.

4.1.1 Structure of the field of activity and the changes that occurred therein

The Motor Vehicle Insurance Ordinance [New Version] 1970-5730 (Hereinafter: "**The Motor Vehicle Ordinance"**) provides that a driver may use a motor vehicle only if the vehicle is insured under compulsory insurance by a valid policy, in accordance with the definitions of The Motor Vehicle Ordinance.

The Compensation to Victims of Road Accidents Law, 1975-5735 (Hereinafter: the "**Compensation Law**" or the "**Compensation to Victims of Road Accidents Law**") provides that a person who uses a motor vehicle must compensate a person who was injured in respect of bodily injury sustained in a road accident in which the vehicle was involved. The liability is absolute regardless of who is at fault, the driver or others, subject to the exceptions provided in the Compensation Law.

The insurance cover in this branch is provided by the various insurers who are licensed to operate in the sector. However every insurance company may decline to cover a specific insured at its discretion. The owner of a motor vehicle who was declined as aforementioned and did not succeed in obtaining insurance cover from one of the companies that operate in the sector, may acquire compulsory insurance through the Pool. The "Pool" – the Israeli Pool for the Insurance of Vehicles (which is owned by all the insurance companies that operate in this sector, and bear its losses or profits in accordance with their proportionate share in the sector) is liable by virtue of the law to insure insureds who were rejected as aforementioned. The "Pool" operates as an insurance company to all intents and purposes and its tariffs are higher than the tariffs of other insurance companies in the market.

Additionally, The Fund for Compensation of Victims of Road Accidents (Hereinafter: "**Karnit**") operates in the sector, which is a statutory corporation, which was established by virtue of The Compensation Law and which is obliged to compensate those injured in road accidents who cannot claim compensation from an insurer due to the causes detailed in the Compensation Law. The activity of Karnit is financed by a provision made by the insurance companies from the premiums, at a fixed rate, prescribed in the Ordinance under the Compensation Law, (See clause 4.1.3 (F) below).

Due to various directives of the Commissioner, in recent years there has been a trend of increasing the transparency of the insurance tariffs, which is expressed in a change in the consumer culture of customers in the compulsory motor insurance market, who compare the insurance tariffs between the different companies.

In the course of 2005 a multi-sectorial project was completed for the prevention of "fraud in compulsory motor bodily injury insurance", which is based on a central database which will be operated by Insurance Services Office of Israel Ltd. (ISO) (Hereinafter: **"ISO"**) (Claim Search Israel). As of January 2006, the insurance companies may use the database for the purpose of identifying suspicions of fraud in compulsory motor claims. The cost of constructing the database and the use thereof is divided between the insurance companies. The activity of the database and the ways the companies make use of it was enshrined in a sectorial agreement supported by matching legislation. Various circulars which were issued by the Commissioner established conditions for perusing the information in the database and the criteria for determining the qualification of those authorised to make queries with respect to the information in the database, in accordance with the Motor Vehicle Insurance (The Establishment and Management of Databases) Regulations 5764-2005.

Effective from 2010, as part of the Economic Streamlining Law (Legislative amendments to implement the economic plan for the year 2009-2010) – 2009, liability for providing medical treatment for road accident victims in accordance with the second amendment to the National Health Law – 1994 and the list of medications contained in the ordinance per the same law, was transferred to the health funds. As a result of the same, the compulsory motor insurance tariffs declined by 9.4%. For further details see clause 4.1.3 (K).

4.1.2 Description of the class of insurance and the insurance covers included therein

The compulsory motor bodily injury insurance policy, in accordance with the Motor Vehicle Insurance Ordinance, provides cover to the owner of the vehicle and its driver against any liability which they might bear under The Compensation Law and against any other liability which they might bear due to bodily injury caused to the driver of the vehicle, to the passengers therein, or to pedestrians who were injured as a result of the use of a motor vehicle.

The insurance cover in compulsory motor bodily injury insurance is fixed and uniform among the insurance companies and it is determined in accordance with the provisions of the law. In January 2010 compulsory motor bodily injury insurance regulations were published, with respect to determining uniform conditions for the insurance companies. For details of the regulations see clause 4.1.3 (K) below. Accordingly, competition in this sector focuses mainly on tariffs, as described in clause 4.8 below.

Characteristics of compulsory motor bodily injury insurance

(A) Compulsory motor bodily injury insurance becomes effective only after payment of the full premium.

(B) The underwriting liability and the scope of cover were determined by law, and this insurance is unlimited. It should be noted that the element of cover for loss of earning is limited up to 3 times the average wages in the economy.

(C) The tariff for compulsory motor bodily injury insurance is based on the risk tariffs recommended by the operator of the database (previously – ISO, effective from the year 2010 – Ron Bina Actuarial Science Ltd.) which obtained a franchise for operating the database (Hereinafter: "**database operator**"), which collects information from the insurance companies for the purpose of publishing an average risk tariff, according to various risk related parameters. The parameters approved for use today are: engine capacity, gender and/or age of the youngest driver who regularly drives the vehicle, the loyalty of the driver's licence, the number of previous claims, the number of revocations of the licence in the last three years, the ownership of the vehicle, the uses of the vehicle and the existence of air bags in the vehicle. Every insurer may choose which parameters to use for determining the tariff (as for the choice of parameters by Menorah Mivtachim Insurance, see clause 4.1.4 (B) below.)

(D) The right of those injured in a road accident for compensation is not dependent on proving guilt.

(E) The insurance claims in this sector are characterised by a relatively long clarification time of several years, between the date of occurrence of the insurance event and the date of concluding the loss and settling the claim ("**long tail claims").**

4.1.3 Limitations, legislation, regulations, and special constraints applying to the field of activity

The field of activity is subject to the legal provisions applying to insurers, including the provisions of the Supervision Law and the regulations issued by virtue thereof, the Motor Vehicle Ordinance, the Road Accident Victims Compensation Law and the Motor Vehicle Insurance Law, as defined below, and the regulations issued by virtue thereof, as well as the provisions of the Commissioner, as published from time to time.

Hereunder is a summary of the major laws applying to the Group's activity in the sector (In addition to the Motor Vehicle Ordinance, as mentioned in clause 4.1.1 above) as well as the main regulatory provisions published in the last two years:

(A) The Motor Vehicle Insurance (Insurance under Conditions of Controlled Competition, Arrangements for the Transition Period and Provisions with respect to Avner) Law, 1997-5757 (Hereinafter: the "Conditions of the Competition Law")

The Conditions of Competition Law enshrined reform in the compulsory motor sector, in order to establish that insurers that engage in motor vehicles insurance shall, upon termination of the transition period, which ended, as aforementioned, in January 2003, operate under conditions of controlled competition.

Further to the said reform, most insurance companies launched differential tariffs that were established in accordance with rules that are based on calculations of pure risk, and which calculations are made by the database operator, in accordance with accepted actuarial principles, pursuant to the results of the entire sector, including the Pool, while taking into consideration various parameters as aforementioned in clause 4.1.2 above.

Dealing with claims in respect of pre2003 insurance policies was transferred to Karnit in 2010, based on Motor Insurance Regulations (Insurance at controlled competition conditions, transition period arrangements and directives regarding Avner) (Date of transferring assets and liabilities from Avner to Karnit) – 2010, and this based on clause 10 (E) (C) of the Motor Insurance Law – 1997.

(B) Motor Vehicle Insurance (Establishment and Management of a Database) Regulations, 5764-2004 (Hereinafter: "Database Regulations")

In accordance with the Database Regulations, a database was established by ISO (which is managed, effective from the year 2010 by Ron Bina Actuarial Science Ltd), for the purpose of meeting the objectives of the Motor Vehicle Insurance Ordinance and the Conditions of Competition Law. The Regulations require insurers to pass on relevant information to the database operator, in accordance with the plan approved by the Commissioner. When operating the database, as defined in the Regulations, the database operator is subject to the directives of the Commissioner (see also clauses 4.1.1 and 4.1.2 above).

The database operator is in charge of managing the database and issuing reports which shall be used, *inter-alia*, for assessing risks in the motor vehicle insurance sector and for handling insurance fraud. It was also established that the insurers shall bear all the costs of establishing the database and its operation, and the payments which insurers will have to pay for the services of the database shall be determined *inter-alia*, while taking into consideration the proportionate share of each insurer in the sector, in accordance with the data of the previous year as well as the quality and times of reporting to the database. It has been established that an insurer who does not pass on information to the database as aforementioned shall be obligated to pay the sums specified in the Database Regulations.

(C) Motor Vehicle Insurance Ordinance

As stated above, the Motor Vehicle Insurance Ordinance established that a driver may use a motor vehicle only if the vehicle is insured with a valid compulsory insurance policy pursuant to the definitions of the Motor Vehicle Insurance Ordinance. Likewise the Motor Vehicle Insurance Ordinance regulates the insurance obligations which apply to drivers, the insurers' liabilities and the permitted arrangements in the context of the terms of the insurance policy.

Pursuant to the Amendment to the Motor Vehicle Insurance Ordinance and pursuant to the regulations mentioned above, the Commissioner in September 2008 published a circular which was concerned with compulsory insurance. According to the circular, an insurer may offer a compulsory insurance contract which includes a stipulation with respect to the deductible (Hereinafter: "**stipulation**"). With respect to the arrangement manager, as defined in the Motor Vehicle Insurance (Retention Insurance Arrangement and Mechanism for Determining the Tariff)) Regulations 5761-2001 it was established that he must propose an insurance contract incorporating the stipulation. In a case where the policy includes a stipulation, the insurer and the arrangement manager shall collect reduced insurance premium, as detailed in the circular. It was also established in the circular that the member's deductible shall not exceed the sums specified therein.

(D) Compensation Law

The Law was designed to create an efficient and speedy mechanism for determining the entitlement to compensation and the assessment of its percentage, all this regardless of whom is at fault. The law establishes, *inter-alia*, what is a road accident, who is entitled to compensation and what the rules of procedure are in these cases.

(E) Compensation for Victims of Road Accidents (Financing of the Fund) Ordinance, 5762-2002

This ordinance states that up to the 10th day of each month the insurance companies shall directly transfer to Karnit 1% of the (net) premiums in respect of the Compulsory motor bodily injury insurance policies that went into force from that date, for financing the activities of Karnit.

(F) Motor Vehicle Insurance Regulations (Surplus Lines Insurance Arrangements and Mechanism for Determining the Tariff), 5761-2001 (Hereinafter: "The Arrangement Regulations")

The Arrangement Regulations prescribe *inter-alia* that the insurers shall establish, with the approval of the Commissioner, a corporation which will manage the surplus lines insurance arrangements, which is designed to provide insurance cover to users of motor vehicles who did not obtain insurance cover directly with insurers in Israel. The surplus lines arrangement is managed by the Pool and is based on co-insurance by all the insurers in the sector, in accordance with their proportionate share in the sector, as it was the previous year and in accordance with the provisions of the insurance agreement between them. The share of Menorah Mivtachim Insurance in the Pool, in the 2009 underwriting year, was approx. 12.9%, and in 2010 it was approx. 13.9%.

(G) Supervision of Products and Services (Hospitalisation and Ambulatory Services at Hospitals for Road Accident Victims) Ordinance, 5766-2006

This ordinance establishes the maximum price for ambulatory services for road accident victims which is provided in hospital, which shall be "the maximum price determined for that service, when it is sold to a health fund, other than for a person who was injured in a road accident" as well as the price of treatment in the emergency department. In light of the amendment to the Law of Arrangements in the years 2009-2010, the application of the relevant ordinance for payments in respect of medical services that are provided after 1st January 2010. For further details, see clause 4.1.3 (K) below. Following an increase of the prices for the maximum tariff, an appeal was made to the High Court of Justice by the Insurance Companies Association. The parties are currently conducting compromise negotiations via a mediator.

(H) The Ettinger Ruling ("The Lost Years")

In March 2004, the Supreme Court handed down a ruling recognising the right of an injured person or of his estate to compensation in respect of the years of his lost earning ability (the productive years that were reduced due to the death of the injured person). In a further judgment, of February 2006, it was held that the above ruling applies also in the events of lost years as a result of a road accident. For more details about "the lost years" ruling, see clause 6.1.3.1 (2) below. Since the said ruling applies to a small percentage of the portfolios in this sector, the effect on total claims is relatively low.

(I) In January 2010 the Supervision of Financial Services (Insurance) (Conditions of compulsory motor bodily injury insurance Contract) Regulations, 5768-2008 were published, regarding **establishing a uniform standard policy which will constitute a standard insurance contract being the binding standard insurance contract in this sector (Hereinafter: "the standard policy")**. The standard policy provide insureds with the necessary insurance cover, while preserving the objectives of the Compensation for Road Accident Victims Law, 5735-1975 - to guarantee compensation for road accident victims without the need to prove blame. Furthermore, establishing a standard policy enables the public to weigh the merits of choosing the insurer, knowing that the insurance contract ("the product") is uniform, and that competition which will develop will focus on price and service. Insurers are not entitled to alter the standard policy wording however may add extensions to the standard policy in respect of the scope of insurance cover. The said regulations apply to compulsory motor bodily injury insurance policies, to insurance certificates and to insurance contracts whose period of insurance incepts on 1st October 2010 or thereafter. The said regulations repeal the Motor Insurance Regulations (Insurance Certificate) – 1970.

(J) In September 2009 the Commissioner published a circular regarding **the surplus lines insurance tariffs effective from 1st November 2009**. The purpose of the circular is to update the surplus lines insurance tariffs ("the Pool") which are determined by the Commissioner of Insurance, in accordance with the mechanism stated in Regulation 5 of the Motor Insurance Regulation (Surplus Lines Insurance Arrangement and Mechanism for Determining the Tariff) – 2001, in a manner in which the differentials in the statutory motor bodily injury tariffs for motorbikes will increase, such that more mature drivers having considerable driving experience, without a history of accidents and convictions will pay lower premiums than younger drivers who do have a history of accidents and convictions.

Similarly, an update to the circular was published in November 2009 according to which in the event that the insurance is purchased with a deductible condition, the deductible amount will stand at NIS 25,000 (compared to NIS 10,000 prior to the update), in respect of non-pecuniary damage, however on the other hand, the premium discount was increased from 10% to 20%. Similarly, the circular regarding **the deductible in compulsory motor bodily injury insurance** (from 2008) was updated, enabling insurers to include a deductible condition in the insurance contract at the conditions stated in the circular.

(K) As part of the **Economic Streamlining Law (Legislative Amendments for the Implementation of the 2009-2010 Streamlining Plan) – 2009 (in this clause – "the law")** it was determined that liability for providing medical treatment to individuals injured in road accidents will be transferred to the health funds. According to the law, due to the fact that the insurance companies are liable to fund treatment of individuals injured in road accidents whilst the health funds are the main service providers for these individuals, who in turn charge the insurance companies for the treatment costs *post-factum*, whilst operating a heavy administrative network, it was decided to transfer the liability for providing health services, contained in the second schedule to the National Health Law – 1994 ("the Health Insurance Law") and the list of medicines contained in the ordinance in according with clause 8 (G) of the said law, to the responsibility of the health funds, insofar as individuals injured in road accidents are concerned. Accordingly, a mechanism for transferring amounts, which will be determined by the Finance Ministry, from the insurance companies to the health funds (via the Road Accident Victims Fund). Services which are not included in the basket in accordance with the Health Insurance Law as well as the deductibles which are payable by the injured parties for the services in the basket will remain under the responsibility of the insurance companies. Accordingly, amendments to the Motor Vehicles Ordinance [New Version] – 1970, the Road Accident Victims Law – 1975 and the Health Insurance Law were effected. The amendments will come into effect from 1.1.2010. For further details of the affect of the said legislation on the Company, see clause 4.1.4 below.

(L) **Compensation for Road Traffic Accident Victims Regulations (Submission of Data from the Fund) – 2010 (Hereinafter: "submission of data regulations").**

In July 2010 Submission of Data Regulations were published. The purpose of these regulations is to enable entities which are entitled to receive data from the Compensation of Road Traffic Accident Victims Fund (Hereinafter: **"the fund"**) for the purpose of exercising its rights in connection with road accidents as well as to regulate the manner in which the data is received. Some of the entitled entities are insurance companies, the MDA, health funds, the Ministry of Defence and others. In accordance with the regulations, the fund will submit to the Israel Police, on a monthly basis - the data, the registration numbers and periods of insurance of vehicles in its possession for the purpose of investigating road accidents and enforcing legal provisions relating to the same and in order to enforce the directives of the Insurance Ordinance.

(M) In May 2010 the Commissioner published **a clarification regarding "Transferring liability for providing medical treatment to road accident victims"** in which it was stated that transferring the monetary responsibility for the services provided to road accident victims to the health funds does not derogate from the liability of the insurance companies to continue to cover services which are not included in the health basket, including evacuating road accident victims by ambulance which does not conclude in hospitalisation as well as evacuation by helicopter.

Similarly, in July 2010 the Commissioner issued a letter of opinion to the CEO of the Israeli Insurance Companies Association according to which he clarified that the position of the Capital Market, Insurance and Savings Division is that the insurance companies must continue to cover the evacuation of road accident victims by ambulance even where it does not conclude in hospitalisation, as well as evacuation by helicopter of road accident victims. Similarly, the letter stated that the aforementioned does not preclude examining the cost of supplying the services stated in the notification of the Minister of Finance in accordance with the Road Accident Victims Compensation Law – 1975.

For details of central legislation applying to all of the activities of the Group, see clause 8.2 hereunder.

4.1.4 Changes in the scope of activity in the sector, in its profitability and in its customer mix

Scope of activity

In recent years there has been a significant decline in the tariffs of compulsory motor bodily injury insurance.

Pursuant to the legislative amendment regarding transfer of the liability for providing medical treatment due to road accidents (included in the basket of health services) to the health funds (as detailed in clause 4.1.3 (L) above), the scope of premiums in this sector has declined accordingly as a derivative of the amount collected which is transferred to the health funds via Karnit. On the other hand, the claims cost is expected to reduce, by a similar amount to the amount of premiums transferred to the health funds.

Income

According to the financial statements of the insurance companies, there was a 5.4% reduction in the volume of premiums in the compulsory motor bodily injury insurance sector in the first nine months of 2010 compared to the corresponding period in 2000, and this mainly as a result of transferring 9.4% of the premiums to the health funds in respect of the medical expenses risk, and the premium in respect thereof, to the health funds starting in the year 2010. The income of the Group decreased in 2010 by approx. 3%. When neutralising the said change, there was an increase of approx. 5% in premium income in this sector in the year 2010, compared to the corresponding period last year, arising from a result of progression of the Group in the field of activities and from an above average increase of Shomera.

<u>Profitability</u>

In this sector, in view of the long tail claims, there is a conservative approach to the recognition of profit, in terms of which in the first three years from the commencement of insurance (Hereinafter: the "**open years**"), any surplus of income over expenses, including payment of claims, is carried to the item "outstanding claims" (Hereinafter: "**accrual**") and is not recognised as profit. Furthermore, the income from investment of the sums accrued with a real rate of 3% is also carried to accrual. Therefore, profit in this sector is reflected primarily in the profitability of the underwriting year that ended 3 years before 2009, plus investment income accrued in respect of that year, as well as adjustments in respect of underwriting years released in previous years (Hereinafter: the "**closed years**") and activity which is not included in the calculation of reserves.

Based on publications by the Insurance Companies Association, in the first nine months of 2010, the aggregate profit of the sector stood at approx. NIS 563 million, compared to a profit of approx. NIS 449 million in the corresponding period last year.

The major factors which affect the profitability of the field of activity (or which are liable to affect the field of activity) are as follows:

(A) **Changes to regulation:** As stated in clause 4.1.3 (L) above, the liability for providing medical services for road accident victims was transferred, effective from 2010, to the health funds. In addition to that stated in clause 4.1.3 (J) above, Supervision of Financial Services (Insurance) (Statutory Motor Bodily Injury Insurance Contract Conditions) Regulations 2010 were published regarding establishing a uniform standard policy which will be the standard and binding insurance contract in the statutory motor bodily injury insurance sector. Transfer of the liability for providing medical treatment for the insureds to the health funds is liable to have an impact on the profitability, since the percentage of the premium which is transferred to the health funds in respect of this risk element is based upon past data, and is liable to be higher or lower than the cost of this element in the future. **This is forward looking information, and to the best of the Company's knowledge. The company's forecast in this matter may not be realised as a result of investment income that is higher than expected, or alternatively a rise in insurance tariffs in the sector.**

(B) The insurance companies establish differential tariffs (risk-adjusted) which are subject to obtaining the Commissioner's approval. The new tariffs of most companies take into consideration the characteristics of the car and the driver so that cautious insureds pay less than higher risk insureds. The objective of using parameters is to adjust the premium as much as possible to the insured risk.

As a result of the aforementioned, the gaps have grown between the premiums in compulsory motor bodily injury insurance that are required from different insureds in the same insurance company.

As at the date of this report, out of all the parameters that may be used, the Group takes into consideration three parameters which are: the age of the youngest driver who regularly drives the car, the age of the driving licence of the youngest driver who regularly drives the car, and the existence of an air bag (in a private car only), while at the same time distinguishing between a private vehicle and a commercial vehicle.

(C) For a description of the way in which profits are recognised by the Group in this sector see this clause above, as well as note 2 (S) to the Financial Statements. Furthermore, since this involves preserving long term reserves; the way the investments are made and the yields which are produced thereby affect the profitability.

(D) The Group's ability to conduct meticulous control of the payments to service providers in the sector.

(E) In recent years there has been an increase in the volume of the subrogation claims by the National Insurance Institute of Israel (Hereinafter: "**The NII**") against the insurers in respect of the benefits paid by the NII to victims of road accidents that are also recognised as work accidents. The reserves for outstanding claims include provisions in respect of these claims. Any increase in subrogation claims by the NII has an effect on profitability.

(F) It should be pointed out that the NII announced to the insurance companies that they were terminating the agreement that was signed between them during the period of Avner's existence. It should be noted that the Association of Insurance Companies, after having receiving a permit from the Commissioner on Restraint of

Trade, is conducting negotiations with the NII to regulate the issue contractually.

(G) A change in the average national wage and a rise in quality of life may have an effect on an increase in claims, and consequently on profitability.

4.1.5 Changes in reinsurance arrangements in the sector

For details of changes in the arrangements of reinsurance in the sector, see clause 4.6 below.

4.1.6 Critical factors for success in the field of activity and the changes occurring therein

The critical factors for success in the compulsory motor bodily injury insurance sector are, *inter-alia*, the validity of the tariffs that are determined by the operator of the database, the Group's ability to identify the relevant risk factors for determining homogeneous substantial market niches and setting up an adequate tariff in respect thereof, providing a high standard of service, and managing an efficient settlement of claims.

4.2 Products and services

This clause contains a general and summarised description of insurance products and insurance covers. The complete binding terms and conditions are those detailed in every policy and/or insurance contract, as the case may be. The description is only for the purpose of this report and shall not be used for interpretation of the policy.

The Compulsory motor bodily injury insurance policy that is marketed by the Group provides a uniform cover, in accordance with the provisions of the Motor Vehicle Ordinance and the Compensation Law, as detailed in clause 4.1.1 above. For a description of the unique characteristics of the field of activity, see clause 4.1.2 above.

4.3 Breakdown of data about products and services

As of 31st December 2010, the total premiums in the compulsory motor bodily injury insurance sector constituted approx. 26% of total premiums in general insurance.

The following table presents data on the distribution of the Group's activity in the compulsory motor bodily injury insurance sector (in NIS thousands):

	2010	2009	2008
Gross premiums (including fees)	602,065	621,979	557,301
Net retained premiums	490,029	600,968	539,512
Payments and changes to liabilities in respect of insurance contracts, gross	605,126	615,264	566,335
Payments and changes to liabilities in respect of insurance contracts, net retained	534,792	589,445	553,640

The Group's gross premiums in 2009 declined by approx. 3%, as compared to 2009, and this was as a result of the transfer of the premium to the health funds as described above. When neutralising the effect of the change, there was an increase of approx. 5% in the premium income in this sector.

4.4 Customers

	Premiums	Percentage of the total premium income		Percentage of the total income
	In 2010 (NIS thousand)	In 2010 (NIS thousand)	In 2009 (NIS thousand)	In 2009 (NIS thousand)
Private insureds and small business customers	551,492	91.6%	562,948	90.5%
Motor fleets and collectives	50,573	8.4%	59,031	9.5%

The Group does not have any one customer in the compulsory motor bodily injury insurance sector, the income from whom is 10% or more of the Group's total income in the field of activities and the Group is not dependent on a single customer or a small number of customers in this sector. Furthermore, the Group is not aware of any specific characteristics of its customers in the compulsory motor bodily injury insurance sector. In the Group's assessment, the rate of renewals in 2010 was approx. 59% compared to 58% in 2009, and the percentage of customers who purchased compulsory motor bodily injury insurance and motor casco insurance was approx. 62% of the total population of those who held compulsory insurance in the Group and this compared to 65% in the corresponding period last year.

Number of Years of Loyalty	Premiums in NIS Thousand			Percentage of Total Income		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
No loyalty	216,743	273,671	217,347	36%	44%	39%
One year loyalty	144,496	124,396	144,898	24%	20%	26%
Two years loyalty	96,330	65,308	83,595	16%	11%	15%
Over three years loyalty	144,496	158,604	111,460	25%	25%	20%
Total	602,065	621,979	557,301	100%	100%	100%

4.5 Marketing and distribution

The Group markets its insurance policies through independent agents, who are paid commissions that are determined mainly as a percentage of the premium after fees are deducted. For a description of the subject at the Group level see clause 8.7 below.

The Group does not have one agent whose scope of activity in the sector exceeds 10% in the field of activity.

Hereunder are details about the rate of commissions (including VAT) from gross premiums in the compulsory motor bodily injury insurance sector:

	2010	**2009**	**2008**
Rate of commissions from gross premiums	5.4%	5.2%	4.9%

4.6 Reinsurance

The Group's treaties with reinsurers in all sectors of insurance including the compulsory motor bodily injury insurance sector are renewed annually. In the field of activity, the Group arranges "Excess of Loss" treaties. (For details of this class of treaty see also clause 8.4.3 below). As customary in treaties of this class, no commissions are received from reinsurers.

In the reinsurance treaties of the Company for 2007 there has been a change which limits the maximum refund which the Company shall receive from the reinsurers in the event of a loss. Although the insurance to customers is for an unlimited limit of indemnity, in light of examinations conducted by the Company and in view of the relatively high cap that was fixed, the above change does not create a material exposure to the Company's retention.

In 2010 the Company entered into a Quota Share reinsurance treaty with Swiss Re at 25% of the class of business. The treaty was not renewed for the year 2011.

Effective from the year 2011 the reinsurance treaty in the sector protects both Menorah Mivtachim Insurance as well as Shomera in order to improve the efficiency of the reinsurance treaty,

It should be noted that as of 2009 the reinsurance treaties of the Company in the field of activity are Shekel denominated. This change neutralises the currency risk in reinsurance protections.

For 2010 the ratings of the reinsurers with whom the Company arranged treaties in the field of activity, are: AAA, AA- , A-, A and A+ according to the S&P rating.

As at 31st December 2010, the rate of the Group's ceding risks to its reinsurers in the field of activity was estimated at approx. 3.4% of premiums.

Hereunder are the details of the reinsurers whose share of the premium in the sector is over 10% of the total reinsurer's premiums in the sector in the years described in the report (in NIS thousands):

			2010		2009		2008	
Name of reinsurer	**S&P rating**	**Country**	**r/I premium**	**% of total r/I premium**	**R/I premium**	**% of total r/I premium**	**r/I premium**	**% of total r/I premium**
Paris Re	AA-	France	-	-	2,388	11%	2,828	16%
Swiss Reinsurance Co	A+	Switzerland	96,869	86%	9,263	44%	9,156	51%
Odyssey Re	A+	France	-	-	-	-	2,466	14%

Hereunder is the distribution of reinsurance premiums in the sector:

S&P rating group	**Premium registered to the credit of the reinsurer (in NIS thousand)**			**Percentage of total for class of business**		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
A- and above	112,036	21,011	17,789	100%	100%	100%
BBB+ to BBB-	---	---	---	---	---	---
Lower than BBB-	---	---	---	---	---	---
Total	**112,036**	**21,011**	**17,789**	**100%**	**100%**	**100%**

For a description of the Group's agreements with reinsurers at the Group level see clause 8.4 below.

4.7 Suppliers and service providers

Menorah Mivtachim Insurance signs agreements from time to time with hospitals, medical institutions, providers of medical control and providers of other health services for the purpose of providing various medical services to its insureds, including hospitalisation, ambulatory treatments in clinics, and referrals to medical rehabilitation.

The Group operates a computerised system for control of payments to suppliers in general and providers of medical service in particular. The system checks the compatibility between the invoices received and the agreed tariffs, as well as the relationship between the medical treatment and the injury. The use of this system resulted in savings in the costs of suppliers and streamlining the work with them.

Additionally, the Group acquires ancillary services for settling insurance claims in various fields, including in the field of activity, from lawyers, investigators and medical experts.

The Group is not dependent on any one supplier.

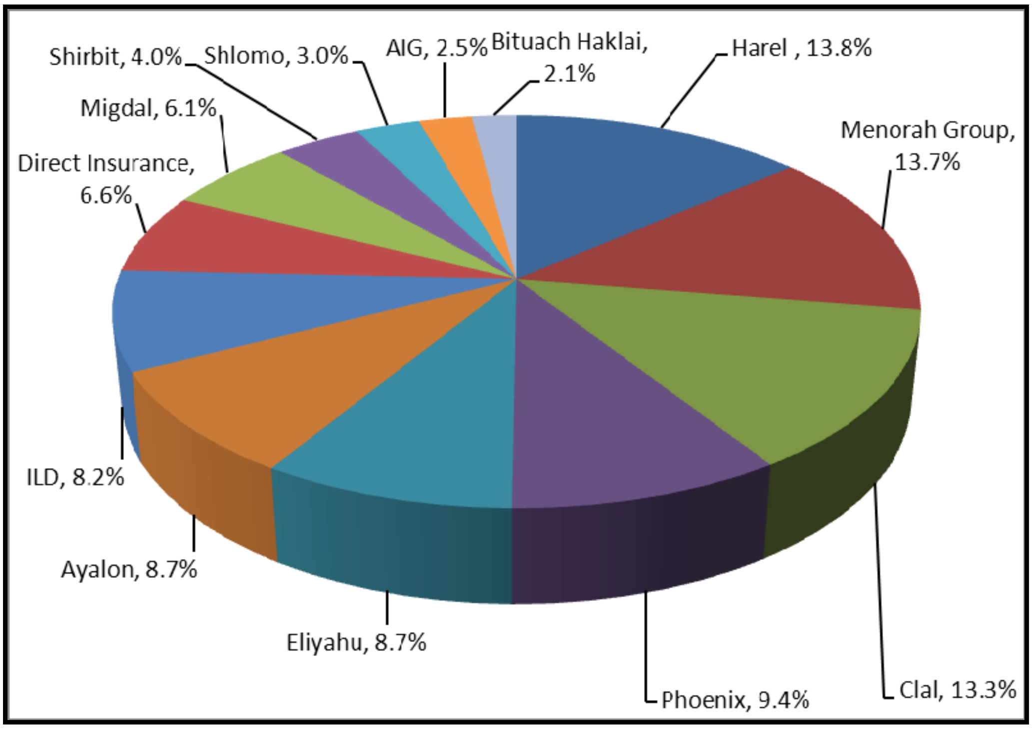
For a description of the subject at the Group level, see clause 8.5 below.

4.8 Competition

Thirteen insurance companies compete in the compulsory motor bodily injury insurance sector, including direct insurance companies. The largest companies in the compulsory motor bodily injury insurance sector are: the Clal Group, the Harel Group and the Group. According to the financial statements of the insurance companies, the share of the three largest insurance companies in the first nine months of 2010 accounted for approx. 41% of gross premiums in this sector, similar to 2009.

As of the third quarter of 2010 the Harel Group was the leader in the sector and held a market share of approx. 13.8% compared to 13.5% last year. At the same time the Group (Menorah Mivtachim Insurance) holds a market share of approx. 13.7% and is second place in the sector, similar to last year. The market share data for each company is presented in the pie chart below.

Market shares of compulsory motor insurance sector
for the period ending 30/09/2010



The uniform insurance cover offered by all the insurance companies, and the availability of information on comparative prices results in the price of the product being the main variable when deciding on the acquisition of insurance policies. The insurance companies differ from each other in the variables that determine the tariff, and consequently in the market shares on which they focus. A factor that might prejudice the Group's competitive status is the use by other insurance companies of different parameters than those which the Company uses. The factors that strengthen the competitive position of the Group are the network of insurance agents and the tariff model that facilitates focusing on more profitable market niches.

4.9 Material agreements and cooperation agreements

In January 2004, an agreement was signed between the insurance companies and the Clearing Centre of the Association of Insurance Companies (named – "Kal-Kaved"), which regulates the handling of reconciliation due to claims which involve heavy vehicles and light vehicles, as defined in the Compensation for Road Accident Victims (Arrangements for Distributing the Burden of Compensation between the insurers) Ordinance, 2001-5761, as well as due to claims which involve heavy vehicles insured by the parties to this agreement in the case that both vehicles are damaged, or when a pedestrian is injured outside the vehicle.

5. Motor Property ("Casco") Insurance

5.1 General information about field of activity

The cover provided in the framework of a motor casco insurance policy, is subject to the limitations prescribed by the law and the regulations, as detailed below.

The Group's activity in the motor casco insurance sector is carried out through Menorah Mivtachim Insurance and Shomera.

Hereunder are several characteristics, trends, and developments which affect or may affect the Group's activity in this sector in the future.

5.1.1 Structure of the field of activity and the changes that have occurred therein

A motor casco insurance policy provides cover in respect of own damage caused to the insured vehicle, theft, as well as property damage caused by the insured vehicle to third parties. It is possible to purchase a policy covering only third party property damage or in combination with other covers.

5.1.2 Description of the classes of insurance and the insurance covers included in the sector

The policy of insurance for own damage and third party property damage for a private and commercial vehicle of up to 4 tonnes (comprehensive insurance and third party insurance), excluding motorcycles, is anchored in the Control of Insurance Business Regulations (Conditions of an Insurance Contract for Private Cars) 1986-5746, and the schedule to the regulations (Hereinafter: "**motor casco insurance**" and the "**standard policy**" respectively). The standard policy stipulates a wording and minimum conditions for comprehensive insurance of a car which an insurance company may change only if the change is in favour of the insured. Extensions may be added to the standard policy with respect to the scope of cover, risks, liabilities and property of the insureds.

The motor insurance class of business also includes insurance of commercial vehicles exceeding 4 tonnes, and motorcycles which are not subject to the provisions of the standard policy.

<u>Characteristics of motor casco insurance</u>

A motor casco insurance policy is generally issued for a period of up to one year.

The policy is subject, as aforementioned, to the limitations imposed by legislation and by the Commissioner, in the framework of the standard policy (sees clause 5.1.3(A) below).

The tariff for motor casco insurance is not uniform and depends on several variables, such as: the type of the insured vehicle, its cumulative claims history, the driver's age and the limit on the number of drivers permitted to drive the vehicle. The tariff is approved by the Commissioner of Insurance, as a maximum tariff.

Claims in this sector are characterised by quick resolution and the length of time between the time of occurrence of the insured event and the settlement of the claim (**"short-tail claims"**). Nonetheless, in cases of third party cover – the settlement of claims takes longer.

5.1.3 Limitations, legislation, regulations, and special constraints applying to the field of activity

The field of activity is subject to the provisions of the law applying to insurers, including the Supervision Law and the Insurance Contract Law, and the regulations made thereunder, as well as the directives of the Commissioner, as published from time to time.

For details about the central legislative limitations, applying to the Group, see clause 8.2 below.

Hereunder are details of the central legislative limitations, applying to the Group in its activities in motor casco insurance, as well as highlights of the regulatory directives published, in the last two years in this sector.

(A) Supervision of Insurance Business Regulations (Conditions of Insurance Contract for a Private Car) 1986-5746 (Hereinafter: "Motor Casco Regulations")

The Schedule to the Motor Casco Regulations prescribes the terms of the standard policy of motor casco insurance. The standard policy constitutes a minimum basket of covers, which may be extended only for the benefit of the insured.

In accordance with the Amendment to the Motor Casco Regulations, that addresses changes in the standard policy for vehicles, the policy allows the insured to waive certain covers at the time of submitting the proposal form (see clause 5.2 below), provided that the waiver is made by an express notice to be documented by the insurer.

In July 2010, the Commissioner published a third draft circular to amend the Motor Casco Regulations. For details regarding the proposed amendments in the draft see sub-clause E hereunder.

(B) Restricting the Use of and Recording of Activity in Used Car Parts (Prevention of Theft) Law, 5758-1998

The law prescribes procedures concerning the sale of vehicles for the purpose of overall dismantling or repair, as well as procedures for the registration of spare parts. The law obligates the insurer to return the vehicle's licence to the Licensing Authority, if the vehicle undergoes overall dismantling.

If the insurer sells the vehicle for repair rather than for dismantling, then the insurer must keep the vehicle's licence and not transfer it to the purchaser, until the purchaser provides the insurer with a licence from an authorised garage, stating that the vehicle was repaired as required or, when a part is replaced, a certificate that the part that was replaced was duly registered, according to the provisions of the above mentioned law. By virtue of the aforementioned law, in May 2007 the Restricting the Use of and Recording of Activity in Used Car Parts (Prevention of Theft) (Record Keeping, Reporting the Theft of a Part and Restricting the Use of Car Parts) Regulations, 5767-2007 was published, which regulate the issue of registration of spare parts for vehicles.

(C) Motor Vehicle Insurance Loss Adjustors Arrangement

Following the decision of the Supreme Court of April 2001 in the matter of loss adjustors[5], the Commissioner published a circular whose objective was to reduce conflicts of interest in the activities of motor loss adjustors while allowing the insured to choose a loss adjustor out of a wide list of nationwide loss adjustors. The circular stipulated, *inter-alia*, also rules of action for loss adjustors and mechanisms for submitting appeals on assessments.

In April 2007, a circular was published, which coordinates the handling of the reduction of the said conflict of interests on the subject of loss adjusting in vehicle insurance (property and third party), providing, *inter-alia*, directives with respect to extending the disclosure relating to the rights of the insureds, increasing their involvement in the process of choosing a loss adjuster, and enhancing the transparency towards the insureds in the process of loss adjusting. The insurers are also required to extend the list of their external loss adjusters.

In May 2009 the Loss Adjusters Association in Israel, the Israeli Consumer Council and the Association of Repair Garages in Israel petitioned the Supreme Court to issue an *order nisi* against the Commissioner of Insurance and Capital Market and the Insurance Companies Association in Israel[6]. In the context of the petition, the Supreme Court was petitioned to issue an *order nisi* directing the Commissioner of Insurance to explain why he will not exercise his authority by directing that the arrangement stated in Insurance Circular no. 2007-1-8 be

5 (High Court Ruling 7721/96, Israel Association of Insurance Loss Adjusters and others, ruling 55 (3) 625)

6 (High Court Ruling 3677/09, Israel Association of Insurance Loss Adjusters and others vs. The Commissioner of Insurance and others

amended regarding motor insurance loss adjusting (casco), will prefer the opinion of the advisory committee to the motor adjusters who have been appointed by the Transport Minister, the Motor Division in the Transport Ministry and the petitioners, and direct that the list of external loss adjusters stated in clause 4 of the aforementioned circular be annulled – which in the opinion of the petitioners places each of the parties stated therein in a situation of an inherent conflict of interests – and by replacing it with the list that contains all of the loss adjusters registered in the registrar of loss adjusters as defined in the Supervision of Goods and Services (Motor Loss Adjusters) – 1980. On 7.12.2010 the appeal was rejected by the Supreme Court, without any award of expenses.

(D) Used Vehicle Sale Law (entitlement to information and due disclosure) – 2008 ("The Used Vehicle Sale Law")

In August 2008 the Used Vehicle Sale Law was passed in the Knesset. The law states, *inter-alia*, that a party that purchases a used vehicle is entitled to receive information regarding the amount of indemnity payments made for the vehicle and a breakdown of the type of damage or depreciation in respect of which payments were made from each insurer that covered the vehicle. An insurer is permitted to make a charge for the expenses incurred in providing the aforementioned information. The law imposes a duty on insurance companies to keep documents regarding vehicles that have been insured by it for a period of seven years.

(E) Alteration to the standard policy in the motor vehicle class of business

In July 2010 a third draft of the regulations of the Supervision of Insurance Business (Private Motor Vehicle Insurance Contract Conditions) – 1986 was published. The main changes according to the draft are – determining the value of a vehicle which is not included in the price list according to a valuation that will be attached to the specification; a directive according to which after indemnity payments have been made or the vehicle has been replaced the insurer will be entitled to obtain the rights to the vehicle from the insured, other than accessories and parts in respect of which the insured is not entitled to indemnity payments; directives regarding payment of indemnity due to a partial loss; determining that the duty of disclosure in respect of damages which have affected the vehicle or a third party in the last three years as a result of the risks covered under the insurance will not apply to the period in which the vehicle was not owned by the insured; as well as a directive regarding the possibility of the insurer offsetting from debts of the insured for policies.

In June 2010 the Commissioner of Restrictive Trading Practices decided to provide **an exemption in the terms of the arrangement between the Insurance Companies Association**, the Clearance Bureau of the Insurance Companies Ltd., and other insurers, for the establishment of a database regarding the history of the accidents of a vehicle. The database will contain details regarding the vehicle which will be registered therein – details of the vehicle, previous insurers, details of insurance claims, details of accidental damage. The data in the database will be accessible both to members of the public purchasing used vehicles as well as to the insurers who join the database. According to the decision, in light of the competitive concern that the pooling of information may detrimentally affect competition, the Commissioner decided to subject the exemption to the condition stated in the decision, as well as to limit it to a period of three years.

(F) In May 2010 a **Supervision of Financial Services Legislative Bill (Insurance) (Amendment to the prohibition of repairing or restoring a vehicle which has suffered at least 50% damage) – 2010** passed a preliminary vote. According to the proposal, the possibility of insurers repairing or restoring vehicles in the case of 50% or more damage of its value prior to the accident is to be restricted.

(G) In January 2011 **the Prevention of Nuisances (Prevention of Noise) (Amendment) Regulations – 20111, were published**, which amend the Prevention of Nuisances (Prevention of Noise) Regulations – 1992, whose aim is to reduce noise disturbances in the private vicinity of the citizen, such that the restrictions of causing noise are tightened. The amendment extends the hours in which it is prohibited to cause noise from various sources, also including the prohibition of operating an audible alarm system in a vehicle. The date on which the prohibition of operating an alarm system as aforementioned takes effect is within six months from the publication date of the regulations, and in the event of old vehicles which contained an alarm system prior to the publication date of the regulations, the owners of the vehicles will be required to remove and/or disconnect the alarm within 6 years of the date on which the regulations take effect. In the estimation of the Company, it is possible that as a result of the prohibition of operating an audible alarm system in vehicles, the frequencies of thefts may increase by a certain amount compared to the thefts that these alarms would have prevented, however it appears that it will not be substantial. **The estimation of the Company is forward looking information, based on the activity of the Company in this sector. It is possible that this estimation will not materialise due to circumstances in respect of which there is a high level of uncertainty on the date of the report.**

5.1.4 Changes in the scope of activity in the sector, in its profitability and in its customer mix

<u>Scope of activity</u>

According to the financial statements of the insurance companies for the first nine months of the year 2010, in the motor casco sector, the premium levels were stable in the year 2010, compared with the corresponding period in 2009. It should be noted that the rate of increase in motor casco insurance differs to the increase in this sector of the economy, and this, *inter-alia*, in light of the fact that most leasing companies, constituting a substantial component of the motor sector, do not arrange insurance with insurance companies. The scope of premiums of the Group grew by approx. 3% in 2010, as compared to 2009.

<u>Profitability</u>

Profitability in the sector is affected, *inter-alia*, by the validity and adequacy of the tariff which the insurer uses, investment income, the expense ratio, maintaining the underwriting procedure and the frequency of thefts.

In the first nine months of 2010 there was a decrease in the aggregate profit of the branch of approx. NIS 170 million, and this compared to a profit of NIS 207 million in the first three quarters of the year 2009. The majority of the decrease arises from a decline in investment income. In 2010 the Group registered a profit of approx. NIS 7 million, compared to NIS 40 million in 2009. In the reporting year there was a deterioration in the loss ratio compared to the previous year and due to a decrease in investment income.

5.1.5 Alterations to reinsurance arrangements

For a description of the alterations to reinsurance arrangements in this class of business see clause 5.6 hereunder.

5.2 Products and services

This clause contains a general and summarised description of insurance products and insurance covers. The complete binding terms and conditions are those detailed in each policy and/or insurance contract, as the case may be. The description is only for the purpose of this report and shall not be used for interpretation of the policy.

The motor casco insurance policies are based on the standard policy (except in the case of commercial vehicles of over 4 tonnes and motorcycles), and the insurance company may change the terms of the said policy only in favour of the insured.

The Group's insurance policies provide cover as follows:

(A) **Comprehensive motor insurance (private and commercial, including trucks)** - cover in respect to damage to a car as a result of an accident, damage to a car as a result of fire, theft of the vehicle, damage caused during the theft of a vehicle, damage caused as a result of natural perils (flood, storm, snow and hail), damage to a vehicle as a result of a malicious act (except when committed by the insured or anyone acting on his behalf), damage that the vehicle causes to third party property.

(B) **Comprehensive insurance without cover for accidents –** insurance cover of all the risks detailed in sub-clause 'A' above, except for damage as a result of an accident.

(C) **Comprehensive insurance without cover for theft –** insurance cover of all the risks detailed in sub-clause 'A' above, except for theft of the vehicle.

(D) **Third party liability insurance –** protection of the insured against liability for damage caused to the property of a third party as a result of the use of his car.

(E) **Motorcycle insurance**

(F) In addition to the basic cover **the Group enables the insured to extend the cover as follows:**

Cover for earthquake damage, new for old (only in the case of cars of recently manufactured and in the case of total loss insurance), insurance for the replacement of a radio tape or disc player, glass breakage insurance, towing services and the provision of a replacement car.

Additionally there is a unique track for private cars only, which offers a larger basket of services and benefits to the insured, with an option of a reduced premium.

The tariff for car insurance is regulated and is updated from time to time in accordance with the loss experience and trends. The philosophy of the Commissioner, as of the balance sheet date, is to avoid intervening in the tariffs in this class of business.

5.3 Breakdown of data about products and services

The following table presents data on the distribution of the Group's activity in motor casco insurance class (in NIS thousand):

	2010	**2009**	**2008**
Gross premiums (including fees)	902,069	877,843	836,971
Net retained premiums	668,572	675,426	774,874
Payments and changes to liabilities in respect of insurance contracts, gross	638,300	607,760	605,606
Payments and changes to liabilities in respect of insurance contracts, net retained	477,377	488,990	546,105

Breakdown of claims paid in the motor casco insurance class, gross (NIS thousand):

	2010	**2009**	**2008**
Thefts	62,860	66,232	90,393
Accidents	502,814	472,758	439,203
Natural perils	1,534	1,221	2,279
Other	59,776	54,635	56,898
Total claims paid	626,984	594,846	588,773
Changes in liabilities in respect of insurance contracts, gross	11,316	12,914	16,833
Total payments and changes in liabilities in respect of insurance contracts	**638,300**	**607,760**	**605,606**

5.4 Customers

In the motor casco insurance sector the Group insures mainly private customers. The Group has a small number of fleets of business customers and collective customers in an insignificant volume. The Group does not have any one customer in the motor casco insurance sector whose income constitutes 10% or more of the Group's total income and the Group is not dependent on a single customer or on a small number of customers in this sector.

	Premiums	Percentage of the total premium income	Premiums for the year	Percentage of the total income
	In 2010 (NIS thousand)	In 2010 (NIS thousand)	In 2009 (NIS thousand)	In 2009 (NIS thousand)
Private insureds and small business customers	838,924	93%	763,666	87%
Motor fleets and collectives	63,145	7%	114,177	13%

Furthermore, the Group is not aware of uniform characteristics of its customers in the motor casco insurance sector. In the Group's assessment, the rate of renewals in the motor casco insurance sector in 2010 was approx. 74% compared to 65% in 2009. The percentage of customers who purchased motor casco insurance and compulsory motor bodily injury insurance out of the total number of customers who purchased motor casco insurance in 2010 is 67% compared to a rate of 69% last year.

Premiums by years of loyalty in terms of premium turnover during the periods described in the statements:

Number of Years of Loyalty	Premiums in NIS Thousand			Percentage of Total Income		
	2010	2009	2008	2010	2009	2008
No loyalty	369,848	359,915	359,898	41%	41%	43%
One year loyalty	207,476	201,904	217,612	23%	23%	26%
Two years loyalty	144,331	140,455	108,806	16%	16%	13%
Over three years loyalty	180,414	175,569	150,655	18%	20%	18%
Total	**902,069**	**877,843**	**836,971**	**100%**	**100%**	**100%**

5.5 Marketing and distribution

The Group markets its insurance policies through independent agents. Hereunder are details of the commission rates (including VAT) from the gross premiums in the motor casco insurance sector:

	2010	2009	2008
Rate of commissions from gross premiums	20%	20%	20%

The Company does not have one agent whose scope of activity in the sector exceeds 10%.

For a description of the subject at the Group level, see clause 8.7 below.

5.6 Reinsurance

The Group's treaties with reinsurers in all branches of insurance, including the class of motor casco insurance, are renewed on an annual basis.

The rate of ceding the Group's risk to its reinsurers in the field of activity is estimated to be approx. 26% as at the date of this report. In the field of activity, the Group arranges both proportional and excess of loss treaties with its reinsurers to protect against exceptional occurrences. In the years 2010 and 2008 the Company arranged treaties in this field of activity with reinsurers that are rated AA-, A and A+, A and A- by S&P.

Reinsurers whose share of the premium in the class of business constitutes more than 10% of the reinsurance premium in the class of business (in NIS thousands) in the periods described in the report:

			2010		2009		2008	
Name of reinsurer	**S&P rating**	**Country**	**r/I premium**	**% of total r/I premium**	**R/I premium**	**% of total r/I premium**	**r/I premium**	**% of total r/I premium**
Partner Re	AA-	England	26,225	11%	---	---	---	---
Trans Re Zurich	AA-	Switzerland	43,992	19%	47,102	23%	---	---
Lloyd's	A+	England	---	---	---	---	20, 070	32%
Swiss Reinsurance Co	A-	Switzerland	131,293	56%	137,697	68%	---	---

As conventional in contracts of this type, the Group receives a ceding commission from the reinsurers that is calculated as a percentage of the ceded premium. The rate of the commission varies in accordance with the business results. It should be pointed out that in the year of the report there was an alternation in a reinsurance agreement in respect of some of the activities in the commercial vehicle above 4 tons sector, such that the reinsurance premium includes the fee element corresponding to which the reinsurance commission increased.

Hereunder is a breakdown of reinsurance premiums in the sector:

S&P rating summary group	Premium registered to the credit of the reinsurer (in NIS thousand)			Percentage of total for class of business		
	2010	2009	2008	2010	2009	2008
A- and above	233,497	202,417	62,037	100%	100%	100%
BBB+ to BBB-	---	---	---	---	---	---
Lower than BBB-	---	---	150	---	---	---
Total	**233,497**	**202,417**	**62,187**	**100%**	**100%**	**100%**

For a description of the Group's agreements with the reinsurers and in particular for details of a multi-line reinsurance treaty, see clause 8.4 below.

5.7 Suppliers and service providers

The Group has agreements with various garages for providing services to Insureds when an insured event occurs. The Group also signed agreements with additional other service providers, whereby an insured whose policy includes the relevant type of service, shall be provided with the service in accordance with the service document ("rider") he purchased.

The different services provided today to an insured are, *inter-alia*, vehicle towing services, windscreen repair, replacement car, etc.

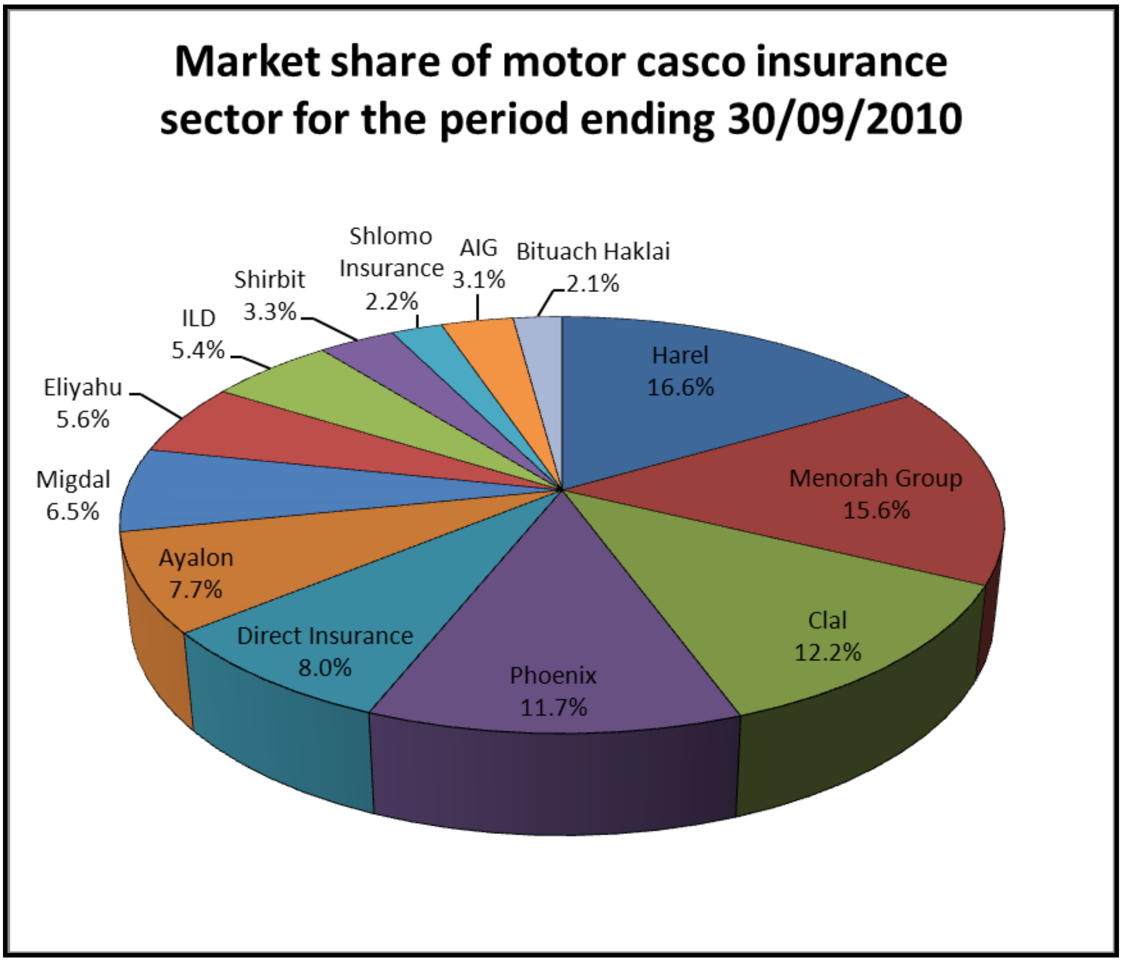
The Group is not dependent on any one supplier in its activity in this sector. For a description of the subject at the Group level, see clause 8.5 below.

5.8 Competition

The majority of the insurance companies operate in the motor casco insurance sector, including direct insurance companies.

According to the financial statements of the Association of Insurance Companies in Israel, the Harel Group was leading in the sector in the reporting year. During the first nine months of 2010, the Harel Group held a market share of approx. 16.6%, compared to 16% in the corresponding period in 2009. The Group also holds a market share of approx. 15.6% and is positioned in second place in the industry, similar to the corresponding period in 2009.

The market shares by groups are presented in the following chart:



The uniform insurance cover according to the standard policy is responsible for the price of the product being the main variable behind the insured's decision to purchase an insurance policy. The Group places an emphasis in this sector on a competitive tariff and unique products that are adapted to defined populations, and include unique benefits for that population.

The factors which strengthen the competitive status of the Group are its network of insurance agents, the tariff model it uses as well as agreements with a network of first class garages for the convenience of its insureds.

Since the price is a central variable in the customer's decision to purchase insurance, an intentional erosion of prices by one of the competitor might detrimentally affect the competitive status of the Company. The Group conducts ongoing examinations of the tariff and the rate of discounts, in order to adapt itself to market conditions.

5.9 Material agreements and cooperation agreements

An agreement was signed In May 2002 for cooperation between the Association of Insurance Companies and the Israeli Centre for Arbitration and Settlement of Disputes Ltd. (Hereinafter: "**BENOAM**"), whereby disputes on the subject of subrogation claims between insurance companies (both those who are members of the Association and those who are not) in respect of motor casco insurance for amounts not exceeding NIS 100,000 shall not be taken to court, rather will be arbitrated through the institution “BENOAM” (This institution is privately owned and was chosen by the Association of Insurance Companies). The award of the arbitrator in this process is binding, and collection is effected through the clearing house of the Association of Insurance Companies. The payment to “BENOAM” in a claim or in arbitration is imposed upon the insurance companies. This agreement was approved by the Commissioner of Restrictive Trade Practices and is valid until May 2011. The parties approached the Commissioner of Restrictive Practices, in order to renew this agreement, after May 2011. As of the date on which this report was published, a permit for the extension of the agreement has not yet been received.

6. Other general insurance

Group activity in this sector focuses on three main classes of business: Liability insurance, Property insurance and Short Term Healthcare insurance (such as: Personal Accident, Travel and Foreign Workers). Similarly, the remaining branches of general insurance are included in this sector whose scope of activity is insignificant.

For details regarding reporting changes affecting the health insurance sector, which is defined, effective from 1st January 2011, as a separate field of activities, see clause 1.4.7 above.

Group activities in the general insurance sector are carried out via Menorah Mivtachim Insurance and Shomera.

Hereunder are details of the relevant directives which apply to all of the classes of business in this sector as well as the unique provisions for the various classes of business in the sector.

6.1 General information about field of activity

The liabilities insurance sector includes all liability classes of business, other than compulsory motor bodily injury insurance. The main classes of insurance in this sector are: Employers' Liability Insurance, Professional Indemnity Insurance, Directors and Officers liability, Third Party Liability, Products Liability, Sale Law Guarantee, Marine and Aviation.

The property insurance class provides cover to the insured for physical damage to property and includes comprehensive home insurance, loss of property insurance, comprehensive business insurance, buildings insurance for mortgagees (Hereinafter: "**mortgage insurance**"), marine insurance, engineering insurance, diamonds insurance.

The health insurance covers in this sector include short term policies including travel insurance, personal accident insurance and cover for foreign workers.

The remaining fields of activity include insurance which is not included in the aforementioned classes and do not sufficiently affect the results of the Company, either separately or together as a group. These insurances include Guarantee Insurance (Performance Guarantees and Financial Guarantees), Illness Insurance and Other Risks Insurance.

Hereunder are several characteristics, trends, and developments which affect or may affect in the future the Group's activity in this sector.

6.1.1 Structure of the field of activity and the changes that have occurred therein

(A) Liability insurance

Liability insurance is insurance that covers the insured in respect of his liability towards third parties, as a result of the insured's acts or omissions. In liability insurance there is no sum insured, but rather a limit of liability which is the maximum sum which the insurer will bear in the event of a loss plus reasonable legal expenses. The validity period of insurance policies is generally one year. However, since the liability is in respect of damage to a third party, who is not the insured, deliberations on such claims are complex and take a long time (**"long tail claim processing"**).

(B) Property insurance

Property insurance is offered by the Group to individuals and businesses.

Property insurance is a policy for a period of up to one year, usually, other than cargo insurance (aviation and marine) which is covered by an open policy, (the cover is provided for each consignment separately, and engineering insurance covers are arranged in accordance with the duration of each project.

(C) Health insurance (short term)

Health insurance is offered by the Group to individuals and groups.

Health insurance covers in this sector contain policies whose period of validity is usually one year. In travel insurance and cover for tourists the cover is adapted to the period stay overseas or in Israel, as applicable.

6.1.2 Description of the classes of insurance and the insurance covers included in the sector

6.1.2.1 Liability insurances

The liability classes cover the insured in respect of a liability that he might bear, due to liability by virtue of any law, particularly by virtue of the provisions of the Torts Ordinance (New Version) (Hereinafter: **"The Torts Ordinance"**).

The main classes of insurance which the Group markets in the liability sector are as follows **(**In respect of the policies and products the Company offers in the context of this class, see clause 6.2 below).

(1) **Employers' liability insurance –** Cover for the insured in respect of his liability for bodily injury caused to an employee due to his work and during his work for the employer. The covered liability is a liability under the Torts Ordinance or under the Liability for Defective Products Law, 1980-5740, and the insurance is a surplus insurance, in excess of the cover provided in accordance with the National Insurance Law (Consolidated Version), 1995-5755. The insurance is generally arranged on an occurrence basis.

(2) **Third party liability insurance –** The Third party liability insurance policy covers the legal liability of the insured in respect of bodily injury or property damage to a third party who is not an employee of the insured, in respect of damage caused by an accident that occurs during the period of insurance, in connection with the activity in respect of which the insured purchased the insurance cover. The insurance is generally arranged on an occurrence basis.

(3) **Professional indemnity insurance –** This insurance covers the liability of a professional in respect of negligence in the performance of his professional duty, resulting in damage to a third party, whether or not he is a client of the insured. The insurance is arranged on a claims-made basis.

(4) **Product liability insurance -** This insurance covers the liability of the insured in respect of a loss caused by products manufactured or marketed by him, after they are no longer in his possession. The insurance is arranged on a claims-made basis.

(5) **Directors and officers insurance –** This insurance covers directors and officers, in respect of a legal duty which is breached by the directors and officers during the period of insurance. The insurance is arranged on a claims-made basis. The liability covered is mainly by virtue of the Companies Law, which imposes personal liability on the officers of a company. The policyholder in this insurance is the company that purchases the cover for its incumbent officers and directors, as well as past officers and directors, who are defined as insureds.

The liability insurance sector is considered to be volatile, due to the high uncertainty in settling claims that arises, *inter-alia*, to the length of time between the occurrence of an insured event and the time of payment to the insured (**"long tail claims"**), changes in the judicial climate and cultural changes that increase the frequency of claims and their severity.

6.1.2.2 Property insurance

Hereunder are the main types of covers of property insurance marketed by the Group in the property insurance sector:

(1) **Home insurance (comprehensive home insurance) –** home buildings insurance and home contents insurance.

The Supervision of Insurance Business Regulations (Home and Contents Insurance Contract Conditions) – 1986 (Hereinafter in this clause: "the regulations") defines the scope of minimal insurance cover for home buildings and contents, as defined in the regulations (Hereinafter: "the standard home policy"). In accordance with the regulations, home insurance includes cover for contents and buildings against the perils of fire, burglary, natural perils, earthquake and water damage. The insurance company can alter the standard policy solely if the alteration is to the benefit of the insured. The insured may waive the cover for earthquake in writing.

(2) **Property damage and comprehensive business –** The insurance policies cover damage to property such as stock, machinery, equipment, factories, various types of stock etc., other than home buildings or contents or motor vehicles. Business insurance includes cover for contents and buildings against the perils of fire, burglary, natural perils and earthquake. Consequential loss cover can be purchased in these insurance covers. The business policies are usually sold as umbrella policies that also include liability cover.

(3) **Mortgage insurance –** Including buildings cover for borrowers that take a mortgage to finance the purchase of a home. These policies are liened to the lender. This insurance is usually sold together with life assurance (term) to cover the balance of the loan in the event of the death of the insured.

(4) **Marine, aviation and sailing boat insurance –** The insurance covers loss or damage connected to aviation or sailing risks. Sailing boat insurance covers marine hull; aviation insurance covers the aircraft hull and passenger accident insurance; and marine insurance covers the transportation of cargo by sea or air.

(5) **Goods in transit –** Insurance covering loss or damage to cargo caused during the course of land transit.

(6) **Engineering insurance (Machinery breakdown insurance) –** Insurance covering damage to

equipment arising from its operation, against damage caused by external unforeseen causes.

(7) **Engineering insurance (Contractors all risks insurance) –** Cover for contract works, their equipment and materials, against accidental damage.

(8) **Engineering insurance (Erection insurance) –** Cover for erection works of mechanical machinery, their equipment and materials, against accidental loss.

(9) **Engineering insurance (Heavy machinery)** – Cover for accidental damage to heavy machinery

(10) **Electronic equipment insurance** – Cover for accidental damage to low voltage systems and cover for the restoration of computerised data and the rental of alternative equipment.

(11) **Terrorism insurance** – Covering physical damage and loss of gross profits due to an act of terrorism. It can be purchased as excess insurance (above Property Tax compensation), or as full cover.

6.1.2.3 Health insurance

Short term health insurance is comprised of two classes of insurance: Personal Accident insurance and Illness and Hospitalisation Insurance (Travel insurance and cover for foreign workers)[7];

6.1.2.4 Other classes of insurance

(1) **Surety insurance, performance bonds and financial guarantee insurance**

The Group markets performance bonds that constitute an undertaking to indemnify the beneficiary in respect of a breach of an undertaking of the insured towards him. The policy is issued to the benefit of the contracting parties in the projects and is designed to ensure compliance with the undertakings of the contractors, contracting parties and additional significant entities in the performance of the project, as agreed between the parties.

Furthermore, the Group markets financial guarantees that constitute an undertaking to indemnify the beneficiary in respect of the breach of a financial undertaking of the insured towards them.

[7] The illness and hospitalisation class of business also includes medical expenses and dental insurance which are long term policies and these insurance covers have therefore been included in life assurance and long term savings

(2) Sale Law guarantee insurance

The Group markets insurance covering the investment of purchasers of housing units as derived from the Sale Law (apartments) – 1973 and the Sale Law (Apartments) (Ensuring the Investment of Apartment Purchasers) – 1974. This insurance complies with the directives of the Sale Law and its period of insurance is usually protracted (in excess of one year). The risk in these policies gradually decreases over the course of time as the construction progresses and the property is handed-over. In accordance with the directives of the Commissioner, recognition of profit from Company income in this class is deferred for a period of 5 years. The company issues these policies to contractors, either via direct marketing or via banks financing the construction project.

(3) Sick pay insurance

The Group markets sick pay insurance covering the liability of the insured (the employer) to his employees to pay sick pay. The employer's liability to pay is subject to legal directives (legislation, regulations, group agreements and extension ordinances) in respect of employees' rights.

The Group markets policies directly via the infrastructure of the companies covered in the pension fund of the Group, as well as via agents.

(4) Other risks

The Group issues policies covering various risks which are not included in the aforementioned classes of business and the covers are for insignificant sums. For example, the Company issues policies covering legal expenses.

6.1.3 Restrictions, legislation, regulation, and special constraints applying to the field of activity

The field of activity is subject to the provisions of the law applying to insurers, including the Supervision Law and the Insurance Contract Law, and the regulations made thereunder, as well as the directives of the Commissioner, as published from time to time.

Following are details of the central legislative limitations, applying to the Group in its various classes of general insurance.

For details of central legislation applying to the Group's overall activities see clause 8.2 hereunder.

6.1.3.1 Liability insurance

Hereunder are details of central legislative restrictions applying to the Group in its activities in the liability sector:

(1) The Insurance Contract Law

According to the provisions of the Insurance Contract Law, in liability insurance (which, in the law, is called "liability insurance"), the claim for indemnity payments does not proscribe so long as the claim by the third party against the insured has not proscribed. This law also stipulates that liabilities insurance also covers reasonable legal expenses which the insured must bear in respect of his liability, even if such expenses are in excess of the sum insured.

(2) The Ettinger Ruling ("The Lost Years")

In March 2004, the Supreme Court handed down a ruling recognising the right of a person who was injured (or his estate) to compensation in respect of the years of his lost earning ability, which are the years in which his working life expectancy was curtailed as a result of his death ("The Lost Years"). This ruling of the Supreme Court overturned a previous ruling whereby the injured person (or his estate) was not entitled to compensation in respect of this head of loss (Hereinafter: "The Lost Years Ruling" or "The Ettinger Ruling"). In December 2004 the Supreme Court dismissed an appeal that was submitted, asking for a further hearing on the ruling mentioned above. The subject was returned to the District Court, for a detailed hearing on the manner of calculating the compensation in respect of the lost years.

In a further ruling of the Supreme Court of February 2006, the Supreme Court established that the Ettinger Ruling also applies to outstanding claims and to accidents that occurred before the publication of the ruling, but these were not grounds for a new hearing on the rulings, including rulings by virtue of a compromise, handed down before.

In the course of 2006, in two different rulings, the Supreme Court established the method for calculating the compensation, in accordance with the Lost Years Ruling, taking into consideration that we must add to the savings component also income from pension payments in those cases where the deceased earned this income as part of his wages (contributions to pension). It was also provided that the calculation should include, where relevant, an addition of a major loss of the loss of father or mother services. Since this ruling relates to a small percentage of the portfolios in the sector, its effect on the overall number of claims, is relatively low. In 2008 the Supreme Court issued a further ruling according to which the inheritors of the deceased party should also be compensated for the loss of retirement pension from the National Insurance.

6.1.3.2 Property insurance

For main regulations applicable to this class, see clause 6.1.2.2 above.

6.1.3.3 Health insurance

Hereunder are main legislative restrictions applicable to the Group in its activities in the health insurance sector.

(A) Foreign Workers Law (Prohibition of Illegal Employment and Ensuring Fair Conditions) - 1991

According to law, an employer is required to organise medical insurance for foreign workers employed by him that includes a basket of services in accordance with the ruling of the Health Minister in the Ordinance.

(B) Supervision of Insurance Business (Insurance Contract Conditions) (Previous Medical Condition Directives) – 2004

The regulations regulate the manner of utilising the exclusion to the insurer’s liability of a previous medical condition, ensure appropriate insurance cover during the entire period of insurance and prevent underwriting when a claim for indemnity payments is lodged.

6.1.4 Changes in the scope of activity in the sector, profitability, and in the customers profile

Scope of activities

The Company is exposed to changes in the legal climate, *inter-alia*, in relation to D&O policies which it sells. In view of the developments in the judicial climate and the court rulings with respect to companies and their officers, an increased demand for insurance cover in the Professional

Indemnity sector, as well as for Directors' and Officers' Insurance cover is felt.

On 27th July 2010 Amendment No. 59 to the Courts Law was published in the official publications, according to which an economic department has been established in the Tel Aviv District Court in which judges will be appointed who have professional knowledge and experience in the field of company and securities laws, as specialist judges. It is not possible at this stage to assess the full effect of the establishment of the economic department on the profitability of the Company. In the estimation of the Company the establishment of the economic department will have an impact, at the very least, on the pace at which cases are handled, compared to the current situation.

Furthermore, in January 2011 the Streamlining Enforcement Procedures in the Securities Authority Law (Legislative Amendments) – 2011, was published, which sets out a new process of enforcement including a list of administrative breaches in relation to the three central laws which the Securities Authority enforces – the Securities Law, the Consultancy Law and the Investments in Mutual Trusts Law. It is not possible to estimate, at this stage, the effect of the legislation on the profitability of the D&O and professional indemnity classes of business. On the one hand, the fines imposed are not insurable and the aforementioned enforcement track is expected to reduce legal proceedings involving high costs to insurance companies. On the other hand, it is possible that there will be an increase in the frequency of claims against corporations and their offices which are filed at the same time as enforcement procedures of the Securities Authority.

The Company's estimation is forward looking information based on the activities of the Company in this sector. These estimations are liable to fail to materialise due to the manner and nature of the activities of the economic department in the court and the enforcement policy of the Securities Authority.

The demand for property insurance is affected by the national economic situation, *inter-alia*, as a result of the expansion of business activity, reflected in the establishment of new business and increased turnover of existing businesses.

According to the financial statements of the insurance companies, in the first nine months of 2010 there has been an increase of approx. 2% in income in the sector compared to the corresponding period in 2009 to a level of approx. NIS 5.1 billion.

Profitability

The pre-tax profit in 2010 stood at approx. NIS 72 million compared to a profit of approx. NIS 100 million in the corresponding period last year.

The reduction in profit in the other property classes in the sum of NIS 15 million (in 2010 a total of NIS 36 million compared to NIS 51 million in 2009) arising from a deterioration of the loss ratios and a decline in investment income.

The reduction in profit from the liability classes in the sum of NIS 13 million (in 2010 totalling NIS 36 million compared to NIS 49 million in 2009) arising from a release of the accrual compared to the same period last year due to large claims in the 2007 underwriting year and a decline in income from investment, and on the other hand an underwriting improvement in the closed years, mainly in the employers' liability and third party liability classes of business.

Whilst the home insurance sector, included in the property sector, is a product sold to private customers and is therefore price sensitive, the other classes of property are more influenced by the quality of service and underwriting professionalism of the Group seeing that it involves business customers that regularly consult with insurance consultants.

6.1.5 Changes in reinsurance arrangements in the sector

For a description of the changes in the reinsurance arrangements in the sector, see clause 6.6 below.

6.2 Products and services

This clause includes a general and summarised description of insurance products and insurance covers. The complete binding terms and conditions are those detailed in every policy and/or insurance contract, as the case may be. The description is only for the purpose of this report and shall not be used for interpretation of the policy.

6.2.1 Liability insurance

6.2.1.1 General

The liability classes cover the insured in respect of a liability which he may incur due to his legal liability, and particularly by virtue of the provisions of the Torts Ordinance.

Liability insurance may be arranged according to one of the two bases of indemnification:

Occurrence Basis – the object of the covered liability is the occurrence of the loss event during the period of insurance;

Claims made basis – the object of the covered liability under this basis is submitting a claim to the insurance company during the period of insurance, provided that the event that lead to submitting the claim also occurred within the period of insurance or within a retroactive period as defined in the policy.

6.2.1.2 The major products which the Group markets in the liabilities sector are as follows:

Employers' Liability Insurance – Cover for the insured in respect of his liability for bodily injury caused to an employee as detailed in clause 6.1.2.1 (1) above. This insurance can be purchased as an independent product or as additional cover in the framework of a business umbrella policy, a home policy or a contractors' all risks policy. Premiums are calculated as a function of several variables, of which the major ones is the number of employees, the annual payroll paid by the employer, the type of activity of the employer, the limit of liability required, the insured's claims history, the means of protection in existence in the business, etc. This insurance is generally arranged on an occurrence basis. A claim may be filed also after the period of insurance, within the period of proscription.

Third Party Liability Insurance – The Third Party Liability Insurance Policy covers the insured's legal liability in respect of bodily injury or property damage caused to a third party (other than due to the use of a motor vehicle), who are not employees of the insured, as detailed in clause 6.1.2.1(2) above. This insurance can be purchased as an independent product or as additional cover in the framework of a business umbrella policy, in the framework of a home policy or a contractors all risks policy. Premiums are calculated as a function of several variables, of which the major ones are the insured's occupation, the insured's scope of activity, the desired limit of liability, the insured's claims history, exposure to hazards or environmental risks, the existing means of protection in the business, etc. This insurance is generally arranged on an occurrence basis.

Professional Indemnity Insurance – This insurance covers the liability of a professional in respect of failure to perform his professional duty, which results in damage to a third party, as detailed in clause 6.1.2.1(4) above. This insurance can be purchased as an independent product or as a policy combined with a Products Liability policy. Cover in this policy does not cover wilful acts of the insured. The main variable that affects the premium is the insured's occupation.

The premium is affected also by the scope of activity, the desired limit of liability, years of experience in the profession, number of employees, fee income, claims history of the insured, the territorial limits of cover and the jurisdiction. All of the above have a substantial impact on the tariff of the premium. This insurance is arranged on a claims-made basis.

Product liability insurance – This insurance covers the liability of the insured in respect of damage caused by products manufactured by him, as detailed in clause 6.1.2.1(4) above. This insurance can be purchased as an independent policy or as a policy combined with professional indemnity insurance. The main variable which affects the premium is the insured's business. The premium is affected also by the scope of activity, exports activities, the required retroactive period, the desired limit of liability, the insureds claims history and the territorial limits of the cover. All of the above have a substantial impact on the premium rate. This insurance is arranged on a claims-made basis.

Directors and officers liability insurance – This insurance covers directors and officers in respect of a breach of a legal duty by the directors and officers during the period of insurance. This insurance is sold as an independent policy or as a policy combined with Professional Indemnity insurance to financial companies and hi-tech companies only. Premiums in this class are based on a number of variables. The main variables are: the desired limit of liability, the insured's history of claims, the company's field of activities, the composition of shareholders, the company's structure and financial strength and whether it is a public company or a private company. This insurance is arranged on a claims-made basis.

Liability insurance policies are usually for a period of up to 1 year.

6.2.1.3 Property insurance

Hereunder are the main products and services marketed by the Group in this sector:

6.2.1.3.1 Home insurance policies

The Group has three types of home buildings and contents insurance policies (based on the standard home policy as detailed in clause 6.1.2.2(1) above:

TOP HOUSE – A home buildings and contents insurance policy based on the standard home insurance policy.

The product contains a wide package of covers including electrical appliance repair service, home visit by a doctor, emergency services etc.

RIMON HOME – A home buildings and contents insurance policy based on the standard home insurance policy, covering named perils.

RIMON 2000 HOME – An extended policy based on the standard home insurance policy, providing "all risks" insurance for home buildings and contents, other than as specifically excluded.

In the aforementioned policies it is possible to purchase additional covers supplied by external service providers, as detailed in clause 6.7 hereunder.

The premiums are based on the insured's risks characteristics, including, *inter-alia*, the storey of the insured's home, the insured's claims experience and sum insured required. In order to assess the risk, the Company arranges periodic contents surveys and protection surveys.

6.2.1.3.2 Business insurance policies

The company has several business insurance policies (based on the property policies detailed in clause 6.1.2.2(2) above):

RIMON BUSINESS – An extended policy for businesses providing comprehensive cover for commercial buildings and "all risks" cover, other than specified exclusions, for commercial contents.

OFFICE 2000 – An office buildings and contents insurance policy providing "all risks" cover, including, *inter-alia*, extensions such as: cover for contents being transferred temporarily to another place, rent for an alternative office, restoration of documents and personal accident, other than specific exclusions.

RIMON 2000 SHOP IN MALL – An insurance policy for shops in shopping malls providing "all risks" cover other than specific exclusions. The cover includes, *inter-alia*, loss of profits, money insurance, personal accident insurance, electronic equipment insurance, cover for loss or damage to data storage means and restoration of data.

The premiums in these classes are set, *inter-alia*, in accordance with the insured's claims experience, the risk level of the business, the commercial strategy of the company and the required sum insured.

In order to assess the risk the Company conducts preliminary surveys from time to time.

6.2.1.3.3 Health insurance

Hereunder is a breakdown of the health insurance policies marketed by the Group in this sector:

(A) Overseas travel insurance policy

The overseas travel insurance policy provides a basket of insurance covers for insureds during their overseas stay. The basket includes, *inter-alia*, cover for illness, accidents and various medical events, as well as third party liability and luggage insurance.

The period of insurance in these policies is usually for a short period and stated in days, in accordance with the duration of the insured's stay overseas.

(B) Medical insurance for foreign workers and tourists

In order to address the special needs of foreign residents arriving in Israel to work (above and hereunder: "**foreign workers**") the government enacted special legislation in this regard requiring employers to arrange medical insurance whilst defining the minimum cover in the ordinance. The policy is marketed via authorised agents to private individuals and groups via their employers. The insurance includes, *inter-alia*, cover for funding hospitalisation expenses in a public hospital in Israel, including emergency room expenses (even if not accompanied by hospitalisation), operation room, surgeon's fees and anaesthetist, intensive care, medication in accordance with the basket of medications, consultancy and tests, funding transfer expenses of the insured in an ambulance from the place of an occurrence to a hospital and funding a flight ticket for the insured in the event that the insured is unable to work due to illness.

Furthermore, cover may be added to this policy for lump sum compensation in the event of death or permanent disability due to an accident, emergency dental treatment and corpse repatriation to the home country.

Similarly, the Group markets a medical expenses policy for tourists staying in Israel. This cover is similar in principal to the insurance provided to foreign workers, however is limited to a maximum amount.

(C) Personal accident policies

Personal accident insurance provides compensation for a fixed amount in accordance with the insured's preference due to accident occurrences resulting in disability (temporary and/or permanent) and/or death of the insured. Furthermore, the cover sometimes provides weekly benefits in respect of incapacity to work as a result of an accident.

The period of insurance in these policies is usually annual. The insurance is usually sold to private individuals and sometimes to groups.

6.2.1.3.4 Other classes of insurance

For details of main products, see clause 6.1.2.4 above.

6.3 Breakdown of data about products and services

The following table presents data on the distribution of the Group's activity in the liability insurance sector (in NIS thousand):

	2010	2009	2008
Gross premiums (including fees)	775,153	777,996	763,051
Net retained premiums	364,062	376,973	439,128
Payments and changes to liabilities in respect of insurance contracts, gross	487,540	441,911	472,682
Payments and changes to liabilities in respect of insurance contracts, net retained	209,175	239,732	291,093

Split of paid claims for home insurance, gross (in NIS 000's):

	2010	2009	2008
Burglary	29,417	35,725	41,828
Water damage	19,574	16,161	34,086
Fire	12,449	10,959	15,112
Natural perils	7,720	7,834	8,752
Other	37,149	36,113	17,977
Total paid claims	106,309	106,792	117,755
Changes to liabilities in respect of insurance contracts, gross	3,498	(416)	5,642
Total payments and changes to liabilities in respect of insurance contracts, gross	**109,807**	**106,376**	**123,397**

In 2010, there was no significant change in paid claims compared to the corresponding period last year.

6.4 Customers

In the liability insurance sector the Group insures primarily business customers, private customers and institutional customers. The Company conducts individual underwriting for each insured other than old collectives of mortgage banks. In the health insurance class included in this sector the Group focuses predominately on personal lines insurance.

The Group does not have any one customer in the liability insurance sector whose income constitutes 10% or more of the Group's total income and the Group is not dependent on a single customer or on a small number of customers in this sector. Furthermore, the Group is not aware of any fixed characteristics of its customers in the general insurance sector.

Distribution of gross premiums from customers *:

Type of Customer	Percentage of total income	
	2010	**2009**
Collectives and large enterprises	26%	24%
Private and small business customers	74%	26%
Total	**100%**	**100%**

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* The distribution in the liability sector was carried out in accordance with limits of liability.

The profile of the Group's insurance portfolio is small business customer orientated.

The rate of renewals in the home insurance sector in 2010 was approx. 92% and in 2009 the rate of renewals was 88%.

Premiums per years of loyalty (comprehensive home insurance only)[8]

Number of Years of Loyalty	Premiums in NIS Thousand			Percentage of Total Income		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
No Loyalty	47,032	41,358	49,894	19%	17%	22%
One Year Loyalty	39,606	29,883	45,358	16%	13%	20%
Two Years Loyalty	34,655	32,751	34,018	14%	14%	15%
Over three Years Loyalty	126,244	135,069	97,519	51%	57%	43%
Total	**100%**	**239,061**	**226,789**	**100%**	**100%**	**100%**

6.5 Marketing and distribution

The Group markets its insurance policies through independent agents and pays them sales commissions of different types mainly as a percentage of the premium.

8 The data does not include mortgage bank business

In the property insurance class the Company has connections with agencies owned by banks, for mortgage insurance. Comprehensive home insurance for mortgage borrowers is partially sold via mortgage banks in group policies.

The Company has one no whose scope of activity in the sector constitutes more than 10% of the total activity in the sector.

For a description of the subject at the Group level, see clause 8.7 below.

Hereunder are details of the commission rates (including VAT) from the gross premium in the field of activities:

	2010	2009	2008
Rate of commissions from gross premiums	21.3%	20.6%	21.0%

6.6 Reinsurance

The Group's agreements with reinsurers in all branches of insurance, including the liability insurance sector are renewed annually.

In the field of activity, the Group arranges general excess of loss treaties with its reinsurers. The liability sectors - Employer's Liability, Third Party Liability, Product Liability and Professional Liability insurance sector are all reinsured in one excess of loss reinsurance contract which is based on the year of loss. In the Directors and Officers Liability Insurance class there is a separate reinsurance treaty, which is also of the excess of loss type, based on the underwriting year of the policy. Effective from 2011 the Professional Indemnity and Products Liability classes of business have been amalgamated into a single treaty with the D&O class of business.

In the property insurance sector the Company arranges quota share and excess of loss treaties protecting the Company against catastrophes.

In certain businesses, where the limits of liability deviate from the limits allowed in reinsurance contracts, or where the required cover is not included in the reinsurance agreements, specific (facultative) reinsurance is purchased. The type of reinsurance purchased (proportional / non-proportional) varies in accordance with the nature of the risk and the supply of cover in the reinsurance market.

In the proportional treaties, in the classes containing a catastrophe element, reinsurers limit the payment in respect of a single occurrence by an agreed amount of the sum insured covered.

In mortgage bank business, specific (facultative) insurance is purchased in the majority of cases.

For a description of Group arrangements with reinsurers with specific reference to a multi-line reinsurance treaty, see clause 8.4 hereunder.

6.6.1 Liability insurance

The S&P ratings of the reinsurers with whom the Company arranges treaties in the liability sector in 2010 and 2009 are AA, AAA, A-, A+ and A.

The percentage cession of the Group's risks to its reinsurers in the field of activity is estimated to be approx. 32% of the premium as of the date of the report.

Reinsurers whose share in the premium in the sector constitute over 10% of the total reinsurance premiums in the sector (in NIS thousand) in the periods described in the statements:

			2010		2009		2008	
Name of reinsurer	**S&P rating**	**Country**	**r/I premium**	**% of total r/I premium**	**R/I premium**	**% of total r/I premium**	**r/I premium**	**% of total r/I premium**
Everest Reinsurance Co.	AA-	USA	---	---	---	---	15,212	19%
Lloyd's	A+	England	18,929	17%	24,322	22%	---	---
Swiss Reinsurance Company	A+	Switzerland	42,534	37%	42,956	39%	---	---
Trans Re Zurich	AA-	Switzerland	---	---	---	---	44,936	57%

Distribution of reinsurance premiums in the sector:

S&P rating summary group	**Premium registered to the credit of the reinsurer (in NIS thousand)**			**Percentage of total for class of business**		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
A- and above	104,765	102,680	68,761	92%	94%	87%
BBB+ to BBB-	197	365	418	---	---	---
Lower than BBB-	8,897	6,505	9,943	8%	6%	13%
Total	**113,859**	**109,550**	**79,122**	**100%**	**100%**	**100%**

6.6.2 Other property insurance

The S&P ratings of the reinsurers with whom the Company arranges treaties in the liability sector in 2010 and 2009 are AAA, A-, A, A+, AA-.

The percentage cession of the Group's risks to its reinsurers in the field of activity is estimated to be approx. 55% of the premium as of the date of the report.

Reinsurers whose share in the premium in the sector constitute over 10% of the total reinsurance premiums in the sector (in NIS thousand) in the periods described in the statements:

			2010		2009		2008	
Name of reinsurer	S&P rating	Country	r/I premium	% of total r/I premium	R/I premium	% of total r/I premium	r/I premium	% of total r/I premium
Everest Reinsurance Co.	AA-	USA	43,076	14%	44,612	15%	43,411	18%
Swiss Reinsurance	A+	Switzerland	49,644	17%	52,773	18%	---	---

Distribution of reinsurance premiums in the sector:

S&P rating summary group	Premium registered to the credit of the reinsurer (in NIS thousand)			Percentage of total for class of business		
	2010	2009	2008	2010	2009	2008
A- and above	286,465	283,979	234,432	96%	97%	96%
BBB+ to BBB-	2,573	259	2,315	1%	---	1%
Lower than BBB-	8,193	7,235	8,054	3%	3%	3%
Total	**297,232**	**291,473**	**244,801**	**100%**	**100%**	**100%**

As customary in contracts of this type, the Group does not receive ceding commission from the reinsurers (except in facultative placements).

6.7 Suppliers and service providers

In the general insurance sector the Group has agreements with various service suppliers in connection with the Company's liability towards policy purchasers.

In the general insurance sector the Group predominately purchases associated services from lawyers, investigators, doctors, medical institutions, auditors, engineers, and other suppliers, both for settling claims in the liability sector as well as to supply service that the insured purchases as part of the insurance policies including plumbing repair services, domestic electrical appliance repairs and home visits by a doctor.

In the health insurance sector the main suppliers of the Group are doctors, clinics and private hospitals for the supply of medical services in accordance with the policies. In addition the Group has agreements with several medical management service suppliers for operating the network of various services to insureds. The agreements with the aforementioned suppliers include undertakings by the supplier to provide the service and payment arrangements in one of the two following manners: payment for each activity or a fixed payment derived, *inter-alia*, from several insureds in a group (capitation). Furthermore, the Group has arrangements with two international networks for providing medical services overseas.

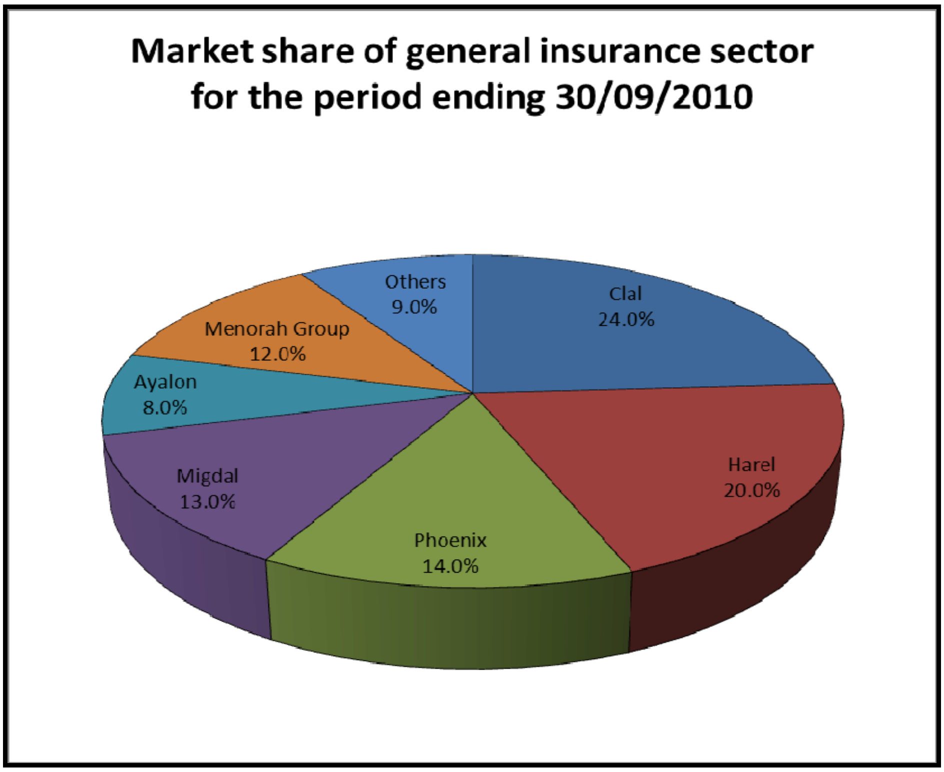
The Group is not dependent on any one supplier in this field of activity.

For a description of the subject at the Group level, see clause 8.5 below.

6.8 Competition

In this sector the Group competes with all the insurance companies in the industry. In accordance with data from the Insurance Companies Association, the three largest insurance companies that operate in the liabilities line are the Harel Group, the Clal Group and the Phoenix Group. According to this data, the share of the three largest companies in the sector in the first nine months of 2010 was approx. 58% of the total gross premiums, compared to approx. 55% in the corresponding period in 2009.

In the first nine months of 2010, the Clal Group led all the others in the sector and held a market share of approx. 24%, similar to the corresponding period in 2008. The Group's share in the sector was approx. 12% and it is in fifth place, compared to fourth place in 2009 with a similar market share.



Competition in the sector is affected both by the demand for products by the various business entities in the country, as well as the supply and quality of products of the insurance companies. The reinsurance market and the changes occurring therein in this class of insurance are also a central factor in competition. Additionally, in the insurance of large enterprises and in the insurance of directors and officers, the insureds are represented by insurance consultants. This emphasises the importance of the quality of cover and, at the same time, it creates pressure for lowering prices. The insurance products included in the property sector such as marine, aviation, engineering and electronic equipment insurance demand specific expertise and the provision of complex cover and hence the competition therein is based on the quality of insurance cover that the Group provides.

The factors that strengthen the Group’s competitive position are: the sale of liability policies (particularly employers liability and third party liability) together with other products of the Group (for instance business policies); the Group’s reputation in adapting the product to the needs of the insured, and providing high standard services to insureds, including efficient management of settlement of claims. Furthermore, the Company has underwriting models and procedures which help preserve the desirable level of profitability, which is monitored by systems that allow meticulous control of and updating of current results.

7. Financial services and products

7.1 General information about field of activity

7.1.1 General

The Group's activity in the sector of financial services and products is carried out by Menorah Mivtachim Finance Ltd., a subsidiary of the Company.

Menorah Mivtachim Finance operates through its subsidiaries, Menorah Mivtachim – Mutual Funds Ltd. (Hereinafter: "**Menorah Mivtachim Funds**"), Menorah Mivtachim Management of Investment Portfolios Ltd. (Hereinafter: "**Menorah Mivtachim Investments**") and Menorah Mivtachim Underwriting and Management Ltd. (Hereinafter: "**Menorah Mivtachim Underwriting**") in the services of management of financial assets and marketing for investment (management of mutual funds and management of portfolios), underwriting, investment banking, and raising of capital.

7.1.2 Structure of the field of activity and the changes occurring therein

The financial services and products sector has been characterised in the last few years by high volatility, as a result of political and economic events in Israel and worldwide, which bring about changes in the prices of securities in the regulated markets and stock exchanges, affect the volume of activity in the capital market and consequently affect the results of the operations of Menorah Mivtachim Finance, its assets and the results of its operations.

The financial services and products sector is characterised by intensive regulation and is affected by the decisions of the different regulators in the capital market including The Securities Authority, The Tel Aviv Stock Exchange Ltd. (Hereinafter: "**the stock exchange**"), The Capital Market Division at the Ministry of Finance, The Bank of Israel etc.

In the framework of the Bachar Reform many laws were amended (see details in clause 3.1.2.1 above and clause 8.2 below), among them: the Joint Investments Trust Law, the Regulation of Investment Marketing and Advice and Management of Investment Portfolios Law 5755-1995 (Hereinafter in this clause: "**The Consultancy Law**"), and regulations were made such as Joint Investments Trust Regulations 2005-5765 (Hereinafter: "**The Distribution Regulations**"). These laws and regulations established, *inter-alia*, the separation of mutual funds from the banks, regulating the payment of commissions on the distribution of financial products, and turning the banks into objective advisors who distribute financial products.

In the framework of the implementation of the Bachar Reform, in the course of the last few years, the majority of the banks sold the activity of management of mutual funds which they engaged in. The purchasers of this activity were mainly insurance companies, private entities and investment funds from abroad. In that framework the Group purchased the greater part of the activity of management of the mutual funds of Bank Mizrachi-Tefachot Ltd. and the activity of the management of the mutual funds of Union Bank of Israel Ltd.(see clauses 7.10.1 until 7.10.2 below).

The sale of the funds as aforementioned, as a result of the implementation of the Bachar Legislation and the provisions of the Consultancy Law (see clause 3.1.2.1 below), are aimed to encourage the banks to advise their customers to invest in mutual funds on the basis of objective data (best advice). Nonetheless, the banks are promoting competitive channels of investment, the income from which may be higher than their future income from commissions on the distribution of mutual funds.

Further to the Bachar Reform, and all its components, the mutual funds market is characterised with greater fluctuation than in the past, due, *inter-alia*, to the number of players in the market, the development of the exchange traded certificates market, as well as the objective advice procedure, as detailed above. At the end of 2007, an Amendment of the Joint Investments in Trust Law came into force, a consequence of which several new products were added to the funds sector, the financial fund, FOFs and the tracking fund. The financial fund is defined as an alternative to a bank deposit and is a product characterised by low fluctuation. In 2008 against the backdrop of the capital market crisis, the financial funds were the most prominent product in the mutual fund sector and in this year the financial funds in the entire industry raised NIS 32 billion and the share of the financial funds constitutes approx. one third of the funds in the industry. In 2009 in light of the low interest in the market owners of units in the financial funds redeemed a total of approx. NIS 14 billion and the share of the financial funds declined to 14%. In 2010 the share of the financial funds declined to only 11.5%. At the end of 2009 a further product – the "Tracking Funds" started to become popular – the Tracking Funds follow share and bond indices and are a product that competes with the exchange traded funds. The Tracking Fund market raised only approx. NIS 3 million in 2009. In 2010 in light of the legislation in the field, there was a merely slight increase in the value of the assets in the tracking funds.

During the course of the year 2010 the capital market continued to recover and the various corporations started raising funds in the local market. In addition, against the backdrop of the publication of the recommendations of the Hodak Committee and tightening the parameters for the provision of credit by the institutional entities, the trend of medium and small companies in publishing prospectuses expanded including the provision of financial contingencies and/or liens on assets as part of the prospectus conditions. As a result of the recovery of the capital market, several new underwriting entities were established. Similarly, due to the various restrictions applicable to underwriting entities connected to banks and institutional entities there has been a trend of the strength of underwriting entities connected to private nostro entities increasing.

Competition in the financial services and products sector is continuous and fierce, both from the banking corporations and from the non-banking entities.

7.1.3 Restrictions, legislation, regulation, and special constraints applying to the field of activity

The activity of the financial services and products sector is subject to heavy regulation and the obligation of obtaining permits and licences from different state agencies primarily the Securities Authority and the Tel Aviv Stock Exchange. For details see clause 7.9 below.

7.1.4 Changes in the scope of activity in the sector and in its profitability

The Group's activity in the sector started at the end of 2005. After 2008 in which a slowdown in the activity commenced, the years 2009 and 2010 were characterised by a significant increase in the Group’s activities in this sector both in the scope of capital raising as well as an increase in the value of the managed assets – as a result of the significant increases that occurred in the various financial markets. The Group's activity in this sector is still not significant in monetary terms, as compared to the Group's activity as a whole.

Management of portfolios and mutual funds – The Group purchased the activities of mutual funds (as detailed in clause 7.10.1 and 7.10.2 above). In the management of portfolios, the scope of the managed assets increased during 2010 by a significant rate (approx. 36%) and this due to obtaining new customers (corporate and private). The said increase is despite the neutralisation of the assets of the Omega Advanced Study Fund (formerly Engineers Advanced Study Fund) that was transferred to its management and the control thereof was purchased by Menorah Mivtachim Finances at the end of 2008. In 2010 there was an increase of 25% in the value of the assets managed by the mutual funds.

Underwriting – Menorah Mivtachim Underwriting started its activity at the end of 2005. In 2006 and 2007 Menorah Mivtachim Underwriting consolidated its organisational and operational position; it recruited more professional employees and established its reputation in the capital market. Consequently there was an ongoing increase in the activity of Menorah Mivtachim Underwriting in the years 2006 and 2007. As a result of the crisis in the capital market there was a significant reduction in the scope of underwriting activity starting from the second half of 2007 which continued to gather pace during 2008. Due to the recovery of the financial markets and the prospectus sector in 2009, a significant increase in the scope of activities of Menorah Mivtachim Underwriting commenced in the second quarter of 2009 in relation to the scope of activities in 2008. As aforementioned in 2010 the trend of recovery in the capital market continued, as a result of which there was a further increase in the activities of Menorah Mivtachim Underwriting relative to the scope of activities in the year 2009.

7.1.5 Developments in the markets of the field of activity or changes in the characteristics of customers

Management of portfolios and mutual funds – Further to the Bachar Reform and severing the banks from the ownership of mutual funds, there was a material change in the channels of distribution of mutual funds as well as in other financial products. The investment advisors and the models for rating mutual funds in the banks turned into an important key in the distribution of mutual funds. Furthermore there has been an increase in the significance and investment in public advertising of the different products of the entities that purchased the said activity from the banks.

Underwriting – As a result of the changes in the Israeli capital market and its development in recent years, many corporations started raising debt capital through the capital market (issues of corporate bonds). The raising of debt capital by corporations (both by private mobilisation as well as public issues) brought about a significant increase in the volume of activity in this sector. It should be noted that in most cases (not always) underwriting is not provided in private placements of bonds, and only a management commission is paid. As aforementioned, due to the recovery of the financial markets in 2009 there was a significant increase in the underwriting and distribution of securities in 2009 compared to 2008, a trend which also continued in 2010 in which there was a further increase in the scope of underwriting and distribution activities. It should be pointed out that due to the low interest in the banking system, there was a trend of an increase in the scope of the participation of the general public in prospectuses, whilst in a small number of the prospectuses a preliminary institutional stage for the prospectus was not conducted. Furthermore, due to publication of the Hodak Committee recommendations and hardening of the parameters for providing credit by the institutional entities as aforementioned, the trend of medium and small (in the main) companies issuing prospectuses including the provision of financial contingencies and/or liens on assets as part of the conditions of the prospectus expanded.

7.1.6 Critical factors of success in the field of activity and the changes occurring therein

Management of portfolios and mutual funds – The critical factors of success are, *inter-alia*, the conditions in the capital market in Israel, achieving positive returns for customers while preserving a reasonable level of risk, a successful mix of marketing and advertising and maintaining the level of service provided to customers.

Underwriting – The critical factors of success are establishing the reputation of the underwriting companies and their executives, ensuring a professional and capable team to provide inter-sectorial creative solutions (legal, economic and financial perspective) to the varying needs and appetites of the issuers on the one hand and the investors on the other hand, accessibility to sources of financing to support the underwriting activities and financial strength, the existence of an active ex-bank credit market having sufficient liquidity, the alternative prices of capital raising (including in international markets) as we as close working relationship with institutional investors.

7.1.7 Major entrance and exit barriers of the field of activity and the changes occurring therein

The major entrance barriers into the field of activity are: the need to comply with the conditions required by law for obtaining licences and permits for activity in the sector, as well as requirements of minimum shareholders' equity and professional indemnity insurance as detailed in clause 7.9.1 below, as the case may be.

Furthermore the underwriting activity requires specialisation, expertise, reputation, deposit duty and financial strength.

The main exit barrier in the activity of management of mutual funds are the limitations prescribed in the fund's agreement with respect to its winding up, or by order of the court, and subject to the provisions of the Joint Investments in Trust Law.

The main exit barrier in the underwriting activity is the requirement to maintain professional indemnity insurance for a period of seven years after providing the underwriting undertaking, and the underwriter's responsibility in respect of misleading information in the prospectus for the periods specified by law.

7.1.8 Substitutes to the products of the field of activity and the changes occurring therein

The substitutes to the services of underwriting and raising of capital, offered by the Group, are raising of funds from banking corporations or other financial institutions, as well as issues of securities that are executed without underwriting or advice.

The major substitutes for the management of assets services provided by the financial services sector are: self-management of assets, in which the customer decides how to manage his assets, independently or with the assistance of one of the advisors in a bank, and regular and structured deposits, as well as savings plans of the banking system.

The main substitute to the services of the mutual funds is basket certificates. This branch started by linking to "simple" indices (T-A 100, T-A 25), and developed into selling more sophisticated products, that compete directly with the mutual funds.

There is also interchangeability between the various products of the sector, so that customers may purchase management of assets services in the capital market either by way of getting portfolio management services, or by the acquisition of units in mutual funds, so that the mutual funds constitute a certain substitute for the services of the management of investment portfolios.

7.1.9 Structure of competition in the field of activity and the changes occurring therein

As mentioned above, competition in the sector is fierce and ongoing, both from the various banking institutions, including foreign banks that operate in Israel, as well as the non-banking entities including companies held by insurance companies.

Underwriting activity - This field of activity is characterised by high competition in view of its high income and a relatively small number of dominant players. The material entities in this class are the underwriting companies in which the banks are partners, the underwriting companies of the large insurance companies, investment houses and large private nostro entities. Similarly, due to the various restrictions applicable to underwriting entities connected to banks and the institutional investors, there was an increase in the strength of underwriting entities connected to private nostro entities. For details on the reform in the method of underwriting as well as regards the Supervision of Financial Services Regulations and the possibility effect of the aforementioned on the activities of Menorah Mivtachim Underwriting, see clause 7.6.3 below.

The management of portfolios and mutual funds activities – The sale of the funds turned the banks into distributors of mutual funds instead of producers in the past. The sale of the funds increased the competition and focused it on attaining surplus returns for the customer vis-à-vis the risk, where the yield turned into a central consideration from the point of view of the distributors in the framework of their advice to customers. Another factor of competition which is expected to enter this market is the foreign mutual funds, in accordance with the provisions of Draft Amendment No. 13 to the Joint Investments in Trust Law.

For details on this matter and a number of further changes in the mutual funds sector, see also clause 7.9.1(D) hereunder.

For details on competition in this field of activity, see also clauses 7.6.1 and 7.6.2 below.

The direct consequences of the global crisis in capital markets are affected by the asset management industry in Israel in general and the portfolio management industry in particular. Most of the players in the said industry started conducting negotiations on mergers and/or acquisitions. The profitability estimates in the market in this context are that in light of the fact that the management fees are declining there is effectively no advantage in running a small investment house and such entities are therefore seeking mergers as mentioned in the above clause.

7.2 Products and services

Hereunder is a description of the main products and services, provided by the Group in this field of activity:

7.2.1 Investment portfolio management

In the framework of this activity, the Group engages in the management of investment portfolios in a broad spectrum of investment channels, which are adapted to the needs of the customer, and the said securities and assets are assumed to include units in mutual funds or other financial assets that are managed by the Group or through it, subject to obtaining the consent of the customer.

For the purpose of providing portfolio management services, Menorah Mivtachim Investments signs written agreements with customers, in which the customer's needs and the investment policy for the customer's portfolio are defined. Terms of agreement are also established, as well as the commissions to which the Group is entitled in respect of its services.

The activity of management of portfolios is carried out in practise through managers of investment portfolios in accordance with the needs of the customers and the investment management policy outline and this in the framework of the investment management rules which are determined by the investments committee of Menorah Mivtachim Investments.

Hereunder are details about the total assets managed by Menorah Mivtachim Investments (in NIS millions):

	31.12.2010	31.12.2009	31.12.2008
Total managed assets	3,872	4,099	3,006
Total assets managed by Menorah Mivtachim Investments in mutual funds of the mutual funds company (outsourcing)	139	86	54
Total assets managed by Menorah Mivtachim Investments for the Company's customers in mutual funds that are not part of the mutual funds that are managed by Menorah Mivtachim Investments	85	3	2
Total assets managed by Menorah Mivtachim Investments for Omega Advanced Study Fund managed by Menorah Mivtachim Engineers which is controlled by Menorah Mivtachim Finances	2,564	2,305	1,853

7.2.2 Management of mutual funds

A mutual fund is established under an agreement in accordance with the Joint Investments in Trust Law, in accordance with an agreement between the fund manager and a trustee. The agreement stipulates, *inter-alia*, the period of existence of the fund, the investment policy of the fund, the classification of the fund as an open fund or a closed fund and other particulars with respect to the price of the fund manager, the trustee's fees etc. The units in a mutual fund are sold under a prospectus that is valid for one year from the date of its publication or for a shorter period as published in the prospectus.

Menorah Mivtachim Funds manages as of the date of the balance sheet 70 mutual funds (4 new funds were established during the course of 2010). The mutual funds differ from each other, *inter-alia*, in the investment policy, in particulars related to the classification of the fund for the purpose of publication as well as or in their tax classification. Taking decisions relating to management of the investment portfolio of the management of the funds is carried out by employees who hold investment portfolio management licences as required in the Joint Investments in Trust Law. In some of the funds, the fund manager cooperates with external investment managers, who manage the investment portfolio of the funds under their management.

The income of Menorah Mivtachim Funds from the management of mutual funds derives mainly from management fees collected by every fund. There is also a possibility for collection of a supplementary payment – a onetime commission collected in the funds management by the fund manager, if collected, when purchasing units in the fund.

Hereunder are details about the value of the managed assets of the mutual funds managed by Menorah Mivtachim Funds (in NIS million):

	31.12.2010	31.12.2009	31.12.2008
Value of managed assets	7,429	5,954	4,383
Total assets managed by external portfolio managers	479	600	157
Total assets managed by portfolio managers in the Group	139	79	54

Hereunder are data about the mutual funds managed by Menorah Mivtachim Funds:

	31.12.2010		31.12.2009		31.12.2008	
Channel of investment	**% Channel of total Assets**	**Sum invested in channel (in NIS Million)**	**% Channel of total Assets**	**Sum invested in channel (in NIS Million)**	**% Channel of total assets**	**Sum invested in channel (in NIS Million)**
Shekel funds including monetary	13.80	1,027	31.27	1,862	52.54	2,307
Bond funds	73.50	5,461	56.36	3,356	34.14	1,496
Foreign currency funds	3.20	239	4.51	268	9.34	409
Share funds	8.20	608	5.79	345	1.27	55
Overseas share funds	1.30	94	2.08	123	2.64	116

7.2.3 Underwriting activity

In the framework of this activity the Group engages in support, management and underwriting of private and public issues in Israel as well as providing services of brokerage and distribution of securities and other financial products. Menorah Mivtachim Underwriting also engages in investment banking.

In the framework of providing management and underwriting services for public offerings in Israel (as distinguished from private placements) Menorah Mivtachim Underwriting is required in those offerings in which it acts as an underwriter (as well as the other underwriters participating in public offerings) to sign the prospectus of the public offering and to ensure the acquisition of the securities offered in the prospectus (together with the rest of the underwriters in the consortium of underwriters) in respect of which no prior commitment was given by institutional investors and were not subscribed by the public.

It should be noted that by signing a prospectus, Menorah Mivtachim Underwriting becomes liable towards those who purchased securities from the offeror and towards those who purchased or sold securities during floor or non-floor trading in respect of losses they might incur due to misleading information in the prospectus[9]. This liability of Menorah Mivtachim Underwriting exists whether Menorah Mivtachim Underwriting acts as manager of the offering and the consortium of underwriters or if it participates in an offering where the manager of the consortium of underwriters is another underwriting company[10].

In consideration of providing the services as aforementioned, Menorah Mivtachim Underwriting receives underwriting commissions. In those offerings where Menorah Mivtachim Underwriting services as one of the managers of the offering, it is usually also entitled to part of the management commission. In certain cases participation commissions are paid to underwriters who are not managers of the consortium as well as success commissions as determined between the underwriters and the issuing company.

When Menorah Mivtachim Underwriting participates in providing management and advice services in private placements, Menorah Mivtachim Underwriting supports the finalisation of the structure of the offering, preparation of the offering documents (legal documents, presentations and various distribution documents). The pricing of the securities offered in the offering and management of the tender to investors (in the event that Menorah Mivtachim Underwriting is the coordinator of the offering).

In consideration of providing the services as aforementioned Menorah Mivtachim Underwriting receives a commission from the issuing

9 In accordance with clause 33 of the aforementioned Securities Law, the said liability shall not apply, *inter-alia*, to a party that proved all adequate measures were taken to ascertain that there is no misleading information in the prospectus, in the opinion, in the report or in the approval, all as the case may be, and that it believed, in good faith, that indeed there was no such misleading information.

10 In accordance with clause 33 of the Securities Law, release of liability in the event of misleading information in a prospectus applies, subject to several exceptions, in respect of an underwriter who authorised another underwriter to conduct the due diligence and did not conduct it himself.

company whose amount is determined in negotiations between Menorah Mivtachim Underwriting and/or the other managers of the offering and the issuing company.

In the framework of the issues (private and public) where Menorah Mivtachim Underwriting takes part as a leading underwriter (whether as an underwriter or as a distributor), Menorah Mivtachim Underwriting supports the company from the initial stage of determining the structure and the pricing of the issue (advise for the decision making in respect of the types of the securities which will be offered to the investors, paying attention to the capital structure of the issuing company, its needs and its future plans), taking into consideration and advising as to the general legal form of the transaction (in public offerings also performing a due diligence procedure of the accounting and legal aspects), providing assistance and support in preparing presentations and various distribution documents, and sometimes even assisting in the rating procedure of the issuing company. In the framework of the issuing process, representatives of Menorah Mivtachim Underwriting accompany the managers of the company in presentations for the institutional investors (the road show) and stay in constant contact with the institutional market for the purpose of indications as to the expected orders for the offering.

7.3 Breakdown of income and profitability of products and services

In the financial services and products sector there is no one group or products the income from which constitutes 10% or more of the total income or profitability of the Group.

7.4 Customers

The Group has a broad spread of customers and the Group has no one customer the income from whom constitutes 10% or more of the total income of the Company.

The Group is not dependent on any single customer or on a small number of customers whose loss might materially affect the financial services and products sector.

7.4.1 Management of investment portfolios

There are two major types of customers in this sector – private customers (mainly households) and corporate customers (such as business firms, provident funds, mutual funds, continued education and local authorities). The nature of the agreement is continuous; however each one of the parties reserves the right to discontinue the agreement.

As of the balance sheet date, the volume of assets managed for private customers is approx. 10% of the total volume of the portfolios, while the volume of assets managed for institutional customers is about 90%.

7.4.2 Management of mutual funds

Since the purchase of a unit of a fund is carried out through members of the stock exchange, the fund manager has no information about the unit owners.

7.4.3 Underwriting activity

The Group's customers in the underwriting activity and raising of capital are mainly public companies who wish to raise capital, either by private capital raising (usually from institutional investors) or by way of raising capital from the public under a prospectus.

7.5 Marketing and distribution

7.5.1 Management of mutual funds

The main marketing channels are as follows:

(1) Marketing and distribution of units of the mutual funds is executed with the investment consultants of the banking institutions. The Group also acts to enhance awareness of its products and services and to provide information and marketing material accordingly. The Group has distribution agreements with most of the banks in Israel, in consideration of payment of distribution commissions at the maximum rate which the banks are entitled to collect in accordance with the provisions of the distribution regulations. (For in depth details about the distribution agreements see clauses 7.10.1, 7.10.2 and 7.10.3 below).

(2) Advertising in all the media channels.

7.5.2 Investment portfolios management

The main marketing channels are as follows:

(1) Marketing and distribution via referral from the Group's insurance agents.

(2) Marketing and distribution via referral from Menorah Mivtachim Pension Ltd.

(3) Marketing and distribution through brokers, such as external investment consultants.

(4) Direct approach to customers.

(5) Holding professional/marketing conferences.

(6) Advertising in all channels of media.

7.5.3 Underwriting activity

The Company management along with the entire staff of the Company engages in securing business for the Company, by using their broad knowledge with companies in need of their services and the close and positive bond with all the institutional entities in the market.

7.6 Competition

As mentioned above, competition in the financial services and products sector is consistent and fierce. The competition between the various entities is mainly based on the return achieved (vis-à-vis the level of risk), the amount of management fees, the commissions in respect of the different services and the quality of service.

Sources of profitability in competing investment houses of the Group arises from the nostro activity of the investment house and from activities in the field of exchange traded funds. In the financial group there are no nostro activities and the Group does not own any exchange traded fund management company.

7.6.1 Management of mutual funds – According to the information published by the Zahav Information Fund Ltd., as of 31st December 2010 there are 27 mutual funds management companies in Israel, which manage a total of 1,246 mutual funds. As of 31st December 2009, there were 31 mutual funds management companies, which manage a total of 1,202 mutual funds.

According to the information published by the Zahav Information Funds Ltd., as of 31st December 2010, Menorah Mivtachim Funds is ninth in size and its market share at that date is approx. 4.8%. As of 31st December 2009, Menorah Mivtachim Funds was eighth in size and its market share at that date was approx. 4.5%.

The major competitors operating in the mutual funds sector and in this line, *inter-alia*, are: Psagot Mutual Funds Ltd., Harel-Pia Mutual Funds Ltd., Excellence Nessuah Mutual Fund Management Ltd., Migdal Mutual Funds Ltd., I.B.I. Mutual Funds Management (1978) Ltd., Dash Mutual Funds Ltd., Meitav Mutual Funds Management (1982) Ltd., Clal Finances Mutual Funds Ltd. and Altshuler-Shacham Mutual Funds Ltd.

7.6.2 Investment portfolio management – Numerous managers of investment portfolios operate in Israel. The major ones are: portfolios management companies associated with banks, as well as non-banking entities such as: Psagot Ofek Investment Management Ltd., Migdal Stock Market Services Ltd., Clal Finance Batucha Investment Management Ltd., Harel Finances Commerce and Securities Ltd., Dash Securities and Investments Ltd., Excellence Nessuah Consulting and Management Ltd., Analyst Exchange and Trading Securities Ltd. and Altshuler Shacham Ltd.

In the absence of an official publication, the Group cannot estimate its share out of the total assets of the portfolios managed in Israel. However, as of the balance sheet date, the total assets of the portfolios managed by Menorah Mivtachim Investments were insignificant.

7.6.3 Underwriting services – Competition in the underwriting branch is very fierce, due to the fact that this is a relatively small market. Hence in light of the significant changes which occurred in the market during the years 2009-2010 the proportional share of the Group in the underwriting sector cannot be accurately assessed.

To the best of the Group's knowledge, due to the crisis in the capital market the number of lead underwriters in the underwriting market in Israel has declined and stands at only approx. six to eight. Nonetheless, to the best knowledge of the Group there has been an increase in the number of small underwriters as well as underwriters of nostro entities who do not lead transactions, and this, *inter-alia*, due to the large number of prospectuses which were not underwritten (distribution services only instead) as well as due to the various regulatory restrictions applicable to underwriting entities connected to banks and institutional entities.

In the Company's estimation, the introduction of the reform in the underwriting method in Israel had no material effect on competition in the underwriting market. Furthermore, the reform, as aforementioned, has not detrimentally affected the Company's ability to cope with the competition in the underwriting market. At the beginning of March 2009 Supervision of Financial Services (Provident Funds) (Purchase and Sale of Securities) Regulations 2009 were published, relating, *inter-alia*, to conflicts of interests in underwriting and brokerage activities of institutional entities (see clause 7.9.1 (E) hereunder). The aforementioned regulations have not had a significant impact on the underwriting activity up until January 2011. However in the Group's estimation, from the said date onwards, the regulations are liable to have a negative impact on the underwriting activities also when the quantity restriction of purchases of associated institutional entities reduced to only 10%. It should also be pointed out that the Company assesses that the said regulation is likely to assist strengthening the status of the underwriting companies associated with the commercial banks in Israel as well strengthening the status of the underwriting companies of private entities managing a large nostro portfolio. **The Company's estimation is forward looking information that is based on the Company's activity in this sector. This estimation may not materialise due to changes in the capital market, including the entry of new players into the market and including proposal for regulatory amendments, in respect of which there is a high level of uncertainty as of the date of the report.**

7.6.4 The Group's main methods for coping with competition in this field of activity are, *inter-alia*, focusing on an appropriate sector of customers that fits all types of activities, management of investments for achieving high returns at given levels of risk, an efficient and dedicated service to customers, adequate branding and effective marketing.

7.7 Suppliers and service providers

In the framework of the acquisition of mutual funds, it was agreed with the selling banks that the continued operation of the funds will be conducted via the banks for such periods as were specified in the agreements. See clause 7.10 below regarding material agreements.

The Company has agreements with software suppliers in the computing sector, as well as with information suppliers in respect of overseas securities trading.

7.8 Financing

In order to finance the activity of the sector, including acquisitions of provident funds as detailed in clauses 7.10.1 and 7.10.2 below, Menorah Mivtachim Finance took owners loans from the Company up until the balance sheet date. As of the date of the report, Menorah Mivtachim Finance Ltd. took loans of in the sum of NIS 188 million in addition to which and Menorah Mivtachim Mutual Funds took loans from banking corporations in the sum of NIS 34 million. Menorah Mivtachim Mutual Funds.

See also clause 8.12 below.

7.9 Limitations and supervision of the Corporation's activity

The Group's activity in this sector is subject to legal provisions, applying to managers of portfolios, mutual funds and underwriters, including the provisions of the Securities Law and the regulations enacted thereunder, as well as the guidelines of the Securities Authority, that are published from time to time. For the main legislative limitations applying to the Group in all its activities, see clause 8.2 below.

Hereunder are the main legislative limitations applying to the Group's activity in this sector:

7.9.1 Main laws and regulations

(A) **The Securities Law** – Regulates, *inter-alia*, the manners of offering securities to the public, the formation of the stock exchange, the by-laws of the stock exchange, its guidelines and amendments thereto, limitations applying to members of the stock exchange, directives for ensuring orderly trading, manner of operation of an underwriter etc.

(B) **The T.A.S.E. by-laws, rules, and regulations –** The by-laws of the stock exchange, its rules and regulations regulate the listing of various securities for trading and the rules for trading on the stock exchange.

(C) **The Consultancy Law and the Regulations thereunder (including directives on behalf of the Securities Authority published in connection therewith) –** with respect to portfolio managers, salesmen of investments, and investment advisors regulates *inter-alia*, the requirements of qualification, the requirements of licensing, shareholders' equity and insurance, fiduciary and precautionary duties, manners of operation, duties of recording and reporting. In the framework of the Bachar Reform numerous amendments to the Consultancy Law were made, the primary one being the separation of engaging in investment advice from engaging in investment marketing. According to the amendment, investment advice is advice provided by a party who has no interest in the financial asset (i.e. the financial asset is not managed by him and he receives no consideration for the advice other than fees and refund of expenses from the customer and regulated payments from the producers of the financial products) such that investment advice is meant to be objective. Investment marketing under the amendment means investment advice provided by a party who has an interest in the financial asset. The amendment establishes a separation between engaging in investment advice and engaging in investment marketing, while the producers of financial products (a management company, an insurer and a fund manager) who control or are controlled by them, will not be able to receive an advisor's licence and will be able to engage only in marketing. It was also stipulated in the amendment that a banking corporation shall be permitted to engage in investment advice only.

In February 2010 Amendment no. 13 to the Consultancy Law was published whose main amendments are as follows:

- Regulating the provision of services by a overseas trader who is portfolio manager, investment consultant or investment salesman and a foreign national in the context of an Israeli authorised corporation whereas a supervisory duty has been imposed upon the corporation as aforementioned in relation to the activities of an overseas trader subject to conditions contained in the law. A precondition for the authorised corporation to enter into an agreement with an overseas trader is, *inter-alia*, the existence of a contract, the overseas trader holding a permit from the country from which it comes and a requirement that the authorised corporation which enters into an agreement with an overseas trader provides them with the services that he himself is authorised to provide. Similarly, the amendment determines that the overseas trader and the authorised corporation must be registered in the Registry of Overseas Traders which is held by the authority;
- A determination that an offer to provide services (investment consultants, investment marketing or investment portfolio manager), which requires a license, is

prohibited other than if the service is provided by an individual holding a suitable license in accordance with legal provisions;

- A new appendix which contains a list of eligible customers such as institutional customers, individuals whose entitlement arises from the fact that the value of their asset portfolio is very large, license holders in accordance with legal provisions (consultants, salesman and portfolio managers), a corporation wholly owned by investors enumerated in the amendment and a corporation which is domiciled outside of Israel whose operational characteristics are similar to those of a corporation enumerated in the amendment and which are able to conduct investment marketing / investment consultancy / investment portfolio management for such customers without a need to hold a license provided that they comply with various provisions of the Consultancy Law, as stated in the amendment.

The amendment becomes effective 60 days after its publication date and as regards the activities of overseas traders – on 1st April 2011 which is the date on which the Engaging in Investment Consultancy, Investment Marketing and Investment Portfolio Manager (Overseas Traders) Regulations – 2011 take effect, relating to maintaining a registry of overseas traders.

In March 2011 Amendment no. 14 to the Consultancy Law was published. Firstly, various aspects of regulating investment consultancy, investment marketing and investment management were regulated insofar as exchange traded certificates and other index-linked products are concerned by making a comparison between the regulation applicable to those in the Consultancy Law and the existing regulation regarding units of trust funds. According to the amendment, investment consultancy by a party who has an “interest” in the exchange traded certificate will be considered as investment marketing. Secondly, the insurance requirement as a condition for the provision of a license to an individual was cancelled and he can obtain the license even before arranging the insurance as aforementioned. Arranging insurance will required if the license holder wishes to engage in business addressed by the license. The amendment takes effect 90 days from the date of its publication, nonetheless, insofar as investment consultants are concerned, who prior to publication of the law, held exchange traded funds in the issuing companies, the amendment takes effect on 10th August 2013.

On 17th November 2010 the Securities Authority published a directive regarding **Directives for licence holders in connection with clarifying the needs and instructions of the client, tailoring the service to these needs and instructions in accordance with clause 12 of the Consultancy Law and documenting the data per clause 13 of the Consultancy Law**. The directive establishes rules regarding the manner in which the clarification of the client's needs process takes place, including the various stages in the process and the substance of the clarification, documenting the information in an agreement with the client, determining the investment philosophy in the file according to the agreement and analysing the information which has been received from the client in the clarification process, as well as directives regarding updating and characterising the client and the investment philosophy on a routine basis – at least once a year. On 13.2.2011, the Authority published an amendment to the wording of clause 16 of the new directives according to which updating the characterisation of the client and his philosophy on an annual basis will be done by the license holder as defined in the preliminary assessment of needs, i.e. by the license holder or by an apprentice of the licence holder in the presence of and under the supervision of his trainer. The directives take effect from 31st May 2011 which is the date on which the new Prohibition of Money Laundering applying to portfolio managers takes effect (as mentioned in clause 7.9.1 (H) hereunder). The directives regarding conducting a recorded telephone conversation take effect from the date of their publication, i.e. 17th November 2010.

In August 2010 a **Draft bill for regulating investment intermediaries – 2011** was published whose aim is to amend some of the existing arrangements relating to investment consultants, investment salesman and investment portfolio managers as well as to expand its application to other intermediaries in the investment industry such as analysts, brokers, dealers and custodian service traders of securities. It is proposed that the law will impose basic duties and behavioural norms on the investment intermediaries. It is proposed that other than investment consultants and investment salesman who are involved in personal consultancy, the other investment intermediaries will be required to work via a corporation, such that the supervision of individuals working in investment brokerage will be made by supervising the corporations engaging them. All of the corporations involved in investment brokerage will be required to be members of the Investment

Intermediaries Council which will be established and whose rules will apply to investment intermediaries.

In October 2010 the Securities Authority published **a draft provision** for portfolio managers according to which portfolio managers. Will be prohibited from published and submitting data regarding the yields of managed funds, including average yields of groups of portfolios managed to anyone who does not hold a specific managed portfolio to which the yield presented relates.

In November 2010 the Securities Authority published **a draft provision** for investment consultants in connection with participating in conferences and obtaining advertising products from financial product producers. These directives are intended to replace the original wording of the directives in this regard from the year 2006. The purpose of the directives is to clarify that the conferences in which the investment consultants are permitted to participate are professional conferences only, whose sole purpose it to increase the knowledge of the investment consultant of the financial products and the factors affecting them. This aim should be reflected in the pertinent and solid character of all aspects of the conference.

(D) **Joint Investments in Trust Law (and the Regulations enacted thereunder) –** regulates, *inter-alia*, the licensing requirements for the manager of joint investment funds in trust, establishes directives concerning the qualification of personnel, or those participating in resolutions concerning the management of investment portfolios in a fund, requirements with respect to the composition of a board of directors and the board of directors committee of the fund manager and the professional knowledge requirements and the professional training of directors. The law also established directives with respect to the shareholders' equity and insurance of the fund manager and the trustee, restrictions on the assets which may be held by the fund in trust and restrictions on the rate of assets purchased which are held by the fund out of those permitted for investment, calculation of the acquisition and redemption prices of units in the fund, calculation of the returns, etc. In the framework of the Bachar Reform this law was amended, and conditions were added, *inter-alia*, for obtaining a control permit in a fund manager and limitation of the market share which a fund manager may attain (together with the holder of control therein and entities controlled by them) up to 20%. The law and the distribution regulations enacted thereunder allow the fund manager to pay distribution commissions to distributors, and regulates the rate of the distribution commission which a fund manager will be allowed to pay a distributor (a member of the stock exchange, to whom an application may be made for ordering units, who is not an investment salesman) in respect of units of a mutual fund held through the distributor.

Joint Investments in Trust Regulations (Capital and Insurance for the Manager of the Trust Fund and Eligibility Conditions of the Directors and Members of the Investment Committee) – 1995 and the Regulation of Engaging in Investment Consultancy, Investment Marketing and Investment Portfolio Management (Capital and Insurance) Regulations – 2000 require the fund managers and/or companies holding a portfolio management license (as applicable) to arrange professional indemnity insurance to cover the liability for negligent errors and omissions towards holders of the units and/or towards clients (as applicable), as well as to cover infidelity of employees towards holders of the units and/or the clients. The insurance must be arranged with the limits and at the conditions stated and in a manner which will cover claims due to events which occur during the period of the policy even if they are made within one year after the expiry of the period of the policy. The deductible amount in the policy required must be capped as stated in the regulations.

In December 2009 the Finance Ministry submitted a proposed amendment (Hereinafter – “**Amendment no. 14**”) to the Joint Investments in Trust Law. The main reform in the context of this proposal contains two main points: A proposal to apply the said law also to exchange traded funds and in turn to transfer the exchange traded funds from a regime of reporting to a regime of supervision under the Joint Investments in Trust Law as well as a proposal to create a new investment tool: An basket fund, a fund whose units will be registered for trade on the Tel Aviv Stock Exchange Ltd. which will be traded both in bilateral trade as well as at the end of the trading day and the fund manager will be able to act as a market maker in the units it manages whilst it will be possible to buy or sell the units during the course of continuous trading or to redeem units in accordance with the net value of the fund assets and will thereby constitute an exchange traded basket competing product. In November 2010 a Memorandum Bill – Joint Investment in Trust Law (Regulating Exchange Traded Funds and Basket Funds) – 2010 was published, which replaces the proposed Amendment 14.

In December 2009 5 joint investment in trust regulation files were published, as a consequence of which there is an alteration in the structure of the prospectus such that it is split into two sections: The first, Section A, which focuses mainly on the economic information of the fund, arranged in tables, and the second, Section B, which contains general information, *inter-alia* regarding the fund manager, its characteristics and the manner in which it operates as well as regarding the trustee. Similarly, as part of the amendment the financial statement has been separate from the fund prospectus, IFRS rules were applies on the financial reporting of the trust fund in connection with financial statements effective from January 2011.

At the end of 2009 Securities Exchange Regulations were published regarding disclosure on behalf of the fund regarding possible exposure to bonds which are not rated by an investment rating. In accordance with this directive a fund manager whose possible rate of exposure to bonds which are not rated by an investment rating in accordance with the investment policy of the fund that it manages, [bonds whose rating is less than BBB- or corresponding rating or which is not rated at all] exceeds the maximum rate of its exposure to shares, exceeding the exposure level of the fund to shares, will be required to add asides the exposure profile of the fund, as part of its name, the character "(!)" whose aim is to notify the investor regarding the possibility that the fund will be exposed to bonds as aforementioned at higher rates that the maximum exposure of the fund to shares. In a fund in which the character "(!)" is not added, this will be tantamount to the fund manager adding an undertaking to the investment policy of the fund according to which the fund will not create an exposure to bonds which are not rated by an investment bond at a rate exceeding the maximum rate of exposure of the fund to shares, which exceeds the level of exposure of the fund to shares.

In February 2010 the **Joint Investment in Trust Law (Amendment No. 14) was published in the official records (Hereinafter: "Amendment 14")** which establishes a duty of the fund manager to conduct a tender, at the conditions and at the manner stated in the law, to enter into an agreement for the payment of commissions from fund assets which it manages for conducting transactions with fund assets, with a stock exchange member that conducts securities, options, futures, foreign securities and foreign currency transactions for others. As part of this amendment a directive was established according to which the fund manager is entitled to enter into an agreement as aforementioned without a tender with a company which is a controlling company in the fund manager or in the trustee of the fund or which is a company controlled by the fund manager or the trustee of the fund (Hereinafter: "**associated trading company**") provided that certain conditions are fulfilled as stated in the law including that the fund manager does not make a payment in a period of 12 months that the fund manager has stated in the prospectus of the fund or in a report as the financial year of the fund to associated trading companies, to the fund manager or trustee, together, for performing transactions with the fund assets, in an amount exceeding 20% of the commissions paid from the fund assets in the same financial year for the said transactions.

The effective date of Amendment 14 was set as the later of 12 months from the publication date of the law or on effective date of the rules in accordance with clause 69(C) (1) (Rules for Verifying Interest for the Fund Manager) and clause 69 (F) of the law (Rules for Holding a Tender and Exemption thereof, Contract Conditions with an Associated Trading Company and other matters required to comply with the clause). After publication of Amendment 14 and during the course of 2010, rules were published in the internet site of the Securities Authority for holding a tender to enter into an agreement with a trading company to conduct transactions in trust fund assets – 1994 (Hereinafter: "**the rules**"). As of the publication date of this report, the directives of Amendment 14 as aforementioned do not yet apply. In February 2010 a directive was published to the fund managers regarding payment to external directors which applies, partially, to the Company Regulations (Rules regarding payment and expenses to external directors) – 2000 (Hereinafter: **"the payment regulations**"), on trust fund management companies.

In May 2010 a proposed Joint Investments in Trust (Amendment No. 15) Law – 2010 was published in the official publications. This bill contains directives which are intended, *inter-alia*, to regulate the manner in which the trustee acts (including supervisory duties imposed upon him and the independence mechanism), to regulate offering units of funds outside of Israel, changing the mechanism of dismantling a fund, laying foundation to increase the control mechanisms and regulating the supervisory and audit mechanisms in the fund management.

In September 2010 a directive was issued to fund managers regarding calculating the basis of wages of the fund manager and the trustee with the aim of determining a uniform basis to calculate the pay of the fund manager and the trustee. As part of the directive, the fund manager and trustee are required to represent their pay as a percentage of the net value of the fund assets, and in this way only whereas the pay will be calculated on a daily basis, on the date on which the price of the unit and the redemption of the fund are calculated. The implication of the directive is that it will be possible to protect the pay of the trustee against being reduced by determining a scale of payment rates according to actual scope of assets in the fund, however not by determining a minimum payment of a fixed amount in which case the trustee would be required to provide notification of the change in pay coming into effect by way of publishing a report of the change in the trustee’s pay each time that the value of the assets in the fund alters in a manner which affects the pay rate. Another possibility is that it will be possible to protect the pay of the trustee by way of altering the pay at the time of altering the value of the assets without setting the scale in advance (provided that the actual pay amount does not exceed the maximum rate stated in the fund agreement and the prospectus, insofar as a rate is stated as aforementioned). The directive will take effect ninety days from the date of publication of the notification in the official records regarding publication of the directive in the internet site of the Authority and its validity is subject to the amendment to the law which will regulate the manner of calculating the pay coming into effect.

In November 2010 the Securities Authority issued a directive to fund managers, according to which a fund manager will be required, effective from 28th April 2011, to provide disclosure of the rule by which it regulates, usually or for types of funds under its management, as applicable, the selection of the investments and the manner of managing them, and *inter-alia*, the following matters: (A) The procedures which take place at the time of selecting the investment and during the course of their routine management and officers who will be involved in the entire procedure, paying attention, *inter-alia*, to the nature of the transactions, their substance and the unique and general characteristics of the assets included therein; (B) The documents and the information which should be relied upon as part of the procedures detailed in clause A, and thereby relate to special cases or special circumstances which will require addition documents and audits prior to a decision on the investment being taken; (C) The consideration guiding the selection of the investments and the manner of managing them including regarding taking various risks involved in investing in assets and the pricing of these assets (such as the type of asset and its characteristics, tradability, contractual stipulations, financial criteria and the like) and including characteristics of the issuer of the asset (such as corporate governance and the like), and (D) The modus operandi as part of proceedings with issuers such as consolidating a debt arrangement, change the conditions of securities etc. The disclosure as aforementioned must be included under Section B of the fund prospectus, under the heading “Philosophy of Selecting the Investment and the Manner of its Management”.

(E) In January 2011 the **Streamlining of Enforcement Procedures in the Securities Authority Law – 2011** was published in the official records. The law establishes a new enforcement process comprised of three layers: criminal, administrative and monetary fine. The enforcement procedures apply in relation to the three central laws which the Securities Authority enforces – The Securities Law, the Consultancy Law and the Joint Investments in Trust Law. The enforcement procedures mentioned will apply, *inter-alia*, to: reporting corporations, officers therein (directors and managers), the CEO (who also bears supervisory liability), the trust fund management company, officers in the trust fund manager company and investment portfolio managers. As part of the administrative enforcement procedure the enforcement administration will be authorised to impose on anyone who is found to have committed a breach, a list of sanctions: imposing monetary fines of up to one million shekels per person and five million shekels per corporation, the prohibition of presiding in entities which are supervised by the Authority (reporting corporations, underwriters, fund managers, and licence holders) for a period of up to one year, and with the approval of the court for a longer period, revoking the license of a licence holder in accordance with the Consultancy Law or approval of the manager of the fund and trustee or suspension for a period of one year, and with the approval of the court for a longer period, enforcement of actions to rectify a breach and prevent its recurrence, payment to victims of the breach. Furthermore, as part of the enforcement proceedings, the chairman of the Securities Authority is authorised to reach agreement with the violator or the criminal to reach an arrangement to avoid taking enforcement proceedings, in addition to which the chairman of the Securities Authority and the District Attorney have been authorised to reach an agreement regarding suspension of proceedings which have already commenced, subject to certain conditions. Authorised sanctions will be imposed upon the violator in such an arrangement.

(F) **The Securities Regulations (Underwriting), 5767-2007; The Securities Regulations (Manner of Offering Securities to the Public), 5767-2007 and the Securities Regulations (Underwriting) 5767-2007** regulates the new rules of listing at the Securities Authority, the duty to make a deposit in trust at a minimum amount of NIS 2,844 thousand (instead of the requirement for a minimum shareholders' equity prescribed in the regulations from 1993), the duty of insurance, a limitation on an underwriter to enter into an underwriting liability that exceeds 15% of the total underwriting liabilities that were provided in the offering to the public in issues of companies that are members of the underwriters' group or of companies or debtors of the underwriters' group, including limitations on the option to serve as a pricing underwriter in certain issues, which are not issues of shares included in the TA-25 Index, provisions which will enable foreign underwriters to operate in Israel, and the duties of reporting. The Securities Regulations (Manner of Offering Securities to the Public), 5767-2007, emphasises the manner of offering securities to the public, and facilitates the issuance of securities to the public without a tender (non-uniform allocation) under limitations on the allocation to investors of the underwriters' group. The regulations also regulate the manner of allocating securities to parties who order them and grants right to purchase in a non-uniform allocation up to 15% more of the quantity of securities offered in the prospectus at an identical price to the issue price ("The green-show option").

(G) In March 2009, Supervision of Financial Services (Provident Funds) (Purchase and Sale of Securities) Regulations 2009 were published. The regulations relate, *inter-alia*, to restrictions regarding conflicts of interest in transactions of institutional entities (the definition relates to provident, pension entities and with-profits policies) in respect of the underwriting and brokerage entities connected to the institutional entities. In accordance with the said regulations, there is a restriction of purchasing more than 10% of the securities offered in an offering in which an underwriter in an institutional entity group participates; furthermore, an institutional entity will not be able to purchase securities via a stock exchange member connected thereto.

(H) **Prohibition of Money Laundering, 5760-2000 and the regulations enacted by virtue thereof –** regulate, *inter-alia*, the way of identifying customers of a portfolio manager.

On 15th November 2010 the Securities Authority published a circular to fund managers regarding work with financial entitles and "countries at risk" insofar as money laundering and the funding of terrorism is concerned.

On 30th November 2010 a Prohibition of Money Laundering (Duty of Identifying, Reporting and Managing Records of a Fund Manager to Prevent Money Laundering and Funding Terrorism) Ordinance - 2010, was published in the official publications which is intended to replace the Prohibition of Money Laundering (Duty of Identifying, Reporting and Managing Records of a Fund Manager to Prevent Money Laundering and Funding Terrorism) Ordinance – 2001 (Hereinafter: "**the new ordinance**" and "**the existing ordinance**", respectively). The main changes in the new ordinance compared to the existing ordinance are as follows: Establishing the duty to conduct a process of getting to know the client and routine audit of the process of getting to know the client; establishing the duty to determine policy, tools and risk management regarding the prohibition of money laundering, including regarding getting to know the client; adding a third appendix to the ordinance detailing activities which should be viewed as irregular activities necessitating reporting by the fund manager. The effective date of the new ordinance was set for 30th May 2011, and for files which were opened before the effective date – 31st May 2013.

For further details regarding this clause see clause 8.2.5 hereunder.

(I) **Position of the Commissioner of Restricted Trade Practises –** In December 2003 the Commissioner of Restrictive Trade Practises published a position paper in which he established that a joinder between managers of offerings and a consortium of managers of offerings constitutes a restraint of trade as defined in the Restrictive Trade Practises Law, 5748-1988 (Hereinafter: "**The Restrictive Trade Practise Law**"). In February 2004 the Commissioner of Restrictive Trade Practises published another letter which details the conditions which, when fulfilled, it will not be necessary to invoke the enforcement system of the Restrictive Trade Practises Law with respect to joinders of managers of offerings, including joinders of managers of offerings whose market share does not exceed certain rates. In May 2007 the Commissioner of Restrictive Trade Practises published an additional letter that stipulates the determination of a restraint of trade for a period of one year, after which the issue will be re-examined by him. As of the date of this report, the

Company is not aware of any change to the position of the Commissioner of Restrictive Trade Practises in this regard.

7.9.2 Licences and permits

Menorah Mivtachim Investments has a portfolios management licence and it is permitted to engage in the investments marketing.

Menorah Mivtachim Funds has a licence to act as a manager of mutual funds, in accordance with the provisions of the Joint Investments in Trust Law.

Menorah Mivtachim Underwriting act as an underwriter in accordance with the Securities Law and the underwriting regulations enacted thereunder.

7.10 Material agreements

7.10.1 In April June Menorah Mivtachim Funds purchased (as part of a transaction it entered into with a company controlled by Africa Israel Investments Ltd. (Hereinafter: "**Africa**")), 38 funds in which assets of approx. NIS 4,625 million are managed, from Bank Mizrachi-Tefachot Ltd. (Hereinafter: "**Mizrachi-Tefachot**"), for a payment of approx. NIS 188 million.

At the same time, Menorah Mivtachim Funds signed a distribution agreement with Mizrachi-Tefachot according to which Menorah Mivtachim Funds pays fund distribution commissions to the bank in consideration of distributing units in the trust funds by the bank and for holding units in the trust funds by customers of the bank via it as a distributor.

Additionally, on the date of signing the acquisition agreement as aforementioned, Menorah Mivtachim Funds signed an agreement with Bank Mizrachi-Tefachot Ltd. (for 5 years), whereby the bank will provide Menorah Mivtachim Funds with operating services, brokerage services, custodian services for securities, and other services, partly free of charge and partly in consideration of a payment predetermined by the parties.

7.10.2 In February 2006 Menorah Mivtachim Funds purchased the majority of the activity of management of the mutual funds of Union Bank of Israel Ltd. (Hereinafter – "**Union**") which were managed through the Association of Managers of Mutual Funds Ltd. (Hereinafter: "**AKN**").

The number of funds whose management Menorah Mivtachim Funds purchased in the framework of the transaction, as aforementioned, was 24, the assets managed therein totalled NIS 821 million, and the consideration paid in respect of the management of the funds, as aforementioned, was approx. NIS 34 million.

Additionally, on the date of signing the acquisition agreement as aforementioned, Menorah Mivtachim Funds signed an agreement with Union Bank of Israel (for 5 years) whereby the bank will provide

Menorah Mivtachim Funds with operating services, brokerage services, distribution services (in consideration of the distribution of units in the mutual funds by the bank and for the holding of units in mutual funds by customers of the bank, through the bank as a distributor), custodian services for securities, and other services, partly free of charge and partly in consideration of a payment predetermined by the parties. In November 2009 the said agreement terminated and Menorah Mivtachim Mutual Funds entered into an agreement with Union Bank and the International Bank according to which Union Bank will terminate providing operating services, brokerage services, custodian services for securities and other services to the funds and instead the International Bank will provide the aforementioned services.

7.10.3 During 2006 Menorah Mivtachim Funds signed several distribution agreements, similar in their principles and terms to those signed by the Company with Mizrahi Tefahot and Union Bank as aforementioned, with Bank Leumi Le-Israel Ltd., Bank Otsar Hahayal Ltd., Bank Mercantile Discount Ltd., Bank Hapoalim Ltd., the First International Bank of Israel Ltd. and Israel Discount Bank Ltd. Similar agreements were signed during the course of 2008-2010 with Jerusalem Bank Ltd., Poalei Agudat Yisrael Bank, Israel Arab Bank and Bank Yahav for Civil Servants Ltd.

PART D: FURTHER INFORMATION AT GROUP LEVEL

8. Description of the business of the Corporation – issues pertaining to the overall activities of the Group

Further to the information provided in clauses 3-7 above, which refers separately to each field of activity of the Group, hereunder is a description of subjects that relate to the Group's overall business.

8.1 General environment and impact of external factors on the Corporation's activity

8.1.1 Development of the economy and the capital and financial markets

The year 2010 was characterised by a positive trend in the real markets, whereas the Israeli economy was characterised by a relatively fast pace of recovery compared to other developed economies in the world, this recovery is reflected both in the relatively fast growth of the Israeli economy during the course of the year 2010 as well as in the Combined Index data published by the Bank of Israel as well as by Israel becoming a member of the Organization for Economic Cooperation and Development.

According to economic data published by the Central Bureau of Statistics, the growth of the Israeli economy in 2010 reached 4.5%, a relatively high rate compared to the previous forecast at the beginning of 2010. In 2010 the business production grew by a rate of 5.3% and the private consumption grew by a rate of 4.7%. The Combined Index which was published by the Bank of Israel to analyse the state of the economy registered an increase during 2010 by a rate of approx. 5%, compared to an increase of only approx. 0.5% during the course of the previous year.

The recovery of the Israeli economy started earlier and was quicker than most developed economies. In worldwide comparative terms Israel grew faster than the USA (2.9%), the Euro block (2.3%) and the average for the OECD nations (3.1%). According to statistics published by the Central Bureau of Statistics the GDP per capita in Israel grew by a rate of 2.7% in 2010, and this after the GDP per capita reduced by 1.1% in 2009. Some of the prominent GDP elements were investments in fixed assets. Furthermore, there was a considerable improvement in domestic consumption and a recovery in foreign trade commenced. Exports grew at a rate of 12.6% and imports by a rate of 11.5%, this following a sharp decline in 2009. During the course of 2010 there was also an improvement in the trade and services payment index and the sales index in the retail chains.

Recent indications reinforce the assessment regarding a considerable further improvement in economic activity, led by local demand, whereas in the fourth quarter of 2010 there was an increase of 7.8% (in annualised terms), considerably higher than the previous forecasts in respect thereof. Nonetheless, exports excluding diamonds increased in the fourth quarter by only 2.2% (in annualised terms), whilst civil imports excluding diamonds, ships and aircraft increased by 20.7% (in annualised terms). Domestic consumption grew by a high rate of 9.8% (in annualised terms) and at correspondingly the purchase of durable goods increased by approx. 40% (in annualised terms). Investments in fixed assets continue to increase and in the fourth quarter increased by 15.9% (in annualised terms), whilst the investment in residential construction increased in the second quarter of 2010 by 13.8% (in annualised terms).

It should be pointed out that from a survey of companies by the Bank of Israel which was published after the date of the balance sheet to conclude the year 2010 it transpires that industrial companies reported an increase in the number of employees as well as a significant and ongoing increase in the utilisation of machinery and equipment. Reports from trading companies are similar and they also reported an increase in the number of employees and an increase in sales.

The ongoing expansion of local economic activity encompassed the majority of industries in the economy and considerably improved the employment situation, such that the unemployment rate out of the total workforce reached a record low of approx. 6.2% during the year. Corresponding to the increase in unemployment data, during the period surveyed a surge in the expansion rate of the number of individuals employed in the Israeli economy was registered, such that the rate of employed individuals out of the total population at work age returned to the level which prevailed prior to the global financial crisis which occurred towards the end of 2008. The recovery in the job market was also reflected in an increase in the real average wage for a salaried position in the business sector by a rate of approx. 2.5% in the 12 months ending November 2010, compared to a decline in wages registered in the year 2009 due to the global crisis. Nonetheless, the ongoing recovery in the job market was also apparent in relation to the number of unemployed individuals per open position, serving as an index of pressure in the employment market. This index continued to decrease over the course of the surveyed period as a result of both a decline in the number of unemployed individuals as well as due to an increase in the number of open positions.

The Consumer Price Index increased in 2010 by a rate of approx. 2.7%, within the range of the price stability target. Net of housing prices the Consumer Price Index increased in 2010 by 1.9%. The Consumer Price Index in 2010 was influenced in the main by a sharp increase in the price of goods, surplus demand in the local housing market and due to a reduction in product gap (mainly due to increased wages).

House prices, measuring in accordance with a house price survey and which is not included in the Consumer Price Index increased in 2010 by approx. 17.3%. The housing cost index, based mainly on renewable lease agreements and which is included in the Consumer Price Index increased in 2010 by approx. 4.9%.

The implication of the gap is that the yield obtained from rent of apartments has decreased in the last years. The decline in the anticipated yield has not to date resulted in a significant decline in demand for residential investment property since the investors anticipate ongoing increase in the prices of apartments i.e. capital gains.

Massive printing of dollars by the Fed, as well as the purchasing power of the Chinese and natural disasters in Russia, Canada, Kazakhstan, Europe and South America contributed significantly to the fast increase in the price of goods worldwide. The prices of agricultural products increased in the second quarter of 2010 at a pace of tens of percentage points and put upwards pressure on food prices worldwide. The increase in the prices of goods resulted in political instability in some Arab countries towards the end of 2010, a phenomenon which exacerbated during the first quarter of 2011.

During the course of 2010 the Bank of Israel continued to moderately and gradually increase interest rates. Over the course of 2010 the Bank of Israel interest rate was increased only four times, from 1% to 2%, such that in practice a negative interest rate prevailed in the Israeli economy. The gradual increase of interest was affected by two central factors. On the one hand the low interest rates encouraged the public to move to real estate basis investment channels, which resulted in a considerable increase in housing prices in the last two years. Similarly, the steps taken by the Bank were also influenced by inflation expectations, which moved around the bottom level of the inflation target. On the other hand, the Bank of Israel refrained from increasing the interest at a quicker pace due to the low interest rates in the developed nations and due to the concern that increasing the interest rate gaps would increase the value of the shekel in the year 2010 and increased the short term capital movements entering Israel. The slow increase of interest in Israel arose both from the concern that the economic recovery worldwide would not be sustainable despite the fact that the growth rate and the inflation expectations were increased over the course of the last year.

The overall deficit of the government (excluding credit) in 2010 totalled NIS 30.2 billion being approx. 3.7% of GDP. In December 2010 the deficit was NIS 12.6 billion due to a high level of expenditure exceeding the regular season level. The total tax receipts in 2010 totalled NIS 195.4 billion – when deducting legislative amendments and one-off income this represents a real increase of 7.5% compared to last year.

The year 2010 was characterised by the division of the global economy into two blocks: The first group contains developed economies (USA, the Euro block), which were badly affected by the crisis and are undergoing a slow and unstable process of recovery. The second block contains emerging nations and developed nations such as Australia, Germany and Israel which passed the crisis without any significant damage and displayed high growth rate increases over the course of the year 2010.

Towards the end of 2010 a larger fiscal program than that which was approved only two years ago was approved in the American economy. Furthermore, approximately six months after the Central American Bank started to provide an indication of future steps that will be taken in order to dry up all of the liquidity that it injected into the markets during the crisis, during the fourth quarter of 2010 the Bank published a program whose aim is to inject further liquidity into the markets and this in order to ensure that the American economy grows. The American debt continued to increase to dimensions which are liable to put the faultless credit rating of the USA at risk. At the same time, the US employment market is having difficulties in recovering from the crisis and the unemployment rate remained high into 2010. Over the course of 2010 the USA real estate market continued to shows signs of weakness.

The debt crisis in Europe appears to be the central problem affecting the continent in 2010 and is expected to remain the case next year. Furthermore, over the course of the year 2010 the concern that some European states would return to negative growth started to materialise whereas in some of them the concern arose that without external assistance they would be unable to repay their debts.

Following loss of faith on the part of investors in the data published by the Greek government regarding growth, the deficit and the debt and after loss of faith in the ability of Greece to implement the austerity program that it was required to implement, the Euro block established a support fund for European countries in distress. Six months later, Ireland was also in need of aid however Ireland, contrary to Greece, did not have credibility problems. The problem of Ireland is the intensity by which its banks collapsed, which arose from very high leverage. Ireland nationalised the largest banks at a cost estimate at one third of the annual GDP of Ireland.

The majority of the European states, starting with Greece through to Germany, have implemented an austerity plan in the last year, and in some of case the question has arisen as to whether the cutbacks are liable to return the economies to recession where the damage from the plan will exceed its benefit. As a result of these measures we were witness during the year 2010 to a reduction in the credit ratings of certain countries, mainly in Western Europe. The credit rating of Greece was reduced to “junk”, the rating of Ireland was reduced in December 2010 by five levels all at once. The ratings of Spain and Japan were also cut, whereas in the USA the rating companies warned that if the American administration does not show a more responsible fiscal policy, its rating is liable to be affected.

Allaying the fear that the debt crisis in Greece and Ireland might spill over into other states in the Euro block, due to the establishment of the support fund for European countries which have fallen into financial difficulties renewed trust in the markets, was reflected in data from the middle of the year. Nonetheless, during the course of the fourth quarter of the year 2010 the concern once again arose that Belgium, Spain and Portugal will also need assistance, after Greece and Ireland received assistance from the EU. This is also liable to result in the future dismantling of the Euro block if such a scenario indeed materialises.

In China the concerns of a real estate bubble developing increased. These concerns and the high level of inflation caused the Chinese government to implement measures to restrain the local demands. The steps taken include increasing interest rates, increasing the reserve ratio in the commercial banks and imposing administrative restrictions on the housing market.

A further global phenomenon which was prominent in 2010 is the “currency war”. The gap between the low interest rates in the developing economies which were affected by the crisis (USA, the Euro block and Japan) and high interest rates in countries which were largely unaffected by the crisis (Brazil, Australia, Israel and others), resulted in massive capital movements in order to obtain high yields. As an outcome, currency valuation pressures emerged in the competitiveness of the countries which are on the receiving end of these capital movements. In order to cope with these pressures several countries started intervening in the foreign currency market by purchasing foreign currency balances and by imposing restrictions on capital movements.

Nonetheless, recent indicators attest to the ongoing fast growth of the emerging economies and a slow-down in the growth of the American economy. In the Euro block the expectations of increased demand increased, especially in Germany and France. Britain stands out in a decreased growth rate in the fourth quarter of 2010. The recent economic indicators for the global economy were better than previous estimations and resulted in the growth forecasts being increased. In January 2011 the IMF updated the global growth forecast for 2011 to 4.4% (compared to a previous forecast of 4.2%), whilst increasing the growth rate in the USA considerably to 3% (compared to a previous forecast of 2.3%).

8.1.2 The bond and stock markets

In 2010 the sharp increase in bond prices continued in Israel and worldwide. Most of the increase occurred in the second half of the year, against the background of the recovery of the US stock market and after in the first half of the year the indices displayed relative weakness against the background of the debt crisis in the Euro block. The increase in share and bond prices arose, *inter-alia*, from the fact that central bank interests in the leading developed economies are very low and due to the expectation on the part of the investors that these interest rates are likely to remain low for a long time as well as due to the economic recovery worldwide. The prominent sector this year in the Israeli stock exchange was the gas and oil exploration sector which had increased by the end of 2010 by a rate of approx. 49%. The increases in participation unit prices of companies involved in this sector arose mainly from signs of large amounts of gas being found.

By the end of 2010, the TA25 index increased by approx. 15.8% and registered all-time highs whilst the TA100 index increased by approx. 14.9%The TA75 index increased by approx. 15.7%.

The upwards trend was also registered in the majority of the leading worldwide share indices. The NASDAQ increased by approx. 17.4% whilst the Dow Jones increased by approx. 11%. The FTSE index increased by approx. 10.3%, the German DAX increased by approx. 16.1%. On the other hand, the French CAC declined by approx. 2.2% and the Chinese share index by approx. 23.5%.

Over the course of 2010, the corporate debenture market registered sharp price increases and a significant decline of gross yields. In summary for the year, the Tel Bond 20 market increased by approx. 11.1% and the government bond 40 index increased by approx. 10.8%. The government linked debenture index increased by approx. 8% and the shekel government debenture index increased by approx. 5%.

The significant capital import in the emerging markets increased the activity in the global currency market; at the same time interventions in world currency markets increased – both by massive purchases of foreign currency by the central banks as well as the imposition of restrictions on capital movements.

The intervention of the Bank of Israel in US Dollar trading also continued in 2010. The foreign currency balances of the Bank of Israel increased over the period from a level of approx. US$ 60.6 billion to level of US$ 70.9 billion at the end of December 2010.

The intervention of the Bank of Israel in trade was intended to attempt to moderate irregularities in the dollar rate in relation to the basket of currencies and an attempt to prevent speculative attacks on the local currency. Despite the massive intervention of their Bank of Israel, the interest rate gaps between the shekel and major world currencies as well as the surplus in the current account of Israel caused a sharp appreciation of the shekel during the last year. In summary, in the year 2010 the shekel appreciated by approx. 6% compared to the representative rate of the US dollar, whereas the representative rate of the Euro compared to the shekel during the course of the period declined by approx. 12.9%.

8.1.3 The Bachar Reform

For a description of the Bachar Reform, the enactments following it, and their impacts, see clauses 3.1.1, 3.1.2.1 and 7.1.2 above, and clause 8.2.2 below.

8.1.4 The Hodak Committee Report

In February 2010 the **Committee for Determining Parameters to Address Institutional Entities Supplying Credit by Purchasing Non-Government Bonds Report ("the Hodak Report" and "the Committee") published its recommendations.** The purpose of the committee was to recommend the steps necessary to improve the internal processes connected to the investment of institutional entities in debentures and the scope of information that the issuing corporation is required to submit to the institutional entities prior to the investment. The recommendations of the committee can be summarised in three main spheres:

1. Establishing an orderly process of the manner in which the institutional entities act prior to deciding to purchase non-government debentures for the investor public, this, *inter-alia*, by extending the infrastructure for creating negotiations between the institutional entities and the issuing companies and preparing a written analysis by the institutional entity prior to purchase in the primary market.
2. Determining the type of information that the institutional entity is required to obtain prior to the purchase and during the term of the debt of the debenture of the non-reporting corporation, this, *inter-alia*, by obtaining an "issue memorandum" containing information regarding the issuing company (similar in nature to some of the information that the issuing company is required to detail in a prospectus), by obtaining regular and immediate information during the term of the debt from the corporation which does not report, and appointing a trustee for the issue of the corporation that does not issue insofar as non-negotiable debentures are concerned for four institutional entities at least.

3. Improving the quality of the product purchased by the institutional entities for the investor public, this, *inter-alia*, by determining minimal conditions and criteria which will included in the debenture, which will accordingly grant the institutional entities with the right to immediate redemption in the event of a breach of the conditions and criteria as aforementioned. Similarly, the committee recommended contractual conditions and criteria whose existence the institutional entities should consider in the course of the debenture conditions.

4. In addition, the recommendations of the committee include recommendations regarding cooperation between the institutional investors, the appointment of a trustee as a voluntary mechanism who will act at the request of the issuing company, whereas the authorities of the supervisory trustee should include the possibility of closely monitoring the activities of the company on a daily basis. Similarly, the committee recommended criteria for classifying the debenture, recommendations regarding establishing policy relating to the purchase of debentures on the secondary market and the duty to register debentures in the registrar's bureau.

5. In accordance with the recommendations of the Hodak Committee, the Commissioner published a circular regarding investments in non-governmental debentures, which effectively adopts the recommendations of the committee in relation to institutional entities. For further details see clause 8.2.15 (33) below.

8.1.5 Main barriers for entry and exit, and the changes occurring therein

The main entry barriers for all sectors of activity of the Group are as follows:

(A) Maintaining a technological and professional infrastructure that supports the Group's fields of activity, proficient personnel, developed business relations with reinsurers and know-how and experience vis-à-vis the main service providers;

(B) The need to comply with the legal conditions for obtaining licences and permits for controls and holding of means of control, as applicable; complying with regulatory requirements;

(C) Minimum capital requirement;

(D) Construction of effective marketing networks in the various fields of activity;

(E) The main exit barriers of the Group's fields of activity derive from the need to continue processing the existing portfolio of customers and insurance claims, sometimes for long periods ("Run Off").

8.2 Limitations and supervision of the Corporation's activity

8.2.1 Supervision of the various fields of activity

The Group's activity in the various fields of activity is subject to extensive and unique regulation and the duty to receive permits and licences from the various government authorities, including the Commissioner and the Securities Authority.

In this framework, the Group is subject, *inter-alia*, to the provisions of the Companies Law and the Securities Law, and the regulations enacted thereunder; the provisions of the Supervision Law and the provisions of the Income Tax Ordinance, as well as the Provident Funds Law and the Pension Consulting Law, the provisions of the Joint Investments in Trust Law, and the regulations enacted by virtue of all the above.

To the best of the Company's knowledge, the Group is not in material breach of the provisions of the legislation and the regulation applying thereto, which may have a material effect on the Group's business.

It should be noted that in the Description of the Business of the Corporation section, where new legislation and/or regulation are described that the Company estimates may have a material effect on the Company's business and its activity, the Company's assessment with respect to the effect is noted.

Hereunder are details of the central laws and regulations applicable to the Group, in addition to the laws that were detailed in the respective chapters, according to the various fields of activity.

8.2.2 The Supervision Law and the Regulations enacted thereunder (Hereinafter: "The Supervision Regulations") – condensed provisions of the Supervision Law

The insurance companies are subject to the provisions of the Supervision Law and the Supervision Regulations. The Supervision Law and the Supervision Regulations regulate *inter-alia*, the following main issues:

According to the Supervision Law, engaging in insurance business requires the insurer to have an insurer's licence, which is limited to the classes of insurance specified in the licence. An insurer's licence is issued by the Commissioner after consultation with the advisory committee that was established by law (Hereinafter: "**the committee**"). An insurer's licence may contain conditions and restrictions, and they may be amended, all in consultation with the committee. Holdings of more than 5% of a certain type of means of control in an insurer's corporation, as well as control of an insurance company is subject to the approval of the Commissioner. For details about the permit granted to Mr. Menahem Gurwitz in December 2007, against the background of the acquisition of Shomera, as detailed in clause 1.3.11 above, and see clause 8.2.17 below.

The law authorises the Minister of Finance to determine directives concerning minimum issued and paid up share capital as well as a minimum surplus of assets over liabilities in the Regulations, with respect to an insurer, with the approval of the Knesset Finance Committee.

The Minister of Finance is also authorised to stipulate provisions in the Regulations with respect to: types of assets which an insurer must hold against its various liabilities and their rates with respect to the liabilities; manners of holding assets against the insurer’s liabilities; the cases where an insurer may invest in its own subsidiary, in a holder of means of control therein in another insurer or in an insurance agent; an insurer’s obligation to hold insurance reserves and the manners of their calculation; acting as an insurer abroad; the minimum rate of that part of the risk which shall be borne by insurers in Israel, the maximum rate of that part of the risk which shall be borne by an insurer; loans which an insurer may provide and guarantees which it may provide and their rates (the stipulation of provisions in Regulations in this matter, shall be effected after consultation with the Governor of the Bank of Israel).

An insurer’s annual audited financial statements and periodic reviewed financial statements must be prepared and submitted to the Commissioner and shall be published in such manner as the Minister of Finance stipulated in the Regulations including contents, extent of details and the accounting principles for their preparation.

An insurer must manage a separate bookkeeping system for life assurance business; it is required to hold assets for covering its liabilities in life assurance and purchase separate reinsurance for these lines of business.

The Commissioner is authorised to examine public complaints about an insurer’s act in insurance business and to order the rectification of any deficiency that is found.

In the framework of an Amendment to the Supervision Law (as part of the Bachar Reform) directives were stipulated which regulate the corporate governance of insurers, including provisions with respect to appointing directors and various officers, the activity of various organs in the Company and the duty to report to the Commissioner. For this matter various provisions of the Companies Law 1999-5759 were applied to an insurer, with necessary changes, which generally apply to public companies. Thus, for example an insurer is required to appoint external directors as defined in the Companies Law and to maintain an audit committee. Also by virtue of the Supervision Law an insurer is required to appoint investment committees. Additionally, directives were provided with respect to appointing certain officers including an actuary, a risk manager and an internal auditor. As for certain officers that were defined in the Commissioner's circular of December 2005 (director, CEO, internal auditor, chairman/member of an investment committee, CFO, an actuary, a risk manager and legal advisor), the law stipulated an obligation to give advance notice of the intention to appoint them subject to receiving the Commissioner's approval for their appointment, even when there is no objection. In addition to the financial reporting, the Minister of Finance was authorised to stipulate the duty of immediate reporting and the provision of various notifications to the Commissioner (provisions have not yet been determined in this matter). It was also stipulated in section 42-A of the Supervision Law that it is prohibited to include a misleading fact or not including a fact whose absence might be misleading in notices and reports, with the application in this regard, with the required amendments, of the directives of Section E of the Securities Law which is entitled "Prospectus Liability". It should be emphasised that clause 2(B) of the Supervision Law authorises the Commissioner (subject to consultation with the committee) to issue various directives related to the operational manner and methods of managing insurers, insurance agents, officers therein as well as an individual employed by them. Together with clause 42(3) of the said law, imparting authority to the Commissioner to order that reports and notifications be provided, the Commissioner was granted tools for active supervision of the insurance market. In addition to the aforementioned, the Commissioner was granted extensive regulative powers and more stringent enforcement measures than in the past, including monetary sanctions and civil fines, and this over and above criminal punishment, which was also made harsher, while placing liability in certain cases also on officers of the corporation.

By virtue of the Supervision Law, the following major regulations, *inter-alia*, were enacted:

(1) Supervision of Financial Services Regulations (Insurance) (Board of Directors and its Committees), 5767-2007

The purpose of these regulations, that were enacted in July 2007, is to strengthen the infrastructure of corporate governance in insurance companies and this, *inter-alia*, by way of setting up rules for ensuring the orderly operation of the boards of directors and its committees, ensuring its independence, qualifications of its members, its composition, rules for avoiding conflicts of interests, issues on which the board of directors must hold deliberations and make decisions, attendance and quorum in its meetings. The regulations apply to the board of directors of an insurer and special allowances were made in the case of boards of companies that manage provident funds. The regulations became effective in August 2007, however with respect to certain sections there are transitional provisions, which provide for a latter effective date.

(2) Supervision of Financial Services (Insurance) (and Financial Reporting) - 2007

These regulations impose upon Israeli insurers, management companies and management companies of annuity provident funds the duty to submit an annual and quarterly financial reporting to the Commissioner. The regulations furthermore determine that the annual financial report must be audited by an accountant whereas the quarterly report must be reviewed by an accountant. The regulations also apply the aforementioned to business in Israel of foreign insurers. The regulations are effective from March 2007, subject to several subjectivities, as detailed in the regulations.

(3) Minimum capital regulations

These regulations regulate the minimum capital required of an insurer. The minimum capital required of an insurer is affected, *inter-alia*, by the volume of activity in general insurance or by the level of claims in general insurance, the total deferred acquisition costs (DAC) in life assurance and in health insurance, the types of assets held in the nostro account, exposure to catastrophe risks, operational risks, exposure to life assurance risks, the volume of assets defined in these regulations as “unrecognised assets”, the additional capital required in respect of long term healthcare insurance, and the additional capital required in respect of investment in subsidiaries that are insurers. The minimum capital regulations contain different definitions relating to the capital of the insurance companies and, *inter-alia*, the definition of primary capital, secondary capital and shareholders’ equity.

According to the minimum capital regulations, the minimum “primary capital” required of an insurer that engages in life assurance and general insurance is NIS 60 million linked to the index, as from the base index published in June 1997.

In July 2008 the Commissioner published a circular with respect to adopting the Solvency II Directive, which deals with the calculation of the capital requirements in respect of exposure to insurance risks, market risks, credit risks and operating risks. This directive is based on the concept that capital of an insurance company is designed to be used as a cushion for absorbing losses deriving from the realisation of unforeseen risks to which an insurance company is exposed, which were not identified by it specifically or were not estimated in a satisfactory way. For further details see clause 8.2.15 (9) below.

In November 2009 **an amendment to the Supervision of Financial Services (Minimal Capital Required of an Insurer) (Amendment) – 2009 (Hereinafter: "the amendment" or "the amendment to the capital regulations")** was enacted. As part of the amendment, it is necessary to add capital requirements to the existing capital requirements in respect of the following categories: Yield guaranteeing programs in life assurance which are not supported wholly or partially by designated debentures; operating risks; credit risks in accordance with the scope of risk that characterises the various assets; catastrophe risks in general insurance business; risks in respect of guarantees; holdings in provident fund activities and in management companies of provident funds and pension funds. This amendment is effective 30 days after its publication. Similarly, in the context of the amendment the primary capital and secondary capital definitions were amended and a definition of tertiary capital was added, constituting an additional layer of capital. Pursuant to the aforementioned, the Commissioner published a temporary provision regarding the **composition of the equity capital of an insurer** that states that in the period from the effective date of the regulations up until the date to be advised by the Commissioner there is no change to the definitions, the structure and calculation of the existing capital of insurance companies.

Similarly, in December 2009 the Commissioner published a draft circular regarding a **plan of action for managing capital of an insurance company** with the aim of ensuring that an insurance company has an orderly plan of action for the management and monitoring of the capital status and dealing with changes thereto.

Pursuant to the amendment to the regulations as aforementioned, and against the background of the intention of the Commissioner to adopt the Solvency II directive in the future, a third draft circular was published in January 2011 regarding the **composition of recognised capital of an insurer.** The circular sets out rules for the structure of recognised capital of an insurer, as well as a framework of principals for the recognition of the various components of capital and their classification into the various layers of capital.

See also clause 15(G) to the Financial Statements.

(4) Manners of Investment Regulations

The Manners of Investment Regulations contain, *inter-alia*, directives with respect to: loans which an insurer may provide, the types of assets which an insurer must hold against its liabilities; restrictions with respect to an insurer’s investment in a subsidiary or held company, in a holder of means of control therein, in an interested party therein, in another insurer, or in any other corporate body which engages in insurance brokerage, the duty of an insurer to appoint two investment committees: one concerning the management of the yield dependent investments portfolio ("with-profits"), and the other – concerning the management of a non-yield dependent investments portfolio (“nostro”), the composition of committees, their duties and the manners of their operation.

The Manners of Investment Regulations transfer the responsibility to the insurer for choosing the assets mix beyond what is required under the regulations and consequently leave determining the ratio between the expected yield and the expected risk deriving from the various investment strategies to the insurer’s discretion, all subject to the limitations of the index of risk spread, the linkage base and the amended average duration as stipulated in the regulations.

The Manners of Investment Regulations significantly reduced the limitations applying to the insured’s manners of investment, and in their framework the option are open for the insurance companies to invest in extensive sectors in which the companies could not invest before, subject to the terms detailed in the regulations. *Inter-alia*, an insurer may execute security loan transactions, transactions of short sales, participating in the issue of and investment in non-negotiable bonds, investment in overseas securities, investment in income producing real estate, investment in overseas real estate etc.

With respect to life assurance policies that were issued as of 1 January 2004 and onwards, it was forbidden to hold a balance of deferred acquisition costs (DAC) against liabilities deriving from with-profits life assurance in Israel. The holding of DAC, as aforementioned, is against non-underwriting liabilities, balances of shareholders' equity, and surpluses of shareholders' equity.

In July 2008, the Commissioner published a third draft of the Financial Services (Rules of Investment) Regulations, 5766-2006, and in their new name – **Draft Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Management Companies and Insurers) – 2008**

(Hereinafter: "Draft Investment Rules Regulations") which are designed to replace the Manners of Investment Regulations as well as the Provident Fund Regulations and consolidate the rules of investment applying to institutional entities. Among other things, changes are proposed to part of the existing rules of investment, in order to adapt them to the policy of the Ministry of Finance with respect to the manners of operation of the capital market in general and manners of operation of institutional investors in particular (including the unification of the rules of investment of the free part of the old pension funds, elimination of the dependence between the rating and the permitted rate of investment in a single corporation and a group of borrowers, extending the possibility to invest in countries whose credit rating is BB and above, etc.) Additionally, the draft amendment addresses the limitations that will apply to business agreements between institutional entities and corporations related to them, due to the changes that occurred in ownership of the institutional entities, and particularly the conversion of insurance groups into financial corporations with a broad array of activities. It should be noted that some of the proposed amendments were recently approved, namely those that relate to limitations on business agreements between institutional entities and corporations related to them, particularly investments where an underwriter is involved who is a related party.

See the Commissioner's circular on providing non-negotiable credit by institutional bodies in clause 8.2.15 (7) below.

(5) Calculation Regulations

The calculation regulations contain, *inter-alia*, directives with respect to the duty of an insurer to hold insurance reserves, and the manners of their calculation, and the provisions for outstanding claims.

(6) Particulars of Report Regulations

The Particulars of Report Regulations prescribe directives concerning the content, particulars, and accounting principles for preparing the annual financial statements and the interim financial statements of an insurer, which include a broad financial report to the public and to the Commissioner, while integrating some of the Securities Regulations (Preparation of Annual Financial Statements) 5753-1993, and their adaptation to the insurance sector. The Commissioner is authorised by virtue of the regulations to publish circulars and directives with respect to adopting further accounting principles concerning insurers. By virtue of these regulations, a circular was issued that adopts the application of international accounting rules in insurance companies.

(7) Further regulations and circulars

Further regulations established directives concerning conditions that should be included in insurance contracts on the following issues: prohibition to collect supplements to basic premiums in respect of risks, conditions or benefits which an insured is entitled to them by virtue of any legislation, group life assurance, uniform currency in insurance contracts and conditions for collecting premiums in instalments, terms of linkage in life assurance contracts, terms of contract for private motor insurance, return premiums in the event of cancellation of contract before the termination of the period of insurance at the initiative of the insurer, other than where the insured had breached the contract or tried to defraud the insurer, prohibition of subjecting the approval of a claim by signing a form of receipt and waiver except where the indemnity payments are paid at the time of the signature, provisions that shall be included in a travel insurance contract of insurance for passengers and their luggage, provisions that shall be stipulated in a life assurance contract, and the manners in which an insurer who issues with-profits policies may collect management fees for the management of an investment portfolio, including the rate of management fees that will be collected and the way of their calculation.

Additionally, the regulations contain directives with respect to the form of an insurance contract with respect to the following issues: contents of the insurance contracts (motor and home), exclusions to the insurer's liability or to the scope of cover detailed in the insurance contract, protection means required to be implemented by the insured (in the case of property insurance).

Regulations were also determined which contain directives concerning premiums which an insurer may collect from insureds in motor casco insurance and with respect to premiums collected in instalments.

An insurer who wishes to launch an insurance plan whose particulars were not submitted to the Commissioner, to change its terms, to change the premium and other payments particulars of which were submitted to the Commissioner, must notify the Commissioner ten days before applying the change. In certain lines of insurance which were stipulated by the Minister of Finance in an Ordinance for this matter, an insurer may not launch a plan or changes as aforementioned otherwise than with a permit of the Commissioner. The lines of insurance which require a permit as aforementioned are: life assurance, compulsory motor bodily injury insurance, motor casco insurance, homeowners and business insurance, and insurance of investments by purchasers of apartments in accordance with the requirements of the Sale (Apartments) (Assurance of Investments of Persons Acquiring Apartments) Law 5731-1971.

In 2008 the Commissioner published a draft of the Supervision of Financial Services Regulations (Insurance) (Rules for Preventing Conflicts of Interest of an External Auditor). The draft regulations set out directives in respect of the independence of the external auditor as well as directives regarding the prevention of conflicts of interest of the auditing actuary.

8.2.3 The Insurance Contract Law

The Insurance Contract Law regulates different aspects relating to the insurance contract and the insurer, agent and insured relations. Under the Insurance Contract Law, an insurance contract is a contract between an insurer and an insured, which requires the insurer, in consideration of a premium, to pay indemnity to the beneficiary upon occurrence of the insured event.

Under the law, notification of the occurrence of an insured event must be submitted to the insurer by the insured or the beneficiary, immediately after becoming aware of the occurrence of the insured event and/or the right to receive indemnity payments. As soon as the insurer receives notice, as aforementioned, the insurer is obligated to do everything required to clarify its liability, and the insured must provide the insurer, within a reasonable time after being requested to do so, the information and the documents required for determining the liability. Failure to provide information as aforementioned has an effect on the insured's or the beneficiary's right to indemnity payments and the amount.

The indemnity payments must be paid within 30 days from the date on which the insurer has received the information and the documents required for clarifying its liability. Undisputed amounts in good faith must be paid within 30 days from the day of submitting the claim.

Interest increments must be added to the indemnity payments from the day of occurrence of the insured event and interest in accordance with the Adjudication of Interest and Linkage Law 5721-1961, after 30 days have elapsed from the day of submitting the claim.

The law also includes provisions with respect to the duties of disclosure by the insured, and the consequences of non-disclosure, conditions for the cancellation of the insurance contract, the status of the beneficiary and its rights, directives relating to the effects of changes to the covered risk as well as the stipulation of special provisions that apply to the various classes of insurance (life assurance, personal accident, illness, and disability insurance and insurance for loss or damage).

8.2.4 Protection of Privacy Law

The Protection of Privacy Law prescribes directives with respect to databases, whereas a database is defined as a collection of data which is stored on magnetic or optic media and is designed for computerised processing, other than exceptions that are stipulated in the Protection of Privacy Law. The law stipulates regulations with respect to the following main issues: Cases when an owner of a database is required to register the information base in the Register of Databases, conditions for the management and maintenance of an database that is required to be registered, the use of the database, the duties of the person or the corporation who wishes to store information in the database, the right to peruse the data, the responsibility of the owner of an database to secure the data in the database, the protections provided to the owner of a database, etc.

8.2.5 Prohibition on Money Laundering Law, 5760-2000 (Hereinafter: "Prohibition on Money Laundering Law")

According to the Prohibition on Money Laundering Law and the regulations issued by virtue of the law, it is the duty of an insurer, a provident fund and an insurance agent, to identify and verify the particulars of the insured in a life assurance policy which contains a savings component and the particulars of a member in provident funds as well as to store the identification documents. Additionally, there is a duty to report to the Prohibition on Money Laundering Authority in the event of unusual activities which raise suspicion (for further details about the regulations of the Prohibition of Money Laundering, see clause 3.1.2 (I) above).

8.2.6 Class Actions Law, 5766-2006 (Hereinafter: "Class Actions Law")

In March 2006, the Class Actions Law was enacted. The law prescribes uniform rules for filing class action claims and their handling, and repeals the majority of the arrangements that were in force until then in primary legislation, including Chapter E-1 of the Supervision Law.

The Class Actions Law extends the grounds in respect of which a class action may be brought, both from the perspective of the status of corporations and from the perspective of the causes of action and in particular extension of the possibility of filing class actions related to insurance (in accordance with section 2 of the second addendum to the Class Actions Law). Issues relating to the stability of the defendant were stipulated expressly as a consideration for approving the claim as a class action.

Definition of the representative group shall be determined by the court in the framework of the decision to approve the suit as a class action, while allowing individuals to send notice of their refusal to be included in the claimant group. Additionally, the law prescribes that in special circumstances the court may determine that the representative group shall be defined in such way as to include all those who gave positive consent to be included in the class action.

The law also prescribes detailed arrangements with respect to the approval of compromise agreements, including the duty to appoint an inspector on behalf of the court in this regard, publishing notices to members of the representative group, abandonment of a claim by a claimant or a lawyer from representation, awarding compensation and manners of proving remedies by the members of the representative group, rewarding remuneration to the representative claimant and fees for the lawyer who represents the representative group.

The law prescribes the establishment of a fund for financing class actions, aimed at helping class actions of social and public significance, and it also stipulates that a register of class actions be maintained which may be perused by the public over the internet.

In the framework of transitional provisions, it was determined that the law applies also to claims and applications for approving claims as class actions pending approval.

In July 2010 the **Class Action Regulations – 2010** were published, which are intended to determine the legal procedure and the procedures for implementing the various clauses in the Class Actions Law – 2006. The regulations determine, *inter-alia*, these arrangements: Extended the existing dates for providing a reply to a request to approval a class action as well as for the applicant to reply to the said reply; the duty to send certain notifications in connection with class actions against institutional entities to the attorney general and the Commissioner of Insurance; determining the hearing procedures which will apply in relation to a claim arising from a request to recognise it as a class action which has been approved; and the application of the provisions of civil legal proceeding regulations in relation to the clarification of request to approve class actions and class actions on matters which are not regulated by law or regulations. The majority of the arrangements stated in the regulations come into effect 60 days after their publication date.

8.2.7 Hamdani Committee

In July 2006 the Commissioner appointed a committee for examining the necessary steps for intensifying the involvement of institutional entities in the capital market in Israel (The Hamdani Committee). The Commissioner noted, in the committee's terms of reference that, in view of the reform of the pension funds in 2003, the reform in the capital market in 2005, and the changes that the capital market has been undergoing in recent years, it is highly important to emphasise the duty of trust of the institutional entities towards those who save in them, and there is a need for an active involvement of these entities in the companies in which they invest the money of the savers. The objective of the committee was to propose steps for strengthening the involvement of the institutional entities in the capital market, while examining the various models used in different countries and the limitations applying to the said entities with respect to holdings in various corporations. The committee published its recommendations in January 2008 and the issues which are addressed by the committee's recommendations are as follows: The extent of the institutional entities' duty to participate and vote, dealing with the concern of conflicts of interests by encouraging the activity of professional entities that will assist the institutional entities to consolidate their decisions in voting, encouraging the institutional entities to enhance their involvement in those sectors that deviate from voting in the general meeting, and to examine the quality of the corporate governance of the corporations in which they invest, removal of barriers against joint action of institutional entities, and changing the mechanism of appointing external directors, in order to encourage active involvement of the institutional entities in this sector. Regarding the Circular for Increase of Involvement of Institutional Entities in the Capital Market that was published in 2009 in accordance with the recommendations of the committee, see clause 3.1.2 (W) hereunder.

8.2.8 Decision of the Commissioner of Restrictive Trading Practices Regarding Credit Consortium Arrangements

In March 2008, the Commissioner of Restrictive Trade Practises published a decision with respect to credit consortium arrangements between banks and insurance companies, and between insurance companies among themselves, when the following cumulative conditions are met: A) Association of the entities in a consortium, as aforementioned, is essential in that without the said joining it will not be possible to extend credit to a customer at reasonable terms. This requirement means that it can be shown that without joining in such a consortium the extent of risk to which each institutional entity by itself is exposed is significantly higher as compared with the level of risk of a consortium, so that these gaps may be expressed in the rate of interest of the credit extended; B) The joining was with the prior written consent of the customer, on a separate form; C) The customer will be given the option to negotiate the terms of the credit with any one of the said entities that are members of the consortium, including by a representative he appoints. The decision does not prevent banks and insurance companies, or insurance companies, who wish to extend credit jointly, otherwise than according to the terms in the decision, to apply to the Commissioner of Restrictive Trade Practises in a process of a specific exemption. The decision shall be in force 3 years. In February 2011 the Commissioner published an updated decision of the matter, whose salient point is repealing the essentialness demand (sub-clause A above) as a condition for the activities of a credit consortium. At the same time and against the background of a concern that competition might be detrimentally affected, directives and supervision, documentation and reporting provisions were determined in the decision which were designed to ensure that competition is not affected as a result of the cooperation between the competitors acting as a credit consortium. The updated decision is valid for a period of two years from the publication date of the decision.

8.2.9 Proposed Increased Enforcement in the Capital Markets (Legislative Amendments) Law – 2010

In October 2010 a Proposed Increased Enforcement in the Capital Markets (Legislative Amendments) Law – 2010 was published regarding the supervisory authorities and enforcement of the Commissioner of Capital Markets. The bill proposes that amendments be made to the Insurance Contact Law, the Provident Fund Law and the Pension Consultancy Law, regarding the administrative supervisory and inquisitive authorities of the Commissioner, the financial penalty rates that the Commissioner is entitled to impose and event in respect of which the Commissioner is entitled to impose it. As part of the draft law as aforementioned, it is proposed that the Commissioner be provided with administrative investigatory, enforcement and punitive authorities, in relation to compliance with legal provisions and directives of the Commissioner. As part of the provisions of the draft law as aforementioned, the Commissioner will be provided, *inter-alia*, with search, confiscation and access to computer authorities, investigative authorities in addition to which the financial penalty authorities applicable to the supervised entities will be increased and the list of events in respect of which the Commissioner is entitled to impose the penalties as aforementioned will be extended, in addition to imposing financial penalties also on employees and presiding officers.

Provisions of this nature are similar in their substance to the directives that were set out and determined in the Streamlining of Enforcement Procedures in the Securities Authority (legislative amendments) – 2010 ("The Administrative Enforcement Law") whose aim is to increase enforcement in the capital market, whilst providing administrative tools to the supervisory parties instead of conducting criminal proceedings. See also clause 8.2.14 hereunder.

8.2.10 In June 2010 an amendment to the Uniform Contracts Law – 1982 was published, which states that types of suppliers that will be decided upon by the Justice Minister will be required to include a remark on uniform contracts that the uniform contract has not yet been approved by the Uniform Contracts Court in the following cases: The court has not approved the contact, a motion has been filed with the court to approve it or where the supplier has not requested the approval of the court. The purpose of the amendment is to required suppliers to state the aforementioned clearly and thereby increase public awareness of the ability of the Uniform Contracts Court to check these types of contracts as well as to encourage suppliers to approach the court to obtain its approval as aforementioned. The amendment comes into effect 6 months from 3.6.2010. This amendment will not apply to uniform contracts which have been executed prior to its effective date.

8.2.11 In March 2010 Amendment 21 to the Supervision of Financial Services (Insurance) Law – 1981 was published, which extends the entities that the Commissioner of Insurance to disclose knowledge or show a document provided that it is clear that the knowledge or the document are required for the purpose of fulfilling the duties of the same entities. The amendment which applies to the clause relating to "Provision of information to a supervisory authority in Israel" determines that in addition to the disclosure permit to the Securities Authority and the Supervisor of Banks, the Commissioner is also entitled to disclose knowledge as aforementioned, to the Bank of Israel. This amendment becomes effective from 1.6.2010.

8.2.12 Companies Law (Amendment No. 16) (Streamlining Corporate Governance) – 2011

The amendment to the law that was published in March 2011 contains several amendments to the Companies Law – 1999, including applying the principal of independent discretion in the voting of a director in board of director meetings and its committees. As part of the law the status of the audit committee and its dependence on the controlling owner of the company has been increased, and the power of the public has been increased – following the amendment it will be possible to enable a company to extend the cadence of an external director for two additional periods of three years each, even without the support of the controlling shareholder, the definition of "closely related party" has been extended in the law such that it will apply to a brother and parent of a spouse, in addition to which the provisions relating to a derivative action and proposed acquisition have been amended.

8.2.13 Checking the credibility of supervised entities

In December 2010 the Ministry of Finance, the Securities Authority and the Bank of Israel published a notification regarding checking credibility by the supervising entities. This notification was published in light of the structure and the dimensions of the capital market in Israel and in light of the fact that this market is supervised by several commissioners, and accordingly uniform measures must be implemented to check credibility by the various commissioners. The notification contains a list of tests relating to checking credibility as aforementioned. The existence or fulfilment of the tests detailed in the list constitutes a cause to examine the existence of credibility being detrimentally affected, either by approving the cadence of an officer or by providing a permit to hold control means or the control of the supervised entity and also in determining reasons to effect amendments, suspension or revocation of the approvals and the permits which they have provided. The said tests include conviction of an offence, filing an indictment regarding an offence that creates a suspicion of credibility being detrimentally affected, criminal investigation for an offence which creates a basis for credibility having been detrimentally affected, accumulative complaints of clients in connection with a legal offence etc.

8.2.14 Streamlining Enforcement Procedures in the Securities Authority (Legislative Amendments) – 2011 (Hereinafter – "the enforcement procedure streamlining law")

In January 2011 the Streamlining Enforcement Procedures in the Securities Authority (Legislative Amendments) – 2011 was published in the official legal publications which comes into effect gradually from 27th February 2011, regulating a new enforcement procedure – an administrative enforcement procedure and contains a list of administrative violations relating to the three central laws which the Securities Authority enforces – the Securities Law, the Consultancy Law and the Investments in Mutual Trusts Law the most of which are violations which are done negligently. The administrative enforcement procedure will be part of three enforcement procedures: criminal, administrative criminal and monetary fine. The enforcement procedures mentioned will apply, *inter-alia*, to: reporting corporations, officers therein (directors and managers), the CEO (who also bears supervisory liability), the trust fund management company, officers in the trust fund manager company and investment portfolio managers. As part of the administrative enforcement procedure the enforcement administration will be authorised to impose on anyone who is found to have committed a breach, a list of sanctions: imposing monetary fines of up to one million shekels per person and five million shekels per corporation, the prohibition of presiding in entities which are supervised by the Authority (reporting corporations, underwriters, fund managers, and licence holders) for a period of up to one year, and with the approval of the court for a longer period, revoking the license of a licence holder in accordance with the Consultancy Law or approval of the manager of the fund and trustee or suspension for a period of one year, and with the approval of the court for a longer period, enforcement of actions to rectify a breach and prevent its recurrence, payment to victims of the breach. Furthermore, as part of the enforcement proceedings, the chairman of the Securities Authority is authorised to reach agreement with the violator or the criminal to reach an arrangement to avoid taking enforcement proceedings, in addition to which the chairman of the Securities Authority and the District Attorney have been authorised to reach an agreement regarding suspension of proceedings which have already commenced, subject to certain conditions. Authorised sanctions will be imposed upon the violator in such an arrangement. On 17th February the **Securities Regulations (Reduction of Monetary Fine Amounts) – 2011** were published, stating the circumstances in which the authority is entitled to reduce the amount of the financial penalty which is stated in the Enforcement Streamlining Procedures.

8.2.15 Circulars of the Commissioner

Hereunder are highlights of the major circulars published by the Commissioner in the last two years, which apply to the Group (in addition to the specific circulars detailed in chapters 3 to 7 above):

(1) In October 2006 the Commissioner published a circular concerning **fraud and embezzlement by parties in the organisation and outside of it.** The objective of the circular is to establish basic principles for manners of coping by an institutional body with fraud or embezzlement by parties in the organisation and outside of it. This circular also anchors the duty of reporting to the Commissioner in the event of fraud or embezzlement by an employee of the institutional body, an insurance agent, a pension advisor or another supplier of services associated with the institutional body. The circular further establishes directives with respect to the responsibility of the board and the internal auditor for implementing the circular, the manners of coping with fraud and embezzlement in the institutional entity, internal procedures and the duty of conducting a risk survey on fraud and embezzlement. The provisions of the circular commence from the day of their publication except for certain sections whose date of commencement was set for 30th June 2007.

(2) In October 2006 the Commissioner published a circular (that was updated in June 2007), with respect to a **directive for management of data security risks in institutional entities.** The circular establishes directives in three major sectors: requirements of the issue of management of data security in the organisation; general requirements of implementation of data security controls, and the handling of issues that require special attention. The circular further stipulates provisions with respect to the responsibility of the board of directors and management

for implementation of information security controls and handling issues that require special attention. The circular establishes transitional provisions and commencement of the various sections.

(3) In October 2006 the Commissioner published a circular concerning the **launching of insurance plans or by-laws of new provident funds or entering a new field of activity in an institutional entity** (Hereinafter in this clause: **"project"**). The objective of the circular is to define the minimum activities which an institutional entity shall engage when launching a project, aimed at ensuring its orderly management. The circular addresses, *inter-alia*, the management of risks embedded in the project, ensuring the capacity to realise it, and the rights of customers thereunder, scheduling milestones for its implementation, ensuring the existence of control systems, and assimilating the project in the computerised systems of the institutional entity, and the documentation of all these. The circular further stipulates that the board of directors shall determine general guidelines with respect to the launching activities, the management shall prepare a detailed work plan according to the board's guidelines and the internal auditor shall examine the manner of implementing the work plan during the year following the launching year.

(4) In October 2006 the Commissioner published a circular concerning the **procedure for submitting new insurance plans and by-laws of providence funds for the approval of the Commissioner** (Hereinafter in this clause: **"the plan"**). The circular addresses changes in existing plans, as well as the launching of new plans. The circular stipulates that to the application shall be attached a letter signed by the CEO of the management company of the provident fund or the head of the division in charge of the relevant insurance branch in the insurance company, in which shall be detailed the particulars of the application in accordance with the circular. To the application for the approval of an insurance plan or by-laws of a pension fund or changes therein, shall be attached an appendix prepared by the actuary of the institutional entity who, *inter-alia*, reviews the terms of the plan which may materially affect the tariffs, the coefficients and the underwriting liabilities associated with the plan and the application. An appendix attached to an application for an insurance plan, shall include a declaration by the actuary to the Commissioner.

The declaration shall include, *inter-alia*, a certificate that the tariffs are sufficient / insufficient for covering the costs related to the insurance cover in the plan.

The circular further stipulates that the manager in charge shall submit a statement, certifying that the risk manager of the institutional entity verified that the institutional entity is organised for managing the risks in the plan and that the person in charge of the computerised systems in the institutional entity confirmed that the institutional entity is prepared to provide computerised support to the plan. The provisions of the circular shall apply from the date of its publication.

(5) In October 2006 the Commissioner published a circular that stipulates **rules concerning the duties, authorities and manner of work of an chief actuary and of a risk manager in an insurance company and in a management company of a pension fund, and with respect to the fabric of relations between the chief actuary and the risk manager and between them and other officers of the insurance company.** The objective of the circular is to solidify the infrastructure of the insurance company in order to ensure the professionalism of the advisors of the board and the management of the insurer, and due disclosure to the public of the assessments of the insurer's underwriting liabilities; ensuring the providing of comprehensive and continuous advice to the board of directors and the management of the insurance company, with respect to every material risk to the future financial position of the insurer, as well as with respect to every material risk pertaining to the assets held against the yield dependent liabilities; ensuring the existence of adequate resources and controls for quantifying the said risks, to monitor them and control them as well as to implement a methodology for assessing the potential impact of the said risks and of the correlation between them, as a preliminary stage for the allocation of capital, based on the measurement of risks and economy capital in the insurance company.

(6) In November 2006 the Commissioner published a circular concerning the **work procedure of the board of directors and its committees.** The objective of the circular is to determine rules and principles for ensuring the efficient operation of the board of directors. The circular stipulates, *inter-alia*, that the board shall set up a procedure which will contain, *inter-alia*, the following matters: stipulating the manners of monitoring the implementation of the resolutions of the board and its committees, the manner of training of a director appointed for

the first time, ongoing advanced training for directors, the manner of passing resolutions by the board, preparation of material for board meetings and its distribution, administering the minutes of the meeting, frequency of meetings and the duty of monthly and quarterly reporting by management on the corporation's business status.

(7) In August 2007 the Commissioner published a circular concerning the **provision of non-negotiable credit by institutional entities** (further to the position paper in this matter dated April 2005). The objective of the circular is to ensure the existence of administrative, professional and operational support, proper organisational structure and infrastructure, and adequate supervision and control mechanisms for the management of credit risks in an institutional entity. In the framework of the circular an emphasis was put on ensuring the existence of adequate supervision and control mechanisms, while taking into account, as much as possible, the scopes of activity and its complexity and the existing organisational structure in the institutional entities, and meticulously establishing basic structural separations for avoiding conflicts of interests and the utilisation of internal information. The circular further deals with the obligatory activities that should be carried out in the process of providing non-negotiable credit, the entities that will carry them out, and the fabric of relations between them, including determining a supervision policy by the board of directors, the development of an internal rating model, operating the credit, ongoing control of credit, and internal audit. (Hereinafter - "**The circular on non-negotiable credit**").

In August 2007 the Commissioner published a circular concerning the **management of credit risks incidental to investment activities.** The objective of the circular is to ensure the existence of adequate administrative, supervision and control mechanisms for managing credit risks while maintaining investment activities by institutional entities. The circular establishes rules and tools for determining a policy for providing credit, supervision, control and reporting. (Hereinafter - "**The circular on managing credit risks while maintaining investment activities**").

(8) In August 2007 the Commissioner published a circular concerning a **system of internal audit in an institutional entity.** The objective of the circular is to regulate the system of internal audit in an institutional entity, *inter-alia*, while determining the duties of the system of internal audit, ensuring its independence, manner of work, qualification of the audit

staff, and the duties of reporting by the internal auditor, while giving details of a formula for calculating the minimum number of hours required as a derivative of the scope of activity of the institutional entity. It was further established in the circular that members of the staff of the system of internal audit shall not serve in any other position in the institutional entity, including the position of the officer in charge of public complaints except for the position of the officer in charge on workers complaints, and that the annual and multi-annual work plans shall be based on a survey of risks in all the fields of activity of the institutional entity. Furthermore, a third draft was published of the Supervision of Financial Services Regulations (Insurance) (Qualification of Internal Auditors and Rules for Avoiding Conflicts of Interests), 5767-2006.

(9) In July 2008 the Commissioner published a circular concerning **preparations for implementing the Solvency II directive**, which was adopted by the European Union in July 2007. The objective of the circular is to ascertain that the organisational preparedness of the insurance companies in Israel for implementing the proposed directive at the same time of its implementation in the member countries of the EU.

The directive is a fundamental change of the regulation relating to ascertaining the solvency and the capital adequacy of insurance companies and deals *inter-alia* with calculations of capital requirements in respect to exposure to insurance risks, market risks, credit risks and operating risks. The circular provides guidelines concerning the appointment of an officer in charge and a team of associates who will be in charge of advancing the deployment for implementing the directive, as well as directives concerning the manner of preparation by the board of directors for supervision and control of implementing the preparedness plan.

In May 2010 the Commissioner published a letter regarding **preparations for the implementation of the Solvency II directive** in which he notifies the insurance companies that further to the aforementioned circular, a bespoke department has been established in the Capital Markets Division which will lead the process of implementation and assimilation of the directive and will manage the project as well as internal work groups, which will collate the requirements from the insurance companies in the various sectors in the project. Pursuant to the same, the Commissioner published, in December 2010, directives regarding the fifth Quantitative Impact Study (QIS5) including determining clarifications and necessary modifications in Israel. The circular determines the dates and the manner of submitting the Quantitative Impact Study report and the Qualitative Impact Report which the insurance companies are required to submit to the Commissioner. It is also stated in the circular that the board of directors in insurance companies must discuss the findings of the Quantitative Impact Study report and the findings of the Qualitative Impact Report prior to their submission to the Commissioner, as well as to discuss the finding of a gaps report regarding the procedures for calculating the capital requirements which are submitted to him by the management of the insurance company. The circular applies to all insurance companies operating in Israel and the directives of the circular are effective from the date of its publication.

(10) In the light of events in the year 2008 in the local and international capital markets, which affected *inter-alia* on the trading in negotiable and non-negotiable corporate debentures, their market value and their fair value, the Commissioner published in November 2008 a circular concerning **emergency rules for investment in corporate debentures, which became effective on its publication date.**

The circular allows the institutional investor – management company for investments for a provident fund it manages, and insurers for investments against yield-dependent liabilities – to purchase corporate debentures, both negotiable and non-negotiable, or frameworks employed by borrowers, in their meaning in the circular, up to a level of 3% of all assets under its management, and to present the said investment at adjusted cost and not at market value or fair value, subject to the terms published in the circular, and *inter-alia* on condition that the debentures be held until maturity, excepting in special circumstances that have been approved by the investments committee, and on condition that the institutional investor open an "investment line", namely a special account in which only corporate debentures will handled or frameworks employed by borrowers that have been purchased or awarded, as applicable, from the start date of the circular until the date to be informed by the Commissioner, in accordance with the principles enumerated in the circular, separately for each fund or investment track. It is also stated in the circular that investment committees must discuss, at least once per quarter, the manner in which the investment framework is managed.

(11) In July 2008 the Commissioner published a circular on the subject of **first time calculation of investment assets in an institutional entity.** The objective of the circular is to determine

the way of calculating the value of a negotiable asset and a non-negotiable asset at the time of the first recognition of the asset, in view of the increase in the volume of investments by institutional entities in non-negotiable assets. The implementation of the circular ensures that purchase of such assets will take place for economic considerations and the accumulation of profits or losses in members' accounts of institutional entities will reflect the latent economic value of the assets in which the institutional entities are investing.

(12) In March 2009 the Commissioner published a circular concerning **directives for the external auditors of an institutional entity.** The circular determined the rules for ensuring the independence of the external auditor of an institutional entity and his suitability to carry out the audit of an institutional entity, including rules for the suitability of an external auditor, the requirement for rotation of the partners at the accountancy firm responsible for the audit at an institutional entity, and a review of the said audit, the duty of cooperation by the institutional entity with the external auditor, and the various reporting responsibilities of the external auditor.

(13) In March 2009 the Commissioner sent to insurance company managers, pension fund management company managers and provident fund management company managers a letter directing that effective from the financial reports for 2008 and until 31st December 2010, insurance companies and management companies must not distribute dividends without the prior approval of the Commissioner. The Commissioner also stated that as a rule the division of dividends exceeding 25% of the profit permitted to be allocated will not permitted.

(14) In April 2009 the Commissioner published a circular regarding **dealing with problematic debts and the activities of institutional entities in collecting debts.** The purpose of the circular is to ensure that institutional entities act to collect debts independently or together with other lenders, as well as to define a framework for the preparation of an institutional entity for the regular monitoring and control of the debt it manages and dealing with problematic debts, including taking a decision regarding means for collecting the debt.

The circular states that the board of directors of an institutional entity must approve a framework of guidelines regarding the existence of regular control of the status of the debt and the existence of a structured work procedure that should take place in the institutional entity for the early detection of a decline in the quality of the credit, early detection of mishaps during the term of the debt, identification, detection and classification of bad debts as well as steps to be taken to deal with the debt as aforementioned. Similarly, the management of the institutional entity must appoint a team of suitable officers ("debt forum"), having expertise and experience in the credit or investments sector, that will be responsible for performing a process of assessing the status of debts, including distinguishing between problematic debts and other debts, as well as to distinguish between different types of problematic debts – debts subject to special supervision, arrears and doubtful debts. The debt forum must submit various reports to the credit committee and to the investment committees. The credit committee must discuss the methods and means of collecting debts which have been identified as problematic debts and which are in the field of its handling in accordance with the circular, and must provide a recommendation to the investment committee. The circular sets out additional rules regarding the activities of institutional entities for collecting problematic debts, financing debt arrangements and taking measures to collect it, taking decisions regarding steps which will be taken by the institutional entity and regarding participation in the creditor delegation, approving the conditions of a debt arrangement, repurchasing corporate debentures that the debtor has issued, documentation and publication duties.

(15) In May 2009 the Commissioner published a circular regarding **the contribution of investment components of the nostro accounts of insurance companies.** The circular states that insurance companies must publish, on a quarterly basis, the yield components of its nostro account, stating the contribution of each investment channel to the yield of the nostro funds it manages, divided between types of liabilities and must report to the Commissioner accordingly via its internet site. The circular states that the first report in respect of the yield components must be submitted together with publication of the data in respect of the third quarter of 2009.

(16) In June 2009 the Commissioner published a circular regarding **regulating the manner in which the supervised entities act in the context of clarifying complaints from the public.**

The purpose of the circular is to define the manner in which the supervised entities act in the course of dealing with complaints which are submitted in respect thereof to the Commissioner. The circular instructs the supervised entities as to how to act as soon as they receive notification from the Commissioner of a complaint being lodged including regarding the presentation of relevant documents and a timetable for dealing with the complaint. The commencement date of the directives of the circular is 1st September 2009.

(17) In June 2009 the Commissioner published a circular regarding **the responsibility of the management for the internal controls of financial reporting.** This circular is pursuant to previous circulars regarding this issue and contains directives whose purpose is to postpone the implementation date of the requirements of section 404 of the SOX Act, regarding the responsibility of the management for the internal control of the financial reporting. The circular sets out a timetable for interim stages in implementing the directives. In November 2010 the Commissioner published an amendment to the said circular which sets out the timetable in connection with attaching management declarations regarding the internal control and the opinion of the auditor to the financial statements.

(18) In July 2009 the Commissioner published a circular regarding **prior declaration of an institutional entity of its investment policy.** In accordance with the circular, every institutional entity is required to declare, by the end of January in each calendar year, of its anticipated investment policy for the forthcoming year and this in order to establish a defined investment policy that will be examined together against relevant relative indices and will enable the supervision and monitoring of the performance of the institutional entity. In this policy, that must be published in the internet site of the institutional entity and via the periodic reports that are sent to the public, the central investment channels must be stated in the track and their comparison to central relative indices that have been defined. Similarly, specific directives have been set out for specialist investment tracks (investing 50% or more in a specific investment track) and non-specialist investment tracks as well as directives for reporting regarding changes to the investment policy. The circular applies to the investment policy effective from 2010 onwards.

(19) In August 2009 the Commissioner published a circular regarding **the operation and control system in the investment sector of institutional entities.** The purpose of the circular is to ensure the existence of an organisational infrastructure for the operation of investment assets of institutional entities and control of their management, characterised by defining the statutory duties and areas of responsibility and structural division vis-à-vis conflicts of interest. The directives take effect from 1st January 2010.

(20) In August 2009 the Commissioner published a draft circular regarding **working via a split account and preventing front running.** The draft established procedures regarding the manner in which institutional entities operate via split accounts which enable an operational solution to the management of investments in the various investment accounts parallel to ensuring equitableness between the accounts and preventing a situation of front running.

(21) In October 2009 the Commissioner published a draft circular regarding **collecting statistical information in the course of dealing with requests to withdraw funds and transfer funds.** The draft instructs institutional entities to collect statistical information regarding the manner in which they deal with requests to withdraw funds, to obtain a retirement annuity and transfer funds, for the purpose of publishing indices which will be used by potential members in selecting the institutional entity. The draft determines the types of data that must be collected in respect of each type of request, directives regarding the collecting and maintenance of the data, the manner of reporting to the Commissioner as well as the duty to present the data in the internet site, in accordance with the appendix in the circular, for at least the last four years.

(22) In November 2009 the Commissioner published a circular regarding **receipt of payment or gratuities by an agent from a service provider or institutional entity.** The purpose of the circular is to prevent a concern of conflict of interest between the personal interests of the agent and those of the client and obliges the insurance that refers a client to a service provider and/or recommends it and/or is involved in its selection, to act purely in the best interest of the client and in accordance with professional discretion. Accordingly, the circular extends the prohibition detailed in insurance circular 2007-1-8 "Motor Insurance Loss Adjusting (Property and Third Party Property Damage)" and prohibits insurance agents from receiving payment or any other gratuity, either directly or indirectly, including from an institutional entity, by virtue of referring a client to a service provider such as: a lawyer, loss adjuster, doctor, repair garage, surveyor and installers or suppliers of protection systems. It should be pointed out that for the purpose of this circular, institutional entities are not considered as service providers. The circular comes into effect on the date of its publication.

(23) In November 2009 the Commissioner published a circular regarding **remuneration policy in institutional entities.** In

accordance with the circular, the remuneration structure in institutional entities must be based on an equitable balance between the desire to remunerate officers and employees for their achievements and the need to ensure that the remuneration structure meets the best interests of the investors and the overall organisational strategy of the institutional entity in the long term. The circular determines the process for establishing the policy and guidelines for establishing remuneration policy for officers in institutional entities as well as of officers and employees employed in the investment arm of the institutional entity. In March 2010 the Commissioner published a clarification to the said circular regarding the date of publishing the policy of remuneration of officers in the institutional entity. According to the clarification the remuneration policy of officers involved in investment management in 2010 will be published in the internet site of the institutional entity by 31st July 2010 however there will be no duty to publish this policy in the annual report, whereas in relation to the other matters dealt with in the circular the remuneration policy must be published in the format which is stated in the circular effective from 2011. For further details of the remuneration policy of the Company see clause 8.6.7 below.

(24) In December 2009 the Commissioner published a circular regarding **establishing rules for publishing yields for institutional entities,** which is designated to enable the consumer to make a comparison between institutional entities and enable them to reach an educated decision regarding their investments. The circular prohibits institutional entities and pension insurance agents from publishing information regarding yields that contain misleading information, or to rely on data or information that was provided by another party, prior to their credibility having been checked and prior to a monthly report being submitted to the Finance Ministry in this regard.

The circular establishes detailed directives regarding publication of yields of investment channels, repeals the possibility of presenting the yield of the previous month, and determines, *inter-alia*, that the yield that is presented must be an annual average gross yield for the publication period selected, subject to additional conditions detailed in the circular. The circular also determines directives regarding the publication of comparative yields and necessitates obtaining a legal approval of compliance with the directives of the circular prior to publishing the yields.

(25) In January 2010 the Commissioner published a second draft circular **regarding institutional entities entering into**

agreements with license holders. The purpose of the draft is apply the directives of insurance circular 2004/14 regarding agreements between insurers and insurance agents, with the necessary amendments, to all agreements between pension consultants and insurance agents with institutional entities, and *inter-alia* – the duty to maintain a written agreement between the institutional entity and the license holder, whose conditions include a duty of the agent to hold funds collected from insureds in a separate account that it manages as a trustee of the insured, as instructed by the Commissioner.

(26) In March 2010 the Commissioner published a clarification letter regarding **criteria for approving dividends by an insurance company.** The purpose of the letter is to clarify the conditions for filing a request to obtain the approval of the Commissioner insofar as the distribution of dividends is concerned, effective from the publication date of the periodic financial reports for the year 2009. An insurance company whose capital after distribution of a dividend is higher than 110% of the amounts required in the draft, will be entitled to distribute a dividend without the need for the prior approval of the Commissioner provided that notification is submitted to the Commissioner prior to distribution of the dividend regarding distribution of the dividend together with the documents required per the letter.

(27) In July 2010 an institutional entities circular was published regarding **directives regarding investments by institutional entities in non-governmental debentures.** The circular adopts the findings of the final report of the committee for determining the parameters for addressing institutional entities which provide credit via non-governmental debentures (known as the "Hodak Committee"). The provisions of the circular determine, *inter-alia*, the duty of preparing an analysis prior to purchasing non-governmental debentures, the duty of obtaining a specific approval for the purchase of non-governmental debentures at an extent which exceeding the minimum extent stated in this regard, the duty of obtaining specific information as a condition for purchasing the debentures as aforementioned, during the lifeline of the debenture, determining contractual conditions and financial criteria being a condition for the purchase of debentures as aforementioned which are recommendations however are not a binding condition for the purchase aforementioned. The proposed directives are not intended to derogate from the existing directives relating to the establishment of a credit array in the institutional entity and the manner in which it operates.

(28) In August 2010 the Commissioner published a circular regarding **management of information technologies in institutional entities**. In accordance with the circular institutional entities have the duty to manage the information technology sector in accordance with the conventional professional standards and based on suitable corporate governance principals including addressing the methods, the procedures and the controls required for managing the information technology sector, and this in order to ensure their proper management and support in the business activity and legal provisions, paying attention to preserving the rights of the insureds. The circular determines, *inter-alia*, directives regarding the direct liability of the institutional entity in determining policy and strategy in the information technology sector (information technology governance); the existence of orderly procedures for complying with the external and internal compliance requirements in the information technology sector (ensuring compliance); the existence of orderly procedures for managing risks in the information technology sector (managing information technology risks); directives for the management and control of information in order to ensure the reliability of the information, its intactness, accessibility and its relevance for the functioning of the institutional entity (control of information and management of data); conventional principals and work procedures in making purchases and significant projects in the information technology field (purchases and projects). The existence of a suitable system for managing the changes in the information systems in institutional entities in order to ensure that the said changes are documented and can be supervised and controlled on a routine basis (managing changes); determining principals and work procedures to ensure the proposer management of the processed carried out by outsourcing in the information technology sector, with awareness of the risks and the exposures of the entity and in order to ensure control and monitoring of the processes and the information managed by outsourcing. This circular addresses the core activities of the institutional entities in the Group and it is expected to have a significant impact on all of its fields of activity.

(29) In November 2010 a draft circular was published regarding **customer service in institutional entities.** The purpose of the draft is to determine procedures to ensure the service level that the institutional entity provides to its customers. The provisions of the draft include: The requirement of the management of the institutional entity to establish a service charter which will include quality and excellence indices for service as well as the

right of the customer to obtain service; an institutional entity must determine for each type of service provider rules relating to the professional level required from it for providing service; the senior staff of an institutional entity must include a customer service officer who will report to the CEO and the board of directors; the board of directors of the institutional entity will determine the policy of the institutional entity for the provision of service. In accordance with the draft, the provisions will take effect from 1st January 2012 other than the effective date of clause 6 (A) regarding outlining the policy by the board of directors whose effective date is 1st May 2011.

(30) In August 2009 the Commissioner published a circular regarding **the investigation and settlement of claims and dealing with complaints.** The circular instructs the institutional entities to establish a set of rules for investigating and settling claims (each claim for exercising rights in accordance with the conditions of the insurance policy) and dealing with complaints from the public, subject to the detailed directives of the circular, addressing, *inter-alia*, the duty of submitting and presenting documents, notifications and other information to the claimant, starting from the stage of investigating the claim until its settlement; establishing a timetable for replying to claims and complaints; rules for keeping information and documents; and directives regarding publication of the set of risk, *inter-alia*, in the internet site of the company. Similarly, the rules must be uniform for all types of claims (other than if there is justification for differences due to the characteristics of the claim) and for all types of claimants (Hereinafter: "**the set of rules**"). It was also determined that a management company must including the set of rules in the statute of the fund which it manages, and for the purpose of the duties of insurance companies the set of rules will be construed to be part of the insurance policy conditions. The circular states the actions which the board of directors and the management must implement in order to implement it. According to letters that the Commissioner published in August 2010 and in January 2011 the provisions of the circular were postponed by four months until 1st May 2011, other than regarding compulsory motor bodily injury insurance, in respect of which the provisions of the circular take effect from 1st November 2011.

(31) In September 2009 the Commissioner published a circular regarding **collecting statistical information regarding claims settlement.** The circular determines the manner of collecting and maintaining claims data, detailed in the circular and its

appendices, which must be reported to the Commissioner and published in the internet site, in each calendar year relating to the previous year, and this in relation to claims which have been made in the last four years. The circular requires the institutional entities to publish indices in relation to the manner in which they settle claims such that they will constitute a further tool for potential insureds and members to decide upon the institutional entity to work with. The circular takes effect from 1st January 2011 and states various transitional provisions.

(32) In January 2011 the Commissioner published a third draft circular regarding capital requirements of management companies of provident funds and pension funds together with publication of **Draft Supervision of Financial Services Regulations (Provident Funds) (Minimum Capital Required of a Management Company) – 2011.** The purpose of the draft is to establish the minimum capital requirements of management companies in a manner which will satisfactorily address the risks to which they are exposed. The draft determines the manner of calculating the minimum capital requirements of management companies, the various alternatives for holding the required capital, restrictions on distributing dividends by the management company if its capital does not exceed the capital required of it in accordance with the regulations as well as directives regarding the manner of investing the minimum capital required of the management company. As part of the draft regulations and the draft circular certain leniencies were established for various types of provident funds including a possibility of a certain reduction of the minimum capital requirement in certain cases stated in the draft regulations. See also note 15 to the Financial Statements.

(33) In January 2011 the Commissioner published a draft circular regarding **digital signatures**. The purpose of the draft is to improve and streamline the submission of documents from a license holder of an institutional entity to shorten the document submission times and to improve the service to the client. The draft established directives for a licence holder using a digital signature to obtain the client's signature on documents as part of executing the transaction including the manner of obtaining the client's signature and the manner of locking the signed documents for archive purposes.

(34) In February 2011 the Commissioner published a draft clarification regarding directives for institutional entities investing in non-government debentures (Hereinafter: "**the investment in debentures circular**"). The draft clarification

contains directives regarding investments by institutional entities in debentures, negotiable or non-negotiable, which have been issued as part of extending a series, either before or after 1st October 20101, and details of the directives contained in the investment in debentures circular which will apply in each of the said cases, as applicable. Similarly, the draft contains clarifications regarding the terminology contained in the debenture investment circular as well as the directives applicable to an institutional entity managing the investments via outsourcing.

(35) In March 2011 the Commissioner published a circular regarding **directives for calculating the value of non-negotiable assets of an institutional entity.** The circular establishes principals regarding the manner of calculating the value of assets held by institutional entities which must be presented in fair value terms, in compliance with the currently prevalent international accounting standards according to which preference should be given to the fair value of the asset over and above the historical value for the purpose of valuation and disclosure. The circular was published pursuant to notifications from the Commissioner regarding commencement of the activities of Fair Margin Ltd. following it winning the tender to establish and operate the price quotation and interest rate database, which will be supplied to the institutional entities. The circular contains directives regarding valuing the value of an asset which is not a negotiable security (depending on the type of asset), directives regarding calculating the value of a marginally negotiable security and directives regarding calculating the value of a debt asset of negotiable instrument in accordance with the fair value quotation model which the company that won the tender established. The majority of the provisions of the circular take effect on the date on which the company that won the tender starts operating. The circular repeals several circulars on this matter. At the same time, the Commissioner published a further circular regarding **model for determining the fair value of a non-negotiable debt asset**. In the circular it is clarified that in light of Fair Margin Ltd. winning the tender for establishing and operating the individual price quotation and interest rate database for institutional entities, the institutional entities must prepare themselves for the date on which its starts operating and working with it at the conditions detailed in the tender. In accordance with the directives of the circular the winner of the tender has been authorised to publish execution instructions for using the model to evaluate non-negotiable debt assets. The circular take effect on the date on which the company that won

the tender starts operating, which has been set, according to notification from the Capital Market, Insurance and Savings Division in February 2011 as 20th March 2011.

(36) In March 2011 the Commissioner published a second draft circular regarding **improving rights data of the members in institutional entities.** The purpose of the draft circular is to define the actions that an institutional entity is required to perform in order to ensure that the rights of the members which are registered in the information systems of the institutional entity are reliable, intact and accessible and can be retrieved. The draft circular establishes a general work framework for the improvement project including the duty of an institutional entity to conduct a deficiencies survey regarding the existing information, locating faults in the existing information and checking its quality, devising a model for mapping out and grading the deficiencies which are found in the deficiencies survey and preparing a detailed work program (whilst addressing the matters detailed in the draft circular) to deal with each fault or group of faults which are found. Similarly, it was determined that an institutional entity must improve the holdings interface data such that the data contained in the holdings interface are complete and consecutive for the entire period of the saving. The circular also established directives regarding management of the improvement project at the institutional entity including the manner of supervision and control by the board of directors and the management, establishing a steering committee in order to establish the work program, the duty to document all of the issues detailed in the draft circular and reports to the Commissioner by the institutional entity in connection with improving the rights of the members as aforementioned. In accordance with the draft circular, institutional entities are required, *inter-alia*, to perform the deficiencies survey by 30th September 2011, to arrange the existing data and preserve it by 30th September 2012 and complete the improvement project in its entirety by 30th June 2014. The Company is studying the directives of the draft circular. It should be pointed out that implementation of the directives of the draft circular will require considerable financial and administrative resources.

8.2.16 Licenses

The Group, including Shomera and its subsidiaries that were acquired by the Group has licences and/or permits to operate as an insurer, an agent, or a management company, as the case may be, as required in law.

Pursuant to section 15 of the Supervision Law, the Group has an Israeli insurers' licence, to engage in the pension branch as well as the following classes of insurance: comprehensive life assurance; personal accident; illness and hospitalisation; employers liability; compulsory motor bodily injury insurance; motor casco insurance (own damage and third party insurance); comprehensive homeowners and comprehensive business; aviation, including third party liability; marine, including third party liability; goods in transit; third party liability; property loss; agriculture; engineering; product liability insurance; provision of guarantees; other risks; and investments of apartment purchasers.

The Group holds also a licence of a management company of provident funds and approvals of provident funds for the pension funds that it manages, as well as a licence for managing investment portfolios, under the Regulation of Investment Counselling Law, and a permit for Menorah Mivtachim Funds for the Management of Trust Funds. Additionally, Menorah Mivtachim Underwriting is registered in the Register of Underwriters, in accordance with the provisions of the Securities Regulations (Underwriting) (Amendment), 5767-2007.

8.2.17 Permit for holding means of control

According to the provisions of the law, holding of means of control and control of an insurer (including in a management company of a pension fund), in an agent and in a management company of a provident fund, are subject to receiving a permit from the Commissioner of Insurance or from the Commissioner. In December 2007 the Commissioner granted[11] Mr. Menahem Gurwitz a permit for holding means of control and control, directly and indirectly[12], through the Company in the following insurers: Menorah Mivtachim Insurance, Menorah Mivtachim Pension and Shomera; in the management company Menorah Mivtachim Gemel; and corporate agents: Sinai Insurance Agency Ltd., Arnon and Weinstock Agency Ltd., and Orot Life Assurance Agency (2005) Ltd. (Hereinafter "**the Corporations under the permit**").

[11] The permit was granted while approving the transaction of the acquisition of Shomera (for details see clause 1.3.11 of the report). In this framework the Commissioner requested to regulate within the permit also the holding of means of control and control in the rest of the held institutional entities, directly or indirectly by the Company, including giving Mr. Gurwitz authorisation to vote in General Meetings of the Company. The authorisations shall not be changed nor cancelled except by prior approval in writing by the Commissioner. On account of the acquisition of control of Menorah Mivtachim Engineers Union Ltd., the aforementioned control permit was extended.

[12] Through Neyden and Palamas, foreign corporations incorporated in Vaduz, Liechtenstein, holders of control shares of the Company (above and below – "**the foreign corporations**"). These corporations are held in trust and Mr. Gurwitz is the sole and only beneficiary.

The permit provided, *inter-alia*, the following major conditions: Provisions with respect to preserving the Core of Control[13] in the entire chain of control in the corporations under the permit, by way of limitations on pledging, selling, transfer of the core of control in the above corporations, including by way of public issues, instructions with respect to deposits, with a trustee (an Israeli lawyer) under a Deed of Trust, of share certificates that represent at least the core of control in Menorah Mivtachim Insurance, Menorah Mivtachim Pension, and Shomera, as well as signing a power of attorney to the trustee of means of control appointed by the Commissioner for selling the shares of the core of control in Menorah Mivtachim Pension and in Shomera, when the conditions detailed in the permit are met. As of the balance sheet date, the Company meets all the conditions of the Permit.

Additionally, according to the provisions of the law, the holding of means of control above a certain rate in a management company of Trust Funds, requires the receipt of a permit of control from the Securities Authority. In December 2005 the holders of control in the Company received permits of control as required.

8.3 Investments

8.3.1 Insurers and institutional entities

<u>The assets managed by the Group:</u>

- Nostro assets of Menorah Mivtachim Insurance and Shomera (capital, general insurance reserves and life assurance reserves of yield guaranteed policies) - the risks deriving from the investments of nostro assets are borne by the insurers. The monies are invested in accordance with the limitations stipulated in the Manner of Investment regulations and approved investment philosophy. Against the life assurance reserves of yield guaranteeing policies that were marketed until the end of 1990, designated bonds (HETZ) are issued, in accordance with agreements between all the insurers and the Ministry of Finance.
- Insureds' / members' assets - these assets are invested in free investments that are negotiable or non-negotiable, in accordance with the limitations stipulated in the Manner of Investment regulations and in the Income Tax regulations, as applicable. The yield attained is credited in favour of the policyholders / members, less management fees. It should be pointed out that in the yield guaranteeing provident funds the minimum yield is credited according to the guarantee of the fund even if the actual yield is lower.

[13] For this purpose, "core of control" – 50.01% in each one of the means of control, directly or indirectly, fully diluted of all the means of control in the relevant corporation.

- The investment policies in respect of the nostro investments of Menorah Mivtachim Pension and Menorah Mivtachim Gemel are determined in accordance with the decisions of the board of directors and the management of the same entities.

Investment committees

The overall investment policy of insurers and institutional entities in the Group is determined by the applicable boards of directors of each insurer / management company as applicable and in accordance with the legal provisions applicable to the insurer / management company, and *inter-alia*, the provisions of the investments in non-governmental debentures circular which the Commissioner published following the Hodak Committee recommendations. Two investment committees exist in the Group that implement the overall investment policy that has been approved and makes the investment decisions – one is a yield-dependent ("insureds' / members' funds") investment committee, and the second is a non-yield dependent ("nostro") investment committee.

Menorah Mivtachim Insurance, Menorah Mivtachim Pension and Menorah Mivtachim Provident Funds have yield-dependant committees[14].

Shomera has one investment committee that makes investment decisions - a non-yield dependent ("nostro") investment committee.

Credit committee

The committee started to operate during 2008 in accordance with the Commissioner's circular on the organisation of credit activities. It operates in the field of non-negotiable credit excepting certain types of exceptional credit.

The credit committee approves credit transactions over a certain level, and also monitors implementation of the credit policy and the Group's credit position. As stated, the committee acts on behalf of the entire Group and in respect of insureds' / members' funds (insurance, pensions, and provident funds) as well as in respect of the nostro funds, other than the financial services sector.

The credit committee is assisted by a debt forum that was established in accordance with the directives of the Commissioner in a circular regarding dealing with problematic debts (see clause 8.2.15 (14) below) whose main duty is the routine monitoring of problematic debts, their rating, and establishing manners for dealing with them.

Against the background of the crisis in the non-bank credit market in 2008, a process of "debt arrangement" developed for companies experiencing difficulties via a mechanism of a bondholders' delegation. In this context, the activities of the Group via a professional bespoke

[14] It should be pointed out that the same members preside in the separate investment committees of the aforementioned institutional entities.

external representative for this matter, whilst meticulously and fully separating between the ongoing activities for advancing debt arrangements and investment activities via the investment wing, all in accordance with the relevant legal directives and provisions.

8.3.2 The financial services sector

In the financial services sector there are two investment committees – an investment committee for managing the funds of trust funds, and an investment committee for managing customers' portfolios. In the trust funds the investment committee operates in accordance with the provisions of the Joint Investments in Trust Law and the investment limitations specified in the fund's prospectus. The investment committee for managing investment portfolios determines the policy for investments in the different channels, while the actual investments are made under the limitations specified in individual agreements with the customers.

The investments in this sector are managed separately from the investments in life assurance and long-term savings, in accordance with the policy and guidelines of the applicable investment committee, as aforementioned.

8.3.3 The duties of the investment committees and the management of investments

The duties of the Group's various investment committees, in the different sectors of activity are, *inter-alia*, to establish principles and manner of investment in each sector, the approval of certain transactions before their execution, determining exposure limitations and the holding of various types of securities in an issuer, group of borrowers etc., all subject to the legal provisions and the various directives of the Commissioner applicable to the investment policies of the Group, and *inter-alia*, investment manner regulations and directives of the non-governmental debentures circular, which the Commissioner published following the recommendations of the Hodak Committee, the Manner of Investment regulations, and taking into consideration the policy and frameworks of investment determined by the Board.

The Group's investments in the life assurance and long-term savings sector and nostro account are managed by the investment department of Menorah Mivtachim Insurance, in order to utilise know-how and specialisation required in the various fields of investment. In the department, investment teams have been set up specialising in investments abroad, shares in Israel, debt assets, research and analysis and investment funds. A non-negotiable credit system has also been set up. Furthermore, there is a separation (at Group level) between management of the nostro funds and management of the funds of the insured's / members.

Furthermore, a "middle office" wing was established in accordance with an institutional entities circular regarding the operation and control array in the investment sector of the institutional entity.

Executive investment decisions are made by the department managers and various investment managers, assisted by the research and analysis team and external research work in Israel and abroad and regular meetings with professional experts in the sector, all subject to and in the framework of the approved policy.

8.3.4 Managed investments

8.3.4.1 Life assurance branch – with-profits:

Description of sector	In NIS thousands	% of Total
Negotiable debentures	3,978,995	33%
Non-negotiable debentures	1,518,241	13%
Shares & options (including exchange traded funds)	3,773,534	31%
Cash and cash equivalents	67,575	1%
Deposits	690,862	6%
Investment funds	464,885	4%
Loans, receivables and others	1,479,927	12%
Overall total	11,974,019	100%

8.3.4.2 Pensions sector

Investment clause	NIS thousands	% of total assets
Cash and cash equivalents	781,801	2%
Tradable government bonds	2,231,816	7%
Tradable corporate bonds	3,705,636	11%
Other negotiable shares and securities	9,258,076	27%
Designated bonds	10,108,276	30%
Deposits and loans	3,146,503	9%
Others	4,882,373	14%
Total assets of "New Mivtachim" and "Mivtachim Complementary" (less current liabilities)	34,114,481	100%

8.3.4.3 Provident funds branch

Investment clause	NIS thousands	% of total assets
Cash and cash equivalents	219,756	2%
Tradable government bonds	2,605,309	20%
Tradable corporate bonds	2,434,563	19%
Other negotiable shares and securities	2,013,585	16%
Designated bonds	975,713	8%
Deposits and loans	4,155,902	33%
Others	213,407	2%
Total assets of the provident funds	12,618,235	**100%**

8.3.5 Material investments activities

8.3.5.1 The company has investments in several subsidiaries, of which the material ones are:

Menorah Mivtachim Insurance –

In July and September 2010 the Company invested the sum of NIS 253 million in two deferred capital notes valued at NIS 250 million nominal value which were issued for a period of 49 years whereas Menorah Mivtachim Insurance has an option of early redemption after ten years and thereafter every five years. The capital notes constitute complex primary capital in Menorah Mivtachim Insurance.

Menorah Mivtachim Finance - the Company provided shareholders' loans and capital notes to Menorah Mivtachim Finance of a total of NIS 199 million, as at 31 December 2010, *inter-alia* for the purpose of acquiring activities of mutual funds and provident funds.

Menorah Mivtachim Real Estate - the Company extended shareholders' loans to Menorah Mivtachim Real Estate, which at 31 December 2010 stood at NIS 207 million. It should be noted that the board of directors approved a facility of shareholders' loans of up to a total of US$ 60 million. After the date of the report, the loan facility was increased by a further € 14 million. The loans were designed for the purpose of investment in real estate assets abroad, including through investment funds that invest in real estate abroad. Menorah Mivtachim Real Estate acquired, together with third parties, income-producing properties in Germany in the sectors of commerce, offices, and logistics. It also invested in a company that develops the construction of hotels, in conjunction with third parties in India (international management chains). Additionally, Menorah Mivtachim Real Estate invested in a development transaction of a real estate property in Russia and in the establishment of solar enterprises in Europe.

8.3.5.2 Regarding the audit report on behalf of the Commissioner of Insurance in connection with the special loans in Menorah Mivtachim Insurance see note no. 38A to the financial statements.

8.3.6 Investment of the money of insureds and members and the profitability that the Company derives from them

Investments in the life assurance and pension branches were designed to cover the insurer's liabilities towards insureds and members, in accordance with the assessments of the chief actuary.

The Manner of Investment Regulations and the Provident Funds Regulations contain directives with respect to the rules for investment of assets held against the various liabilities, as well as rules with respect to the management of an insurer’s investments.

8.3.6.1 Life assurance

The majority of the life assurance reserves derive from the component of savings accrued in the policies. There is also a reserve for the payment of risk claims (death, PHI, LTC, etc.), some of which are linked to the index, while others are linked to the yields achieved for the with-profits policies, as detailed below.

Linked life assurance (yield guaranteeing policies)

Until 1990 inclusive, Menorah Mivtachim Insurance issued insurance policies that granted the insured a yield or guaranteed redemption values. In order to meet these liabilities, Menorah Mivtachim Insurance and other insurance companies in Israel signed with the Government of Israel investment agreements that were named “Hetz Agreements”, which regulated the investments of the said insurance reserves in special bonds that were issued by the State of Israel (Hereinafter “**designated bonds**”).

The aforementioned bonds carried linked interest that over the years declined from 6.2% to 4%. The yield to the insured was derived from the interest of the designated bonds, less a margin for the insurer. The Hetz Agreement bonds were the major channels of investment of the insurance reserves accumulated in the said policies, and the rest of the insurance reserves were invested in free investments in the capital market. Due to the guaranteed yield or redemption values to the insured in these policies, the risks of the free investments were borne by the insurer. Over the course of the years and up until 2002 Menorah Mivtachim Insurance redeemed, in accordance with the arrangement with the Treasury, part of the designated bonds and converted them into investments in high-yield assets. Total exchangeable investments (free investments instead of designated bonds) at 31 December 2010 came to approx. NIS 857 million.

With-profits life assurance (yield dependent policies)

As of January 1991 the Company issued policies that participate in investment profits. In the policies sold until 31 December 2003, the yield to insureds was determined according to the actual rate of yield on the investments, less fixed management fees at the rate of 0.6% of the accrual (0.05% per month) and variable management fees at the rate of 15% of the actual profits attained.

As of 2004, Menorah Mivtachim Insurance has been selling policies in which fixed management fees only are collected from the accrual and management fees from current deposits. The rate of management fees is up to 2% of the accrual and/or up to 13% of the deposits, according to the different tracks designated in the policies. As of 2007, the Supervision of Insurance Business Regulations (Terms in an Insurance Contract) were amended, whereby an insurer, with the approval of the Commissioner, may collect management fees that are calculated as a rate of the revalued valuation of the portfolio of investments, without a ceiling, provided that management fees are not collected at the same time from the current deposits.

The policies, as aforementioned, are called “with-profits policies”, i.e. policies in which the savings money is invested in various channels of investment. The profits deriving from these investments are carried to the savings component in the policy. In endowment (traditional) policies, as detailed in clause 3.2.1 (B) below, when the investments yield positive returns, a bonus is added to the sum assured or the redemption value, or alternatively, when they yield negative returns. The insured pays an additional premium to maintain the sum assured or the redemption value.

When the additional premium exceeds the rate stated in the policy, the assured may waive the additional premium by reducing the sum assured / redemption value accordingly. In policies of the ADIF type, as detailed in clause 3.2.1 (B) below, this mechanism usually does not exist. It should be made clear that the management fees are collected only on real yields, so that if real losses are created (on an annual basis), the Company is precluded from collecting management fees until the real loss is covered. Where real losses are created in the course of the year, after that management fees were accredited in respect of that year, the Company is required to cancel the charge attributed in the variable management fees. It should be noted that real losses may be due to rises in the Consumer Price Index (inflation) and/or losses from investments in securities and/or a combination thereof.

In 2008 the actual yield on the investments portfolio was negative, and accordingly it was not possible to collect the said variable management fees until the said actual loss was recovered. In the light of the aforementioned negative yields, there developed a need to collect an additional premium in the traditional policies as detailed above.

For details of assets and liabilities in life assurance, see Note 3 to the financial statements.

8.3.6.2 Pensions

All the yields of the investment of the monies of members, is credited to the members. The Company collects management fees from the contributions and from the accrued assets of the fund.

Following are details about the rate of statutory management fees and the rate of management fees actually collected during the periods described in the statements:

			2010	2009	2008
The New Mivtachim	Rate of Statutory Management Fees	From contributions	6.00%	6.00%	6.00%
		From Fund's assets	0.50%	0.50%	0.50%
	Rate of management fees actually collected	From contributions	4.19%	4.53%	4.67%
		From Fund's assets	0.34%	0.34%	0.38%
	Rate of benefits provided to insureds (including commissions to agents)	From contributions	1.16%	1.18%	1.17%
		From Fund's assets	---	---	---
	Rate of management fees, net, including benefits and commissions	From contributions	3.03%	3.35%	3.50%
		From Fund's assets	0.34%	0.34%	0.38%
Mivtachim New Plus	Rate of Statutory Management Fees	From contributions	2.0%	2.0%	2.0%
		From Fund's assets deposited until 31.12.05	0.50%	0.50%	0.50%
		From Fund's assets deposited from 1.01.06	1.54%	1.65%	1.79%
	Rate of management fees actually collected	From contributions	---	---	---
		From Fund's assets deposited until 31.12.05	0.42%	0.46%	0.45%
		From Fund's assets deposited from 1.01.06	1.54%	1.65%	1.79%
	Rate of benefits provided to insureds (including commissions to agents)	From contributions	---	---	---
		From Fund's assets	---	---	---
	Rate of management fees, net, including benefits and commissions	From contributions	---	---	---
		From Fund's assets	0.94%	1.22%	0.78%

As a rule, there is no seasonality in the collection of contributions to the pension funds. At the same time, there are certain months, which vary from year to year, in which the sum of contributions is higher, mainly in view of lump-sum payments that are paid by the employers, in respect of which contributions are provided. It should be noted that the seasonality that exists in the case of customers of Menorah Mivtachim Pension in certain lines, which has an effect on the number of employees in those lines, does not materially affect the distribution of contributions by months of the year.

8.3.6.3 Provident funds

All the yields of the investment of the monies of members, is credited to the members. The Company collects management fees only from the accrued assets.

Hereunder are details about the rate of statutory management fees and the rate of management fees actually collected for all products in this field of activity during the periods described in the 2008 report:

	2010	**2009**	**2008**
Menorah Mivtachim Gemel			
Rate of Statutory Management Fees	2.00%	2.00%	2.00%
Rate of management fees actually collected	1.14%	1.21%	1.30%
Mivtachim Social Insurance and Severance Pay			
Rate of Statutory Management Fees	2.00%	2.00%	2.00%
Rate of management fees actually collected	1.53%	1.47%	1.39%
Menorah Gemel Meitar			
Rate of Statutory Management Fees	2.00%	2.00%	2.00%
Rate of management fees actually collected	1.69%	1.71%	1.62%
Menorah Gemel Amir			
Rate of Statutory Management Fees	2.00%	2.00%	2.00%
Rate of management fees actually collected	1.11%	1.38%	1.36%
Menorah Advanced Education			
Rate of Statutory Management Fees	2.00%	2.00%	2.00%
Rate of management fees actually collected	1.14%	1.27%	1.31%

Menorah Mivtachim Advanced Education			
Rate of Statutory Management Fees	2.00%	2.00%	2.00%
Rate of management fees actually collected	1.22%	1.23%	1.25%
Mivtachim Central Severance Pay			
Rate of Statutory Management Fees	2.0%	2.00%	2.00%
Rate of management fees actually collected	1.04%	1.05%	1.06%
Menorah Central Severance Pay			
Rate of Statutory Management Fees	2.0%	2.00%	2.00%
Rate of management fees actually collected	1.26%	1.03%	1.28%
Menorah Mivtachim Participating in Budgetary Pension			
Rate of Statutory Management Fees	2.0%	2.00%	2.00%
Rate of management fees actually collected	0.21%	0.44%	0.61%
Provident Funds for other purposes – Vacation, holidays, and convalescence			
Rate of Statutory Management Fees	2.0%	2.00%	2.00%
Rate of management fees actually collected	2.0%	2.00%	2.00%
Mor Menorah Mivtachim			
Rate of Statutory Management Fees	2.0%	2.0%	2.0%
Rate of management fees actually collected	0.2%	0.28%	0.19%
Menorah Mivtachim Industrial			
Rate of Statutory Management Fees	2.0%	2.0%	2.00%
Rate of management fees actually collected	0.35%	0.27%	0.25%
The Omega Advanced Study Fund			
Rate of Statutory Management Fees	2.0%	2.00%	2.0%
Rate of management fees actually collected	0.31%	0.28%	0.37%
Menorah Mivtachim Yeter			
Rate of Statutory Management Fees	2.0%	2.00%	2.0%
Rate of management fees actually collected	1.48%	1.52%	1.28%

* In January 2010 the “Menorah Massad Advanced Study Fund”, “Menorah Gemel Plus” and “Menorah Central Severance Pay Fund Morag” were merged into the funds and advanced study funds managed by Menorah Mivtachim Gemel and hence they do not appear in the aforementioned table.

** In August 2011 the merger of the Quatro provident funds and advanced study funds was completed as detailed in clause 3.2.3.1 above and hence they do not appear in the aforementioned table.

Yield guaranteed provident funds (part of the provident funds activities)

Part of the provident funds managed within the Group is yield-guaranteed provident funds, wherein the members are guaranteed an actual yield of 4.5% or 5.5% annually (as applicable).

A rate of 75% or 89% of monies invested in the deposit of the Comptroller General; have a yield linked to the CPI of 4.95% or 5.95% respectively.

The balance of the monies is invested in free investments in accordance with the decision of the Investment Committee of Menorah Mivtachim Gemel.

The Company collects management fees from the profit over and above the guaranteed yield, however, not more than the maximum management fees as determined in the regulations. In the event that the actual yield obtained is lower than the guaranteed yield, the management company must make up the difference in yield to the accounts of members. It should be pointed out that Menorah Mivtachim Insurance provided a guarantee undertaking to Menorah Mivtachim Provident vis-à-vis the members to achieve the guaranteed yield.

8.4 Reinsurance

8.4.1 General

The Group's reinsurance in the classes of general insurance, life assurance, and health insurance are arranged on an annual basis with various reinsurers. Reinsurance is designed for hedging the insurance risks of the Group by ceding part of them to reinsurers, thus reducing the Group's exposure accordingly. Yet, the ceding of risk as aforementioned does not release the Group of its liabilities toward its insureds. The Group is not dependent on any specific reinsurer.

In reinsurance, a premium is paid to the reinsurers, and in consideration the reinsurers participate partly in the payment of claims, and they also pay commissions, in certain treaties, as the case may be.

In approx. of the branches, the Group's retention is covered by Excess of Loss insurance against catastrophes.

The different types of reinsurance are presented in the financial statements in the items of premiums, paid and outstanding claims, commissions, insurance reserves, amounts receivable and other liabilities.

8.4.2 Description of the main types of reinsurance treaties and a condensed description of cover in respect of every major product in the various sectors of activity:

The reinsurance cover purchased in each one of the branches is adapted to the Group's business policy and to the nature of the risk and its level.

The basic distinction between the different types of reinsurance is between treaty reinsurance (proportional or non-proportional), which is reinsurance arranged for a branch or type of insurance in accordance with the terms of the treaty, and facultative reinsurance, which is reinsurance arranged for a specific business or single policy.

Proportional reinsurance divides the risk proportionately between the insurance company and the reinsurers, while non-proportional reinsurance protects the Company against claims that exceed the retention, which the Company has determined.

Details of the treaty agreements in treaty reinsurance with the reinsurers are submitted every year to the Commissioner (for details of the types of reinsurance treaties, see clause 8.4.3 below).

8.4.3 The various types of cover prevailing in the insurance sector in general and in the Group in particular:

Treaty reinsurance

Proportional Reinsurance - Includes Quota Share Reinsurance and Surplus Reinsurance. In proportional reinsurance the Group cedes to the reinsurer a certain portion of the sum of the premium from every policy that is covered under the treaty, and receives in consideration from the reinsurer an identical share of the sum of every claim in respect of the said policy, as well as a commission. In Quota Share Reinsurance this rate is fixed for all the policies in the insured branch, and in surplus reinsurance this rate varies, based on the sum insured in accordance with every policy.

Non Proportional Reinsurance including Excess of Loss Reinsurance - Excess of Loss Reinsurance is a type of reinsurance which covers claims or events above a predetermined sum, i.e. a high single claim or event in which are involved several risks whose aggregate total exceeds the agreed sum, is paid by the reinsurer up to the agreed ceiling. On the other hand a claim that is lower than the sum predefined shall be paid exclusively by the insurance company.

Facultative Reinsurance - Facultative Reinsurance is arranged for covering special risks contained in specific policies. Accounts usually covered by this type of insurance are where the sum insured exceeds the capacity of the automatic treaty reinsurance of the Group, or when the risk is excluded from the treaty with the reinsurer.

Multi-Line, Proportional Reinsurance – Shortly before 2009 the Group entered into a proportional reinsurance treaty (25%) on the Company's net retention in most classes of general insurance with a reinsurer, Swiss Re. The uniqueness of the treaty is that that it applies to several branches simultaneously. The said treaty was renewed for a period of a further two years. It should also be pointed out that a similar agreement was signed in 2010 with another reinsurer at a rate of 5% of the Company's net retention. The agreement was not renewed for 2011.

8.4.4 Description of the main agreements on commissions received from reinsurers

In non-proportional reinsurance treaties the Group does not generally receive commissions from the reinsurers. In proportional reinsurance treaties as well as in facultative reinsurance agreements, the Group receives commissions from the reinsurers at an agreed rate and/or in accordance with the insurance results as the case may be.

8.4.5 Policy on exposure to reinsurers

8.4.5.1 General Insurance

The policy on exposure of Menorah Mivtachim Insurance aims to ensure, through the use of various tools for ceding of risks, the following main objectives:

- Maintaining the ratio between the exposure in the retention and the capital.
- Averaging the fluctuation of the underwriting results in the retention.
- Ceding exceptional risks to reinsurers.

The type of risks ceded to reinsurers and the manner of their ceding are determined by analysing the nature of the risk and the efficiency of its ceding to the reinsurer, based on past experience and internal economic models.

The agreement with the reinsurer is determined in accordance with the quality of service provided by the reinsurer, the duration and quality of relations between the companies and the nature of the agreement (directly or through brokers). In the general insurance sector the Group signs agreements with a large number of reinsurers in order to avoid dependence on one reinsurer and in order to disperse the inherent credit risk in such an agreement.

In order to minimise the credit risk, the financial strength of the reinsurer is a central criterion in deciding on an agreement. The policy on agreements of Menorah Mivtachim Insurance, in all matters relating to the international rating of reinsurers is examined and approved every year. The policy on agreements as at balance sheet date is as follows:

- **Short-tail classes of business** – No treaty will be placed with a reinsurer whose rating is less than A- in the S&P rating scale or a similar rating at other rating agencies, except for special approvals in respect of specific circumstances.
- **Long-tail classes of business** – No treaty will be placed with a reinsurer whose rating is less than A- in the S&P

rating scale or a similar rating at other rating agencies, except for special approvals in respect of specific circumstances.

In addition, in accordance with the directives of the Commissioner, the board of directors of the insurer will determine the maximum level of exposure for the reinsurers on an annual basis. This exposure level is based on the international credit rating of a reinsurer, and determines the exposure level for that reinsurer, in respect of the individual treaty and of all treaties.

The total exposure per reinsurer in earthquake insurance, after MPL, (as defined in this clause below) in any of the Group insurers, shall not exceed $175 million per single reinsurer in all treaties, provided that this reinsurer is rated AA and above. In the case of reinsurers who are rated A the exposure shall be limited to $100 million.

8.4.5.2 Exposure to earthquake

The exposure of reinsurers to earthquake risk is composed of the risks ceded to them in the framework of the proportional property treaties, in which the reinsurer participates in a proportionate share of the risk. This exposure is limited by an event limit.

In the case of earthquake risk other than in the framework of proportional reinsurance treaties, the Group acquires protection in Excess of Loss treaties in different layers. The coverage limit corresponds to the MPL limit that the Company decides to acquire. The MPL (maximum probable loss) represents the maximum loss expected to be sustained by the Company as a result of a single event. Since the earthquake risk is a major risk in Israel, and is spread over a large geographic sector, the MPL represents a conservative average of the loss expected in the event of a catastrophe. The Group determines a conservative MPL with broad margins of security for each type of risk, based on the distribution of the Company’s portfolio, and using international models.

In 2010 the Company used an average MPL of 2% for the purpose of earthquake protection, while Shomera as a smaller company purchased MPL protection of 3%.

The average sums of exposure to earthquake covered by proportional reinsurance in 2010 as at balance sheet date are approx. NIS 73 billion, while the average sums covered by non-proportional reinsurance as at balance sheet date are approx. NIS 63 billion.

As mentioned above, the Company's reinsurance treaties do not protect the full amounts, and are based on conservative risk assessments of the MPL.

The reinsurers whose share as at balance sheet date of total exposure to earthquake exceeds 10% were Swiss Re, Partner Re, Everest Re and Munich Re.

8.4.5.3 Summary of reinsurance results in general insurance by sectors of activity

	Motor casco			Motor bodily injury		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Reinsurance premiums	233,497	202,417	62,187	112,036	21,011	17,789
Results	(4,529)	4,579	2,674	(9,734)	(8,142)	(10,568)

	Property insurance			Liability insurance		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Reinsurance premiums	297,232	291,473	244,801	113,859	109,550	79,122
Results	(19,518)	(46,290)	(48,613)	4,631	(16,280)	(26,495)

	Total		
	2010	**2009**	**2008**
Reinsurance premiums	756,624	624,451	403,899
Results	(29,150)	(66,133)	(83,002)

Details of other property lines by type of premiums	**2010**	**2009**	**2008**
Reinsurance premiums – proportional	204,251	208,428	166,872
Reinsurance premiums – non-proportional	3,983	9,494	6,575
Reinsurance premiums – earthquake	88,998	73,551	71,354
Total reinsurance premiums	**297,232**	**291,473**	**244,801**

8.4.5.4 Life assurance

In accordance with the Company's exposure policy, the Company's agreements are with reinsurers with an international quality rating of BBB+ and above according to S&P, whereas the maximum retention of the Company in the treaty is limited in accordance with the rating determined by the board of directors of the Company, and whereas the maximum volume of exposure for a single reinsurer shall not exceed 50% of the premium ceded to reinsurance.

8.5 Suppliers and service providers

The Group's main suppliers of hardware are IBM that supplies the servers of the central applications and storage platforms, and EMC, that supplies part of the storage platforms.

The Group has an annual maintenance agreement, which is renewed every year.

In the field of computer services, the Group has agreements with a number of suppliers who specialise in various fields that are relevant to the activity of Menorah Mivtachim Insurance and Menorah Mivtachim Pension in the insurance and pension markets. The suspension of services by any one of them, if any, will involve an investment of certain economic resources and time inputs for the Group's reorganisation, through another alternate supplier.

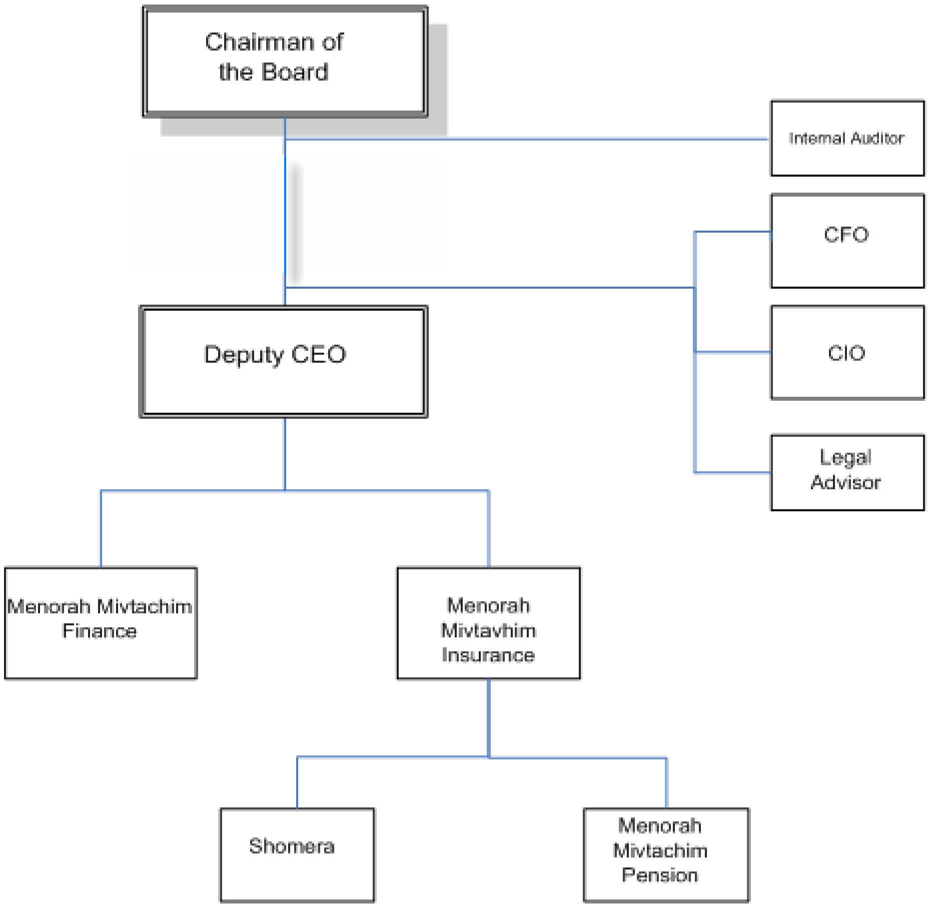
The Group also acquires services from various suppliers, among them suppliers of equipment and maintenance, suppliers of legal services, loss adjustors and investigators.

The Group is not dependent on any one supplier, in any one of its fields of activity, except in matters related to its agreement with Sapiens, as detailed in clause 3.7 above.

8.6 Human capital

8.6.1 Organisational structure of the Group at balance sheet date

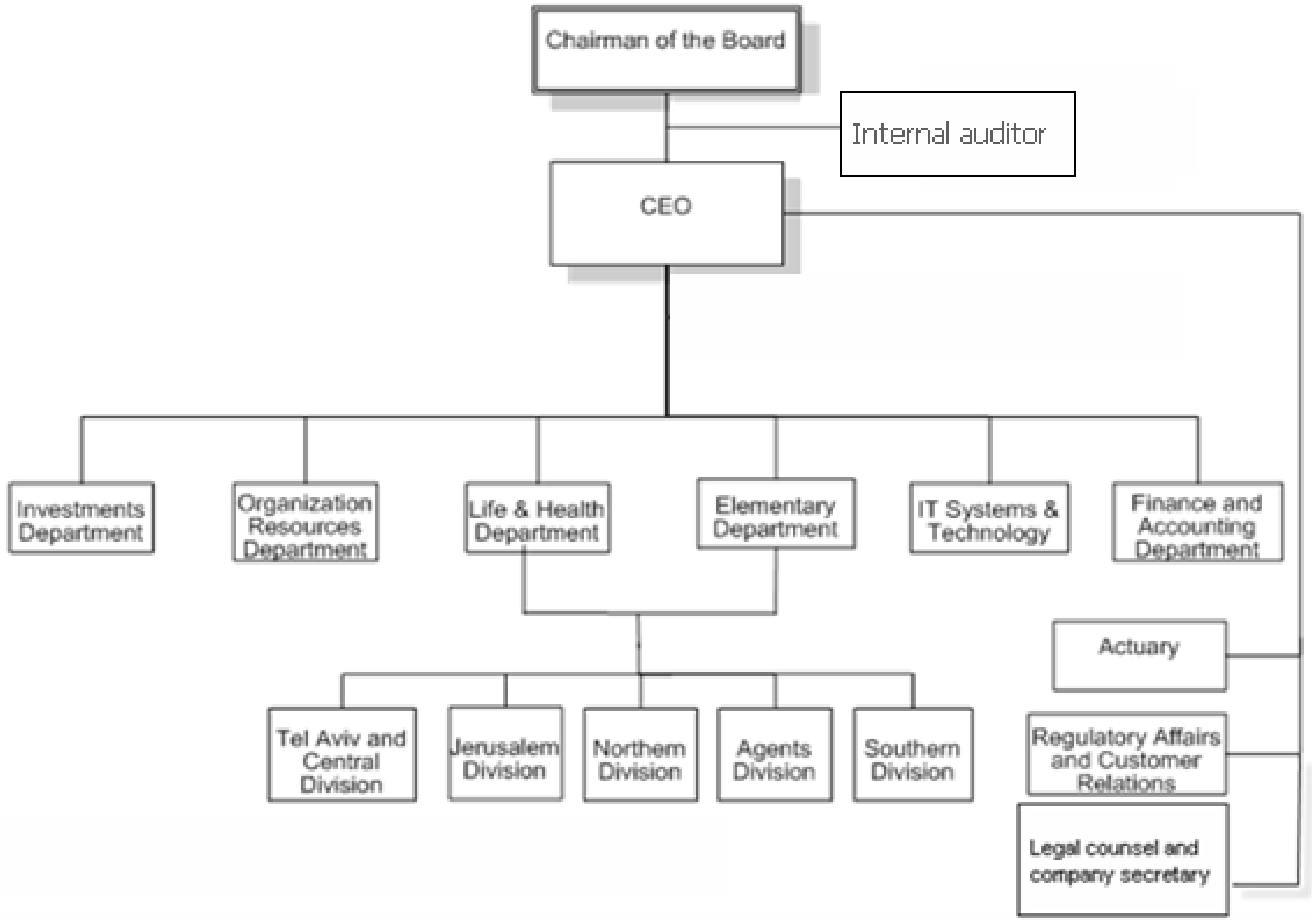
Structure of the Menorah Mivtachim Holdings Group



* The principal branches of the Group are insurance, pension and finances,
Following is the organizational structure of the corporations making up these branches.

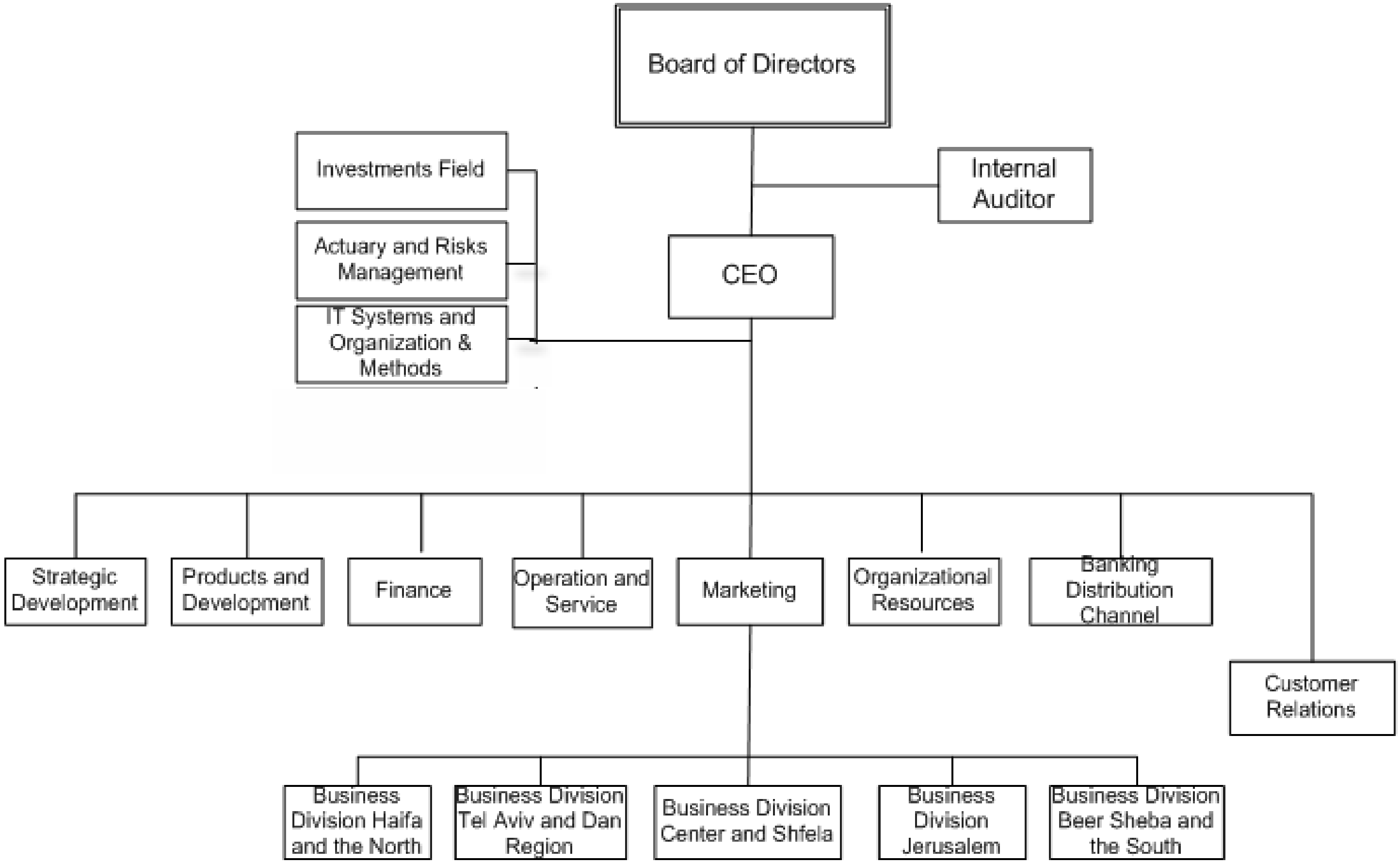
The head office of Menorah Mivtachim Holdings includes the Company's CEO, CFO, Chief Investments Officer, Legal Counsel, Company Secretary and Internal Auditor, all of whom serve in parallel capacities in Menorah Mivtachim Insurance (excepting the Company's CEO who serves as Chairman of the Board of Directors, which is the Group's main commercial arm.

Organizational Structure of Menorah Mivtachim Insurance

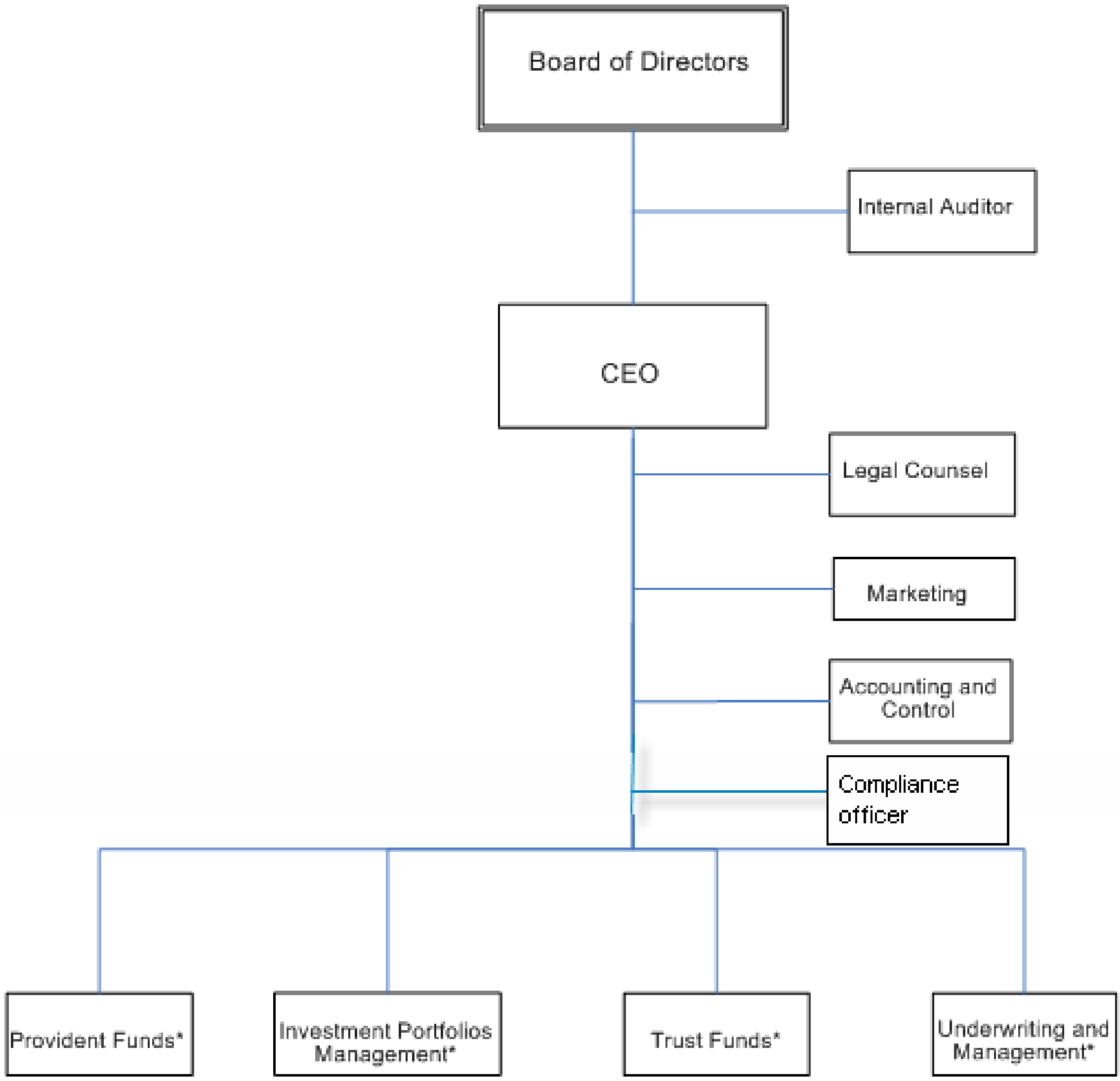


* Effective from January 2011 due to a restructuring of the Company the health insurance class of business is defined as a separate field of activities.

Organizational Structure of Menorah Mivtachim Pension

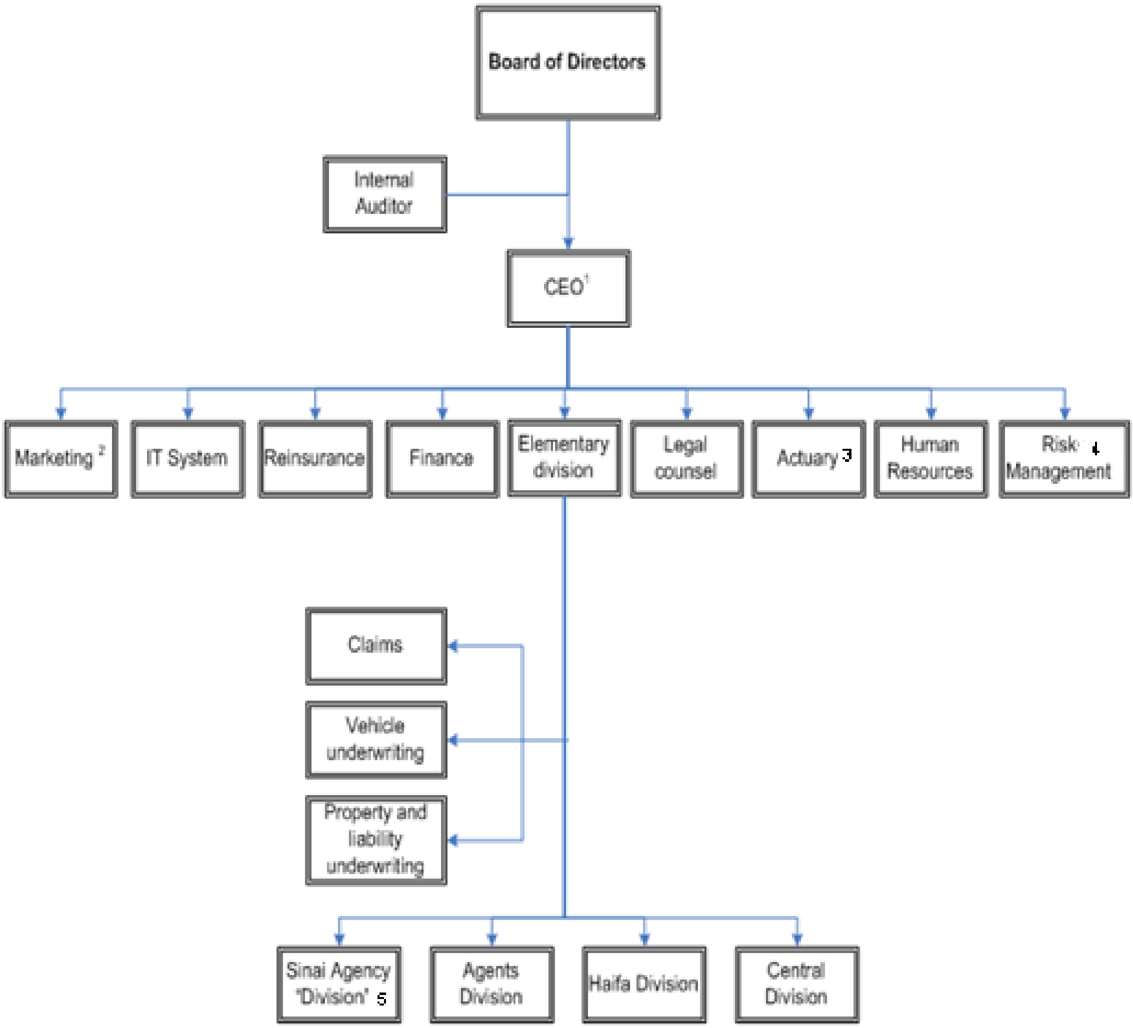


Organizational Structure of the Menorah Mivtachim Finance Group



* Operations unified through separate subsidiaries

Organizational Structure of Shomera Insurance Company Ltd.



1. Also serving as the manager of the general insurance division.
2. The manager of the department also serves as the manager of the central division.
3. Two actuaries have been appointed in the company – an actuary in charge of general insurance who is an employee of the company and an actuary in charge of compulsory motor bodily injury insurance only who is an employee of the Menorah Mivtachim Group.
4. The risk manager is an employee of the Menorah Mivtachim Group.
5. A subsidiary acting as a broker of several insurance companies and having a significant part of their activities of Shomera.

8.6.2 Personnel

Staff is employed by the Group as follows:

		31.12.10	31.12.09	31.12.08
Group Management		24	22	14
Long-term savings	Provident funds	71	43	35
	Pensions	335	312	296
	Life assurance	212	175	142
General insurance (Compulsory motor, motor casco, liabilities, other property) – excluding district branches		304	280	259
Employees of insurance agencies		87	84	77
Financial – excluding provident funds		64	60	64
District branches, service units for all companies (organisational resources, IT systems, actuaries, customer relations, etc.)		913	823	768
Total		**2,010**	**1,799**	**1,655**

As of the balance sheet date, the Group is not dependent upon any single employee.

Additionally, the Group obtains outsourcing services from external suppliers for the purpose of developing software for the Group, whose personnel are located at the Group's offices. As at 31st December 2010, the Company employed the services of 164 employees of suppliers, compared with 128 employees at 31st December 2009.

8.6.3 Material changes in the Group's payroll and organisational structure

Pursuant to the expansion trend of the Group's activity as at 31st December 2010, the number of staff employed by the Group's increased by approx. 211 due to the increase in production, establishing and developing the long-term savings sector, developing and improving the IT systems of the Group and strengthening the control mechanisms and improving service to the Company's clients.

In 2011 due to the restructuring of the Group, the life assurance and health insurance division was split up into three – life, health and sales.

Furthermore, some of the health insurance classes of business that belonged to the general insurance division were transferred to the new health insurance department.

8.6.4 Training and organisational development

The Group invests resources in professional training for employees and agents, in accordance with business related requirements and regulatory directives. The training programme for employees and agents includes professional training, managerial and behavioural training, organisational and personal counselling to managers, aimed at developing a high professional level in various fields, such as regulatory changes, new insurance plans, training in the field of pensions, taxation and finance and providing service.

Additionally the Company has and is taking steps to train employees in the various sectors of life assurance for the purpose of obtaining a licence for pension marketing, in accordance with the directives of the Commissioner.
The Group has acted and is continuing to act to obtain an adequate licence for those of its employees who are entitled, in accordance with the provisions of the Consultancy Law.

8.6.5 Benefits and features of employment contracts

The majority of the employees are employed according to an employment agreement whose provisions were established in the past between the Company's management and the staff committee, containing the terms of employment, including the components of gross wages per month, 13th (bonus) salary, executive insurance, ongoing training and additional benefits according to criteria, such as company car, cellular phone, participation in the cost of kindergartens, professional literature, daily travel allowances, travel of the Group's employees abroad once every two years. Additionally the Group's employees are entitled to receive loans, in accordance with a procedure that was established for this purpose.

There are also other employees in the Group who engage mainly in sales, including acquisitions supervisors in the life assurance and long-term savings sector, who are employed in accordance with a personal employment agreement, based on basic wages and sales commissions.
Furthermore, certain employees, especially in the marketing sector, are employed jointly by several companies in the Group.

The Group conducts wage reviews in accordance with the decision of the Group's management and in accordance with the annual evaluations of employees by their managers.

The Group's employees, except for the employees of Menorah Mivtachim Pension (as detailed below), are not subject to collective agreements except for the provisions of collective agreements applicable by virtue of the Extension Ordinances applying to all employees and employers in Israel.

In November 2006, a collective agreement was signed between Menorah Mivtachim Pension and the Clerks Union for a period of 4 years which was extended for a further year until October 2011. The agreement applies to approx. 220 employees of the Company – all the employees of the Company, other than salesman, senior employees employed under personal contracts, department managers, specialists and temporary employees. The collective agreement regulates the terms of employment of the employees, and establishes rules on the following subjects: work procedures, trial period, date and terms for receiving a permanent position, discipline at work, overtime, promotion, wages and benefits, annual leave, recuperation pay, sick pay, pension terms, entitlement to an advanced study fund, holiday gifts, suspension of work, retirement and the like.

8.6.6 Officers and senior management

Senior management is employed in the Group under personal employment contracts. The employment contracts contain, *inter-alia*, components of gross wages, daily travel allowances, 13th (bonus) salary, annual grant (with the approval of the board), company car, cellular telephone, social benefits and advanced study, as conventional in the economy. In 2007 a remuneration committee was established in Menorah Mivtachim Insurance, which is a board of directors committee whose duty is to hold deliberations on the wage policy including annual grants to employees, officers and to make recommendations to the board on these subjects.

8.6.7 Policy of remunerating officers in the Group

Pursuant to the circular of the Commissioner regarding the policy of remunerating officers in institutional entities, in December 2010 the board of directors of the Company and of the institutional entities in the Group approved a program of remunerating officers in the Company and in the institutional entities in the Group, and this after having received recommendations from the remuneration committee and the audit committee as applicable. The remuneration program contains four levels of payment: (1) Basic pay; (2) Associated conditions; (3) Performance dependant pay – bonuses; and (4) Long term remuneration (remuneration units) (Hereinafter: **the overall remuneration policy)**. The remuneration policy will apply effective from 2010 regarding officers who have been defined by the board of directors of the Company and of the institutional entities in the Group however these officers do not include the CEO of the Company, a director presiding in the Company or an officer connected to a controlling shareholder in the Company.

The bonus model is comprised of two stages, the first of which is determining the amount of the overall bonus that will be distributed in a certain year (Hereinafter: "**the bonus budget**") and the second stage is distributing bonus budget between the officers.

Stage A – Determining the bonus basket (bonus budget)

Each year, an average pre-tax profit or profit net of income from investments target will be set for each of the institutional entities as applicable (Hereinafter: "**the profit target**").

Measuring achievement of the profit target will be done by calculating the weighted average of the profits of the institutional entities, over three years, whereas each year will be given a different percentage in the profit target calculation weighting.

A precondition for distributing a bonus in a certain year is achieving at least 75% of the profit target. It should be clarified that in event of up to 75% of the profit target no bonus will be paid (other than the CEO of the Company's bonus for excellence at a rate of up to 20% of the target from the bonus basket), whereas in the case of above 75% of the profit target and up to 150% of the profit target, an amount equal to the rate which will be determined by each of the entities will be budgeted from the profit target and up to a ceiling of 150% of the profit target.

Stage B – Distribution of the bonus to officers

In order to distribute the bonus budget between the officers, a bonus potential will be set for each officer (Hereinafter: "**target bonus**") for precise achievement (100%) of the targets relating to the same officer as detailed above, and a maximum bonus, all as a derivate of a number of salaries.

Officers will be measured on performance at various levels – the Company, the division, the unit and the personal performance as evaluated by a manager.

Performance levels will be set for each officer as well as the relevant components and the weighting of each component. It should be pointed out that not more than 5 components will be set for each officer and not less than 10% weight will be given to each component. Amongst other things, dividing the weightings between the Company levels, the unit level (business / professional) and the manager assessment will be determined in accordance with the scope of significance and influence of the officer on the activities of the Company and each of the institutional entities.

The bonus will be calculated for each component separately, whereas for each component a points system will be determined according to which the bonus will be calculated. The total bonuses which are calculated for each of the components will constitute the overall bonus.

The bonus amounts will not be calculated as part of the wages and no social benefits will be allocated in respect of them.

The directors of each institutional entity will be in charge of the supervision and control of the remuneration policy whereas the bonus will be calculated in accordance with the principals who have been approved as aforementioned and will brought before the CEO and the board of directors for approval. When approving the bonus by the board of directors as aforementioned, detailed information regarding the manner of calculating the bonus budget and its distribution to the various officers will be presented.

Long term remuneration – Remuneration units (phantom options)

As part of the overall remuneration program, remuneration units will be allocated to the officers of the Company, the members of management of Menorah Mivtachim Insurance and the CEO of Menorah Mivtachim Pensions, at the following conditions. The board of directors of Menorah Mivtachim Insurance will be responsible for running the remuneration units grant program as part of the overall remuneration program as well as all of the activities which are needed for it, including determining the identity of the offerees, providing additional remuneration units to further offerees in accordance with the provisions of the remuneration units program or which differs from its provisions regarding specific offerees as well as regarding any other matter required to regulate the bonuses to the offerees as well as the management, clarification and implementation of the remuneration units grant program.

The remuneration units are units for the purpose of calculating the financial remuneration (gross) due to the offeree on the remuneration unit exercising date, only, and do not constitute options and/or any right to purchase any securities of any of the companies in the Group and/or any linked rights to any of the shares of the Group companies.

The amount that will be paid to the offeree in respect of exercising any of the remuneration units will be calculated in accordance with the difference between the exercise price of each remuneration unit and the basic price of each remuneration unit, being multiplied by the number of remuneration units which are withdrawn (Hereinafter: **"the remuneration amount"**). The basic price of each remuneration unit will be the average price of a share of the Company in the stock exchange 90 days before the date on which the board of directors approves the program (with one exception, of the CEO of the subsidiary, in respect of which the average will be calculated for a period of 90 days which preceded approval of the agreement with him). The exercise price will be the closing price of the Company share at the stock exchange, on the date of exercising (and if the exercise date is not a trading day; on the first trading day after the exercise date). The amount that will be paid to the offeree in respect of exercising the remuneration units will be a "gross" amount, and any tax of any type which applies to the payment in respect of the remuneration units and/or which the Company is required to deduct per legal provisions, will be borne by the offeree.

The remuneration units will mature into several shares, over the course of four years from the date on which the board of directors of Menorah Mivtachim Insurance approves provision of the remuneration units (i.e. from the 16th December 2010), whereas the first portion of 50% will mature after two years, 25% after three years and the remaining 25% after four years. Each portion can be exercised within a year of its maturity whereas after the last period for exercising the remuneration units for each portion has passed the offeree will not be entitled to exercise the remuneration units by virtue of the same portion or to any right by virtue thereof.

The program contains provisions regarding exercising the remuneration rights in the event of death, dismissal, retirement, cessation of employment relations due to disability / death, as well as modifications of the remuneration units due to the division of benefit shares, the division of dividends and the offering of rights in the Company as well as due to other events which the board of directors determines, if determined at its discretion, modification mechanisms, as applicable.

It should be pointed out that the total value of the benefit to the officer in Menorah Mivtachim Insurance and in Menorah Mivtachim Pensions in respect of the provision of the remuneration units as aforementioned, being calculated according to the Black-Scholes model, is approx. NIS 21,078 which will be spread over four years.

8.6.8 Policy of remunerating officers in the Group

For details of the terms of waivers and letters of indemnity to officers see clause 22 (D) (3) of the Report of Additional Particulars (Chapter F of the periodic reports).

8.6.9 Details of the directors' and officers' liability insurance can be found in clauses 22 (D) (1)-(2) of the Report of Additional Particulars (Chapter F of the periodic reports).

8.6.10 Remuneration of the CEO of the Company

8.6.10.1 For details of the employment agreement of the Company's CEO, see clause 8(1) of the Report of Additional Particulars (Chapter F of the periodic reports).

8.6.10.2 Remuneration of the CEO by way of an issue of shares

In August 2003, Menorah Mivtachim Insurance Ltd., the Company, and the CEO of the Company (in his position at the time as CEO of Menorah Mivtachim Insurance), signed a share plan (above and hereinafter: "**the share plan**"). On 31st July 2008 the Company's board of directors decided, after having received the approval of the Company's audit committee, to amend the share plan by replacing the original shares plan with a modified share plan[15] hereinafter "**the modified share plan**"). For details of the original share plan and the modified share plan, see note 32(B) to the Financial Statements.

8.7 Marketing and distribution

For a description of the marketing and distribution channels, see details in the descriptions of the various fields of activity.

8.7.1 The Group's network of agents

General

The Group markets its insurance policies mainly through insurance agents and agencies (Hereinafter "**the agents**").

Despite the development of direct insurance sector, the Group continues to develop and foster the marketing of its products through its network of agents, and as of the balance sheet date the Group has business relations with about 2,000 agents.

The Group works with the majority of insurance agents both in general insurance, life assurance and long-term savings and they

[15] It should be noted that the exchange was performed for technical considerations of the Tax Authority.

make the sales of the Group. The agents do not work exclusively with Menorah and most of them work also with other insurance companies. However, there is a core of agents who are identified distinctly with the Group. The Group's agents operate in accordance with tariffs and underwriting guidelines that the Group distributes from time to time in the various classes of insurance.

In August 2004 the Commissioner published a circular concerning an insurer's contract with an insurance agent, whose objective is to clarify the directives of section 30 of the Supervision Law, which requires a number of conditions to be included in the brokerage agreement between an insurer and an agent regarding the collection of premiums and their transfer to the insurer, as well as to establish binding work procedures for handling the premiums collected from insureds through an insurance agent on behalf of the insurer.

In January 2010 a second draft circular was published regarding agreements between institutional entities and licence holders; the second draft was intended to apply the directives of the aforementioned insurance circular with the necessary amendments to any agreement between pension consultants and insurance agents with institutional entities. See also clause 8.2.15 (25) above.

In the general insurance and long-term savings sectors, the Group operates through five district offices in 4 central cities in Israel (Tel Aviv – 2 branches, Haifa, Jerusalem and Rishon Lezion). In principal, the agents are affiliated to the districts in accordance with their geographic location.

The network of agents in general insurance

In the general insurance classes, the commission to agents is paid, in most classes, as a percentage of the annual net premium, and in some cases from the annual gross premium. The commission is paid as a lump-sum payment in the case of policies that are paid by standing order and credit cards, and reconciliation is made with the agent in respect of policy cancellations. The rate of the commission is determined partly in accordance with the various classes of insurance, and sometimes in consideration of the profitability of the agent's insurance portfolio, and the rate may vary from agent to agent. As of the balance sheet date, the Group is not dependent on any one agent and the Group does not have an agent whose volume of activity exceeds 10% in any one of the fields of activity.

The network of agents in life assurance and long-term savings

In life assurance, the Group operates its agents through the network of sales and service districts, as mentioned above. In the framework of the district offices there are acquisitions supervisors (most of whom are employees of the Group), whose duty is to supervise the activities of the agents and provide advice and guidance to the insurance agents under their supervision.

Monetary or monetary-equivalent commissions at variable rates are paid for the brokerage services of the agents and the rate of the commission is determined partly according to the product and partly depends on the volume of production of the agent and sometimes also on the profitability of his insurance portfolio. As of the date of the report, the Group is not dependent on any of its agents and there is no agent whose scope of activities with it exceeds 10% in any of the fields of activity.

For a further description of the network of agents in life assurance and their remuneration, see clause 3.5.2 above.

Network of agents in the financial products sector

One of the marketing channels of Menorah Mivtachim Portfolio Management is marketing and distribution via referrals of potential customers to the Company by insurance agents of the Group.

8.7.2 Marketing of life assurance and buildings insurance for mortgage customers

The Group signed an agreement with a bank and an insurance agency owned by the bank for selling life assurance policies and buildings insurance for mortgages at the branches of the bank, subject to arrangements established by the Commissioner in this matter.

8.7.3 Insurance agencies

As of the balance sheet date, the Group owns an insurance agency (Orot – Life Assurance Agency (2005) Ltd.), which is active in the life assurance and long-term savings sectors as well as in the health insurance sector.

Additionally, in the framework of the acquisition of Shomera, the Group also acquired the agencies Sinai Insurance Agency Ltd. (Hereinafter "**Sinai Insurance Agency**"), Sinai Coverholders (1989) Ltd. (Hereinafter: "**Sinai Coverholders**") who are active in the general insurance, life assurance and long-term savings sectors.

On 4.1.2011, after the date of the balance sheet, Sinai Coverholders signed an agreement for the purchase of the operations of the "Arnon and Weinstock Insurance Planning and Management" insurance agency, owned by two insurance agents (Hereinafter: "**the agents**" and "**the purchased agency**", respectively). The purchase included the entire insurance portfolio and goodwill of the purchased agency and of the agents. The purchase was funded by a loan from Menorah Mivtachim in the sum of NIS 22 million.

Similarly, at the same time, Sinai Coverholders purchase the operations, property and goodwill of "Arnon and Weinstock Planning and Management Ltd", owned by the agents.

On 21.2.11 the agency changed its name to Arnon and Weinstock Insurance Agency (1989) Ltd.

8.8 Fixed assets and installations

8.8.1 Hereunder are details of the properties that are used for the Group's operations:

The offices of the Group, except for Menorah Mivtachim Pension, Orot, the district offices and Shomera are predominately concentrated in one complex on Allenby Street in Tel Aviv in two adjacent buildings owned by the Group, with an aggregate sector of approx. 11,500 square metres. One of the buildings has 17 floors and 3 underground parking levels, while the Group occupies for its purposes about 11 floors of the building and a proportional agreed parts in the parking lots. The rest of the building is owned and occupied by other parties.

The entire building is managed through a management company, Hezron Investment Company Ltd., jointly owned (directly or indirectly) by the owners of the building. The parking lot in the building is also operated and managed by a company, Allenby 115 Parking Lot Tel Aviv Ltd., jointly owned by the owners of the building as aforementioned.

The Group has 5 district offices located apart from the above buildings, in which are employed the staffs of the district offices. The Jerusalem district office (covering a total area of approx. 1,000 square metres) is located in a building owned by Menorah Mivtachim Insurance and Menorah Property and Investments, the Tel Aviv and Central District Office and the Agents District Office located in a leased building in the centre of Tel Aviv (covering an area of approx. 2,500 square metres) and a district office in Rishon Lezion (with an area of about 1,000 square metres) is located in a building that Menorah Mivtachim Insurance leases from an external entity and the Haifa district office located in a building which Menorah

Mivtachim Insurance rents from an external party (covering an area of approx. 1,000 square metres). In addition, the Company rents approx. 1,000 square metres of office space in a separate building, for employees of the IT department.

The Group holds also other real estate assets, mainly in the central region (office buildings and land), that are partly leased to external entities.

At the beginning of 2009 the Company completed the acquisition of a building of 400 square metres next door to the offices of Menorah Mivtachim Insurance. The building joins two neighbouring lots that had been purchased in the past.

In 2011 the Group is intending to rent an area of approx. 3,000 square metres for Menorah Mivtachim Insurance and at the same time to finish the lease period of a building which was rented for the staff of the aforementioned information systems wing.

Menorah Mivtachim Pension rents the management offices (situated in Ramat Gan) covering an area of approx. 4,000 square metres, and the business divisions offices and service bureaus from landlords covering a total area of approx. 2,000 square metres, for monthly rental payments and other associated payments for parking, maintenance and council tax.

Shomera Real Estate owns 100% of a 2,000 square metres office building ("Sinai House") at 13, Hasivim Street, Petah Tikva. Part of Sinai House is used by the Company for its own purposes and is partly leased. It also owns 50% of a 3,000 square metres office building ("Shomera House") at 23 Hasivim Street, Petah Tikva. The Company's staff and its central district are located in part of this building, while the rest of the building is leased. Cooperation agreements have been signed with the purchaser of the other half of Shomera House, leaving management of the building in the hands of Shomera Real Estate.

Furthermore, Shomera Real Estate, during the course of 2009, purchased a property in Haifa used by the Haifa branch of the Company and this covering a total area of approx. 250 square metres.

Sinai Insurance Agency owns the property used in part for the offices of Sinai Insurance Agency in Petah Tikva for its own uses, and part is rented out to agents connected with it. Sinai Insurance Agency also wholly owns a property in Hadera that it uses for offices. Ownership of the property has not yet been registered in its name in the Property Registry; however, a caveat has been registered.

8.8.2 As of 2004 Menorah Mivtachim Insurance started purchasing its own cars. As at December 31st 2010 the fleet of cars of the Group was comprised of approx. 318 vehicles compared to approx. 333 vehicles in 2009. Menorah Mivtachim Insurance has a framework agreement for operating leasing of the fleet of cars, which from 2004 was no longer operated in respect of new cars. The monthly volume of leasing in the operating leasing agreement, as at 31 December 2009, is not material. Additionally, Menorah Mivtachim Pension has a leasing agreement for a period of up to 36 months from the leasing commencement date for each vehicle. The leasing payments for 2010 are approx. NIS 2.9 million (including VAT) and the estimated amount for 2011 is NIS 3.1 million (including VAT).

8.8.3 Cost of fixed assets

The amortised cost of fixed assets of the activity of the entire Group, as at December 31st 2010, was approx. NIS 199 million compared to approx. NIS 184 million as of 31st December 2009. In 2010 the Company invested approx. NIS 51 million in fixed assets, compared with approx. NIS 25 million in 2009. For further details see Note 7 to the Financial Statements.

8.9 Seasonal fluctuations

8.9.1 Life assurance

The following table presents the distribution of gross premiums in the life assurance sector by quarters (in NIS thousand):

	Data for 2010		**Data for 2009**	
	In NIS thousands	%	**In NIS thousands**	%
Q1	465,757	23%	450,426	24%
Q2	503,729	25%	434,198	24%
Q3	480,190	24%	453,199	25%
Q4	551,838	28%	489,909	27%
Total	**2,001,514**	**100%**	**1,827,732**	**100%**

The premiums in the fourth quarter of the year due are usually higher, *inter-alia*, due to the insureds' desire to maximise tax benefits that are calculated on an annual basis. In 2006, as part of the process of utilising the potential of the synergy between the various lines of life assurance and long-term savings the Group started to distribute all the existing products in the Group in this sector through its agents.

Consequently, part of the increase in sales that came to the Group was routed by the customers to the pension and provident funds at the expense of the premiums in life assurance.

8.9.2 General insurance

The following table presents the distribution of gross premiums in the general insurance sector by quarters (in NIS thousand):

	Data for 2010		Data for 2009	
	In NIS thousands	%	In NIS thousands	%
Q1	691,106	30%	716,055	31%
Q2	532,073	23%	528,151	23%
Q3	544,944	24%	540,372	24%
Q4	511,164	22%	493,240	22%
Total	**2,279,287**	**100%**	**2,277,818**	**100%**

In general insurance the premium recorded in the first quarter is the largest because business firms tend to renew their insurances (compulsory motor bodily injury insurance, motor casco insurance, liabilities and property) at the beginning of the financial year.

In general insurance the mechanism of the reserve for unexpired risks regulates the effect of the seasonality of the turnover on the profit.

8.9.3 Pension funds

As a rule, there is no seasonality in the collection of contributions to the pension funds. At the same time, there are certain months, which vary from year to year, in which the sum of contributions is higher, mainly in view of lump-sum payments that are made by the employers, in respect of which contributions are provided. It should be noted that the seasonality that exists in the case of customers of Menorah Mivtachim Pension in certain lines, which has an effect on the number of employees in those lines, does not materially affect the distribution of contributions by months of the year.

The following table presents the distribution of quarterly contributions:

The New Mivtachim

	2010		2009	
	NIS thousands	%	**NIS thousands**	%
Q1	922,234	22%	826,791	23%
Q2	996,515	24%	859,434	24%
Q3	1,090,281	26%	968,508	27%
Q4	1,144,686	28%	955,374	26%
Total	**4,153,716**	**100%**	**3,610,107**	**100%**

Mivtachim Supplementary

	2010		2009	
	NIS thousands	%	**NIS thousands**	%
Q1	10,517	21%	7,078	17%
Q2	12,225	25%	7,516	18%
Q3	14,049	28%	9,852	25%
Q4	12,816	26%	16,286	40%
Total	**49,607**	**100%**	**40,732**	**100%**

8.9.4 Provident funds

The activity in this sector is characterised by certain seasonal fluctuations, because the greater part of deposits by members (mainly self-employed) are made towards the end of the year in order to maximise tax benefits. Nonetheless, the percentage of self-employed members out of the total number of members in this sector of the Group's activity is relatively low.

It should be noted that the Group did not discover seasonal fluctuations in any sector in the issue of claims.

8.10 Intangible assets

The Group manages several security protected databases, that were registered with the Registrar of Data Storage, including a data base of employees attendance, human resources, computerised office, payroll, optical life assurance base, life assurance, life assurance claims, suppliers' monies (collection and bookkeeping), which contain all the relevant information, as the case may be, portfolios of investment and assets that are managed in the provident funds and members, loans, collection claims, members of pension funds and provident funds, and liens, all in accordance with the provisions of the Protection of Privacy Law, as detailed in clause 8.2.4 above. The registration of databases as detailed above is annual, and the Group renews it every year.

The Group maintains data security with the assistance of an external company and other consultants, in order to ensure appropriate protection for the databases, and in order to comply with the regulations of the Commissioner with respect to data security.

The Group uses the brand names Menorah Mivtachim and Shomera. For details about goodwill and the acquisition of the activity of the provident funds and mutual funds, see Note 5 to the Financial Statements. The Group has several registered trademarks which are registered with the Patent Registry including "Mivtachim", "Menorah, "Menorah Mivtachim", "Shomera Insurance Company Ltd – Israeli Family" etc.

8.10.1 IT Systems

The Group invests considerable amounts in information technologies, serving it for the routine operation and administration of its business. Furthermore, the regulative demands, and commercial changes require the Company to update its computer systems and adapt them to the regular management of its business. In 2010 the Company invested NIS 116 million in developing the said systems, compared to the sum of NIS 63 million in the year 2009.

<u>Life assurance – The "Topaz" System</u>

The Topaz system is a central data system for the management and operation of life assurance products. The system is designed to be used as a central tool in the operation of the life assurance division. As of the end of 2009 the Company started to issue all of its products (other than a few exceptions) Additional modules are being developed and conversions of policy data and other information for the new system. Approx. NIS 27 million was invested in 2010 and approx. NIS 30 million was invested in 2009.

On the basis of the development of the life assurance system a matching system was developed for the management and operation of pension and provident funds products.

The objective of this process is creating a uniform computerised platform for all the products of the life assurance and long-term savings sector. This will facilitate the future operational consolidation of this sector. In addition to the development of the system as aforementioned the project included the conversion of data and development of many associated modules. The system was launched in August 2006. Additional modules were developed over the years. The total investment in the project as at December 31st 2010 came to approx. NIS 15.7 million and approx. NIS 12.5 million in 2009.

8.10.2 Data security

Menorah Mivtachim Insurance invests resources in the data security sector in order to preserve confidential and sensitive information of its own and of its customers, including in accordance with the regulatory requirements of the Commissioner in this regard.

The investment included risk surveys, security surveys, improving the security in the Company's systems, acquisition of various tools for follow-up and authorisation, the separation of networks project, the SIM project and more.

The total investment in the sector was approx. NIS 8.7 million in 2010 and approx. NIS 6.5 million in 2009.

8.11 Legal proceedings

The Group is party to legal proceedings, including insurance claims, suppliers' claims, and claims with respect to various other issues (both as a plaintiff as well as a defendant), all in the ordinary course of the Group's business.

For a description of legal proceedings as well as class actions, see Note 37 to the Financial Statements.

8.12 Financing

The Group, except for Menorah Mivtachim Pension, finances its activity from its own resources, by bank credit and non-bank credit. With respect to Menorah Mivtachim Pension, see the following clause.

8.12.1 The Group's loans and rates of interest (except Menorah Mivtachim Pension)

1. Hereunder are details of the average rates of interest for loans that are not earmarked for specific use by the Group, with a breakdown of short-term credit and long-term credit from banking sources and non-banking sources from 2008 and 2010.

Average rate of interest for loans that are not earmarked for specific uses:

	Short-Term Loans			Long-Term Loans			Average rate %		
	31.12.10	**31.12.09**	**31.12.08**	**31.12.10**	**31.12.09**	**31.12.08**	**31.12.10**	**31.12.09**	**31.12.08**
Linked bank sources	---	---	---	30,250	44,786	55,493	6.38%	6.29%	6.23%
Unlinked bank sources	---	1,134	130,790	34,375	40,625	46,875	6.60%	6.48%	4.43%
Non-banking sources	---	---	---	1,655,515	1,426,829	1,380,187	4.49%	4.53%	4.54%
Average rate %	0.00%	2.23%	3.65%	4.56%	4.63%	4.68%	4.56%	4.63%	4.52%

In this matter, see also Note 24 to the Financial Statements.

2. The Group has bank credit facilities for the Company of approx. NIS 3,107 million.
3. Out of the credit facilities of the Group, as detailed above, a credit facility of approx. NIS 2,806 million was allocated for activity in financial derivatives as part of the regular investment activities of the Group. In addition, Corporations in the Group have credit facilities for current activities in various bank accounts with a total of approx. NIS 301 million.
4. The Group does not have any credit facilities with the banks for Menorah Mivtachim Finance. Menorah Mivtachim Finance took loans from banks in a cumulative sum of approx. NIS 34 million, as at December 31st 2010.
5. Menorah Mivtachim Pension, as part of its ongoing activities, receives short-term suppliers' credit in an amount that is not material and does not require long-term credit.

8.12.2 Raising capital

(1) Menorah Mivtachim Insurance Ltd. (a subsidiary of the Company), a fully owned subsidiary – Menorah Mivtachim Capital Raising Ltd. (above and hereinafter: Menorah Mivtachim Capital Raising) which was established for the purpose of raising capital through the issuing of marketable subordinated promissory notes whose proceeds will be fully deposited with Menorah Mivtachim Insurance, against deferred,

subordinated promissory notes of Menorah Insurance. In the past Menorah Mivtachim Capital Raising issued promissory notes as aforementioned. The balance of the promissory notes are used as subordinate secondary capital totalling approx. NIS 408,040 thousand.

(2) In July and September 2010 the Company raised a sum of NIS 250 million nominal value by way of a private placement of debentures (Series B) to institutional investors, The debenture series (Series B) will be redeemed in five equal instalments effective from June 2018 until June 2022, and bear annual interest at a rate of 4.5% paid annually from 2011 until 2022. Debentures (Series B) were rated by Midrug Aa3. The total amount of the aforementioned debentures is NIS 263,952 thousand, which constitutes complex primary capital in Menorah Mivtachim Insurance.

8.12.3 Deferred promissory notes that are used as secondary capital

In addition to the capital raised in the reporting period as detailed in clause 8.12.2, Menorah Mivtachim Insurance has other deferred, promissory notes (non-negotiable) which were raised in private offerings to institutional investors. The total deferred promissory notes of Menorah Mivtachim Insurance totals NIS 796,571 thousands of which NIS 609,668 thousands are subordinate secondary capital.

For further details, see note 24 to the Financial Statements.

8.13 Credit rating

In May 2004 the rating company Midrug Ltd. (Hereinafter "**Midrug**") rated the capacity of Menorah Mivtachim Insurance to meet its commitments towards the holders of its deferred promissory notes at a credit rating of Aa2. In July 2004 Midrug rated also the Company with a rating of Aa2.

In November 2005 Midrug rated the quality of management of Menorah Mivtachim Pension by examining the quality of the human capital and the financial strength of the Company, as well as its ability to manage the risks to which it is exposed and the risks to which the members of "The New Mivtachim" are exposed.

Midrug granted the management company the highest rating – MQ1 – out of a scale of 5 grades for a company that manages investment and savings entities (Investment Manager Quality Rating).

Midrug also granted "The New Mivtachim" the highest rating – FR1 – out of a scale of 5 grades for Pension Fund Rating. The FR1 rating reflects the fact that in the opinion of Midrug the Fund is supported by entities that are evaluated as high quality, and the level of specific risks embedded therein is very low.

In February 2008 and thereafter in January 2011 Midrug prepared a rating follow-up report of Menorah Mivtachim Pension and of New Mivtachim.

Hereunder are the ratings of the debentures of the Group as of the date of this report:

Deferred promissory notes of Menorah Mivtachim (both promissory notes which were issued by Menorah Mivtachim Insurance as well as promissory notes which were issued by Menorah Mivtachim Capital Raising) are rated Aa2 by Midrug with a stable outlook (latest follow-up report of March 2011).

Debentures (Series A) of the Company are rated Aa3 by Midrug with a stable outlook (after a reduction in the rating which was made by Midrug in May 2010).

Debentures of the Company (Series B) are rated Aa3 by Midrug with a stable outlook (re-rating in July 2010).

8.14 Environmental risks and the manner of managing them

The Company and the Group do not have any environmental risks which are expected to have a material impact on the corporation. Similarly, there are no legal provisions, as defined in clause 28 of the Second Amendment to the Securities Regulations (Prospectus Details and Draft Prospectus – Structure and Form) – 1969 – Material Ramifications on the Activities of the Corporation.

Furthermore, as of the date of this report there are no material legal or administrative proceedings connected with the quality of the environment, which the Company or senior officers therein are party to, neither is there any process as aforementioned which has been completed in the year proceeding the publication of this report.

8.15 Taxation

For a description of the taxation issue, see Note 21 to the Financial Statements.

8.16 Commercial and strategic goals

The information described below is forward looking information, and as such, the information is not certain about the future, and might not be realised, in whole or in part. Forward looking information is based on existing information that the Group has at balance sheet date and contains the Group's estimates or intentions as at balance sheet date. Actual performance may differ substantially from the results estimated or inferred from this information, *inter-alia*, due to changes that may occur in the risk factors detailed in clause 10.3 below.

8.16.1 Strategy

Profitability of the Group is mainly dependant on capital market yields. This matter is expressed in general insurance business and yield dependant life assurance business (as regards policies issued up until 2003) as well as other yield guaranteeing policies. In order to moderate the said dependence, the Group works on developing additional independent commercial anchors, at least not in a prominent and direct manner, in capital market yields. The Group operated in this manner in 2004 for the purchase of the New Mivtachim Pension Fund, which, beyond its significance and synergy with the Group activity in the pension products sector, its activities and in any case its results are not distinctly impacted by capital market yields rather from its income in respect of the management of members' assets derived from the scope of contributions and the assets which have accrued. Furthermore, the Group acted and continues to act to continue to develop the activities of Menorah Mivtachim Real Estate as the real estate arm of the Group. Pursuant to the aforementioned the Group aims, insofar as possible and depending on appropriate opportunities, to develop further activities and increase existing activities which are not directly and prominently dependant on capital market yields.

8.16.2 Life assurance and long-term savings

8.16.5.1 Life assurance and health insurance

The Group's strategy in the life assurance sector:

(1) Improving the service and audit systems and conducting decent relations with the customer base of the Group.

(2) Maintaining the profitability of the life assurance activities whilst focusing on the sale of products with a high profit margin and in particular term assurance and health policies.

(3) Preserving the Group's customers and reducing the scope of policy cancellations and redemptions.

(4) Expanding the basket of products and the service to retired customers.

(5) Developing new products in the health insurance sector and providing advanced solutions to the needs of the insureds in the health sector.

<u>The activities assumed by the Group for attaining these objectives</u>:

(1) Improvement of service and relations with the Company's agents and customers, by training in providing service and effective assimilation of advanced information systems for

the management of life assurance policies and pension agreements.

(2) Maximising the synergy between the Group's various divisions for leveraging new sales in the sector, while utilising the Group's advantages in the field of pensions and management of assets.

(3) Expanding the sales of life assurance by recruiting agents, developing new products especially in the health sector and refreshing the organisational structure of the sales and services units.

(4) Taking steps (to retain customers) and providing solutions for handling funds at the end of the period of insurance and saving and systematic and orderly processing of customers' debts.

(5) Enhancing the professionalism of the management of the life assurance and health insurance division, by recruiting leading personnel in the sector, by professional and systematic training of managers in the information base of life assurance, as well as improving managerial proficiency.

8.16.2.2 Pension fund sector

The strategic long term goal of Menorah Mivtachim Pension is to be a leading player in the long term savings sector that excels in quality of service and expertise that it supplies to its customers, whilst striving for a high level of profitability.

As part of this strategic aim, Menorah Mivtachim Pension will act to increase the customer base in the pension funds that, preserve the existing pension portfolio, enter into new business, while ensuring appropriate profitability and leveraging the synergy with the other companies in the Group (Menorah Mivtachim Insurance, Menorah Mivtachim Finance, and the companies that they control).

The strategic map of the Company is based upon four main strata – the financial strata, the customer strata, the process strata and the learning and innovation strata.

The financial strata relates to profitability goals, the value of the pension portfolio, the market share of assets, the market share of collection and the share of the Company in distribution channels.

The customer strata relates to the four main types of customers of the Company – the insureds, the employers, the agents and the banks. The goals relating to this strata including – service level, yields on assets, providing added value compared to competitors, reliability in managing customers' funds etc.

The process strata relates to the following aspects – technology, service, marketing and sales, products and regulation. The goals relating to this strata including – the range of products addressing customers' needs, devising and implementing an overall marketing philosophy, innovative sales processes, developing a direct sales and marketing platform for end customers, service adapted to the distribution channels, inter-organisational service supporting synergy, operational support systems, efficiency and reliability etc.

The learning and innovation strata relate to expertise, a culture of excellence in service, devising control processes, organisational efficiency etc.

To attain the said goals, the Company will act, *inter-alia*, to expand the provision of pension services, management services and executives' insurance, while providing comprehensive solutions tailored to the customer's needs, and realising the potential of the existing synergy in the Group.

In the framework of expanding the customer base in the pension funds, the Company will act to maximise the potential of new insureds from among the existing employers, to the pension funds managed by the Company and other products of the Group. Additionally, the Company will continue to provide pension seminars to the agents of Menorah Mivtachim Insurance in order to extending the circle of new members to the pension funds through the insurance agents.

The entry of the banks into pension consulting and the ongoing effect of the Compulsory Pension Agreement combined with legislation enabling long term pension saving in the annuity track only opens the pension funds to the opportunity to admit new insureds, who were not previously insured in pension funds. Thus, the Company hopes to reach a large population who joined in the past products that were controlled by the banks in their capacity as producers of long-term savings products (management of provident funds for social insurance and severance pay, and advanced education).

In this context the Company is acting to sign distribution agreements with various banks and to provide the tools (know-how and products) that will enable relevant intermediaries to cope, in the best way, with changes, and will provide customers with the optimal solution for their needs.

The aforementioned information is forward looking and as such is not certain regarding the future and is liable to fail to materialise wholly or partly. The forward looking information is based on existing information in the Company as of the report date and contains estimations of the Company or regarding its intentions as of the date of the report. The actual results may significantly differ from the estimates results or those implied from this information. *Inter-alia*, due to changes which may occur to risk factors detailed above.

8.16.2.3 Provident fund sector

The Group's strategic aims for the provident funds sector are: Maintaining and increasing the Group's market share in all fields of activity, while retaining and increasing profitability; positioning the Company as a quality, dominant and professional management entity, which is powerful and has long-term experience; excellence in investing the funds; management of a large, basket of quality funds available to clients; setting up a modern and accessible service and information system for clients; leveraging the technological and marketing capabilities of the Group to the provident funds sector and improving the audit and controls systems.

8.16.3 Strategy in general insurance

In the field of general insurance as of the date of the report the Group achieved a market share of approx. 13% and has become the third largest insurer in the general insurance sector. The focus in the year 2011 will be to preserve its status as the third largest insurer in the general insurance sector, *inter-alia*, by maximising the ability and quality of Shomera and increase the market share in large accounts. Similarly the policy of spreading the insurance portfolio between the various classes of business will continue as will improving the profit ratio. The growth of the Group in this sector will lead to an increase in the number of agents working with it, and reducing loss making agents in the long term. In the claims handling field the Group will continue to focus on efficient service for the insureds whilst expanding the use of computerised systems to streamline claims handling and work with suppliers.

8.16.3.1 The compulsory motor bodily injury insurance sector

In this sector the Group intends to focus on the market sector of more mature drivers, with the intention of preserving and improving the profitability in the sector. The tariff based model of the Group is directed towards achieving this aim. Avoiding collective insurance covers in which the profit levels are questionable, will continue. Overall, the Group expects to grow slightly above the pace of growth in the market such that its market share in this sector will increase slightly in 2011.

8.16.3.2 The motor casco insurance sector

The market sector of the Group in the motor casco sector is lower than its overall market share and the strategy of the Group in the forthcoming years is to increase this share.

8.16.3.3 The other general insurance sector

1. **The property insurance field of activity**

   The market share of the Group in the property sector is lower than its overall market share and the strategy of the Group in the forthcoming years is to increase this share.

   The Group will focus on maximising access to clients by way of various solutions in existence in the Group, in order to increase the share in this market.

2. **The liability insurance field of activity**

   D&O insurance will continue to constitute a central product in the liability insurance portfolio of the Group, whilst levering the speciality of the Group in specific market shares in this class of business.

8.16.4 Regarding other classes of liability business the Group will continue to offer a comprehensive insurance based solution to the insureds which will include property insurance covers and liability insurance covers.

8.16.5 Control

The Company is intending to invest resources to improve the overall control apparatus in the Group and in particular in the corporate units. The investment of resources will involve manpower as well as computerised means, whilst implementing conventional methodology in this sector.

PART E: CORPORATE GOVERNANCE

9. Corporate governance

This part is presented pursuant to the directives of the Commissioner of Insurance and it relates only to the insurers in the Group.

9.1 General - board of directors' meetings and its committees

Hereunder is information regarding meetings of the board of directors in the reporting period and information regarding board of directors committees and investment committees:

	Board of Directors		Committees		
Name of Company	**No. of Meetings**[16]	**No. of participating directors**	**Type of Committee**	**No. of committee members**	**No. of meetings**[17]
Menorah Mivtachim Insurance	16	6-9 [18]	**Audit Committee**	3-4[19]	16
			Yield Dependent Investment Committee	5 [20]	26
			Non Yield Dependent Investment Committee	3	17
			Balance Sheet and Solvency II Committee	2-3 [21]	10
			Remuneration Committee	3 [22]	5
			Credit Committee [23]	3	19
Menorah Mivtachim Pension	9	7-8 [24]	**Audit Committee**	3	7
			Yield Dependant Investment Committee	5[25]	26
			Monitor of disability pension recipients	3	1
			Credit Committee[28]	3	17
Shomera Insurance Company	14	5-8[26]	**Audit Committee**	3-4	9
			Non Yield Dependent Investment Committee	3	14[27]
			Balance sheet Committee	4-5 [28]	4
			Credit Committee	3	17
			Solvency II Committee	3	3

16. Not including written decisions.
17. Not including written decisions.
18. Up until 29.5.10 the board of directors of Menorah Mivtachim Insurance (for the purpose of this clause – "**the company**") was comprised of 9 members. On 30.5.10 due to the death of Mr. Yaakov Segal (of blessed memory) the board of directors was comprised of 8 members. On 19.7.10 Mr. Israel (Izzy) Tapuhi was appointed to the board of directors of the company and from this date the board of directors was comprised of nine members. On 17.10.2010 Mr. Menahem Gurwitz resigned from the board of directors of the Company and on 1.11.2010 Mr. Gedaliah Doron resigned from the board of directors of the Company. Accordingly, on 31.12.2010 the board of directors was comprised of 7 members. After the date of the balance sheet, on 6th January 2011 Mr. Yaakov Rosen was appointed to the board of directors of the Company. Effective from this date the board of directors was comprised of 8 members.
19. Up until 29.5.10 the credit committee of Menorah Mivtachim Insurance (for the purpose of this clause – "**the company**") was comprised of four members. On 30.5.10 due to the death of Mr. Yaakov Segal (of blessed memory) the board of directors was comprised of 3 members. On 19.7.10 Mr. Israel (Izzy) Tapuhi was appointed to the board of directors of the company and the audit and balance sheet committees of Menorah Mivtachim Insurance. Effective from this date the audit committee was comprised of four members.
20. On 24.4.10 the cadence of Mrs. Tzippy Sammet ended and in her place Mr. Amir Geva was appointed as a member of the committee. On 19.11.10 Mr. Hezi Zaig ended his cadence and was replaced by Mr. Gad Haker as a member of the committee. As of 31.12.2010 and of the date of the publication of the report, the yield-dependant investment committee of the Company is comprised of five members.
21. Up until 29.5.10 the committee was comprised of three members. On 30.5.10 due to the death of Mr. Yaakov Segal (of blessed memory) two members were appointed temporarily to the committee. On 19.7.10 Mr. Israel (Izzy) Tapuhi was appointed to the board of directors and a member of the audit and balance sheet committees of Menorah Mivtachim Insurance Effective from this date the balance sheet committee was comprised of three members.
22. On 31.05.10 Mr. Cochi Ben-Gara (director on behalf of the public) in place of Mr. Yaakov Segal (director on behalf of the public) (of blessed memory). On 01.11.10 Mr. Ari Kelman and Eran Gripel were appointed as members of the committee in place of Messrs. Menahem Gurwitz and Gedaliah Doron who resigned from the board of directors of Menorah Mivtachim Insurance.
23. The Credit Committee is a joint committee between Menorah Mivtachim Insurance (for yield dependant liabilities and non-yield dependant liabilities), Menorah Mivtachim Gemel, Menorah Mivtachim Pension and Shomera Insurance Company Ltd. The aforementioned meetings in respect of each Company are joint meetings. There was no change in the composition of the committee during the course of the year 2011.
24. On 4.2.10 Mrs. Nadin Bodo Trektenberger replaced Mrs. Tzippy Sammet who ended her cadence as an external director (including her replacement as a member of the audit committee). Y 1.11.10 the board of directors of Menorah Mivtachim Pension was comprised of eight members. On 1.11.2010 as soon as the resignation of Mr. Gedaliah Doron took effect, the board of directors of Menorah Mivtachim Pension was comprised of 7 members. On 4.11.10 Mr. Motty Rosen and Mr. Reuven Shiff were appointed as directors of Menorah Mivtachim Pensions. On 7.11.2010 the resignation of Mr. Menahem Gurwitz took effect and on 19.11.2010 Mr. Hezi Zaig completed his cadence as an external director. On 16.12.2010 Mr. Ilan Segal was appointed and effective from this date the board of directors was comprised of 8 members.
25. In April 2010 Amir Geva was appointed as a member of the committee and in November 2010 Mr. Gad Heker replaced Mr. Hezi Zaig who completed his cadence. As of the publication date of the report, the number of members of the committee stood at five.
26. On 28.1.2010 the board of directors of the Company was comprised of 8 members. On 28.1.2010 Mr. Yossi Weinstock resigned from the board of directors of the Company and from its balance sheet committee in which

he was a member (as well as from his position as deputy CEO of the Company) and from this date until 2.5.2011 the board of directors of the Company was comprised of 7 members. On 2.5.2011 the appointment of Mr. Dan Itzhaki as a director, who also serves as the deputy CEO of the Company, was approved and effective from this date the board of directors of the Company was comprised of 8 members.

27. One of the 14 meetings was conducted as a telephone conference.

28. Up until 28.1.2010 the balance sheet committee was comprised of 6 members. On 28.1.2010 Mr. Yossi Weinstock resigned from his membership of the committee after he resigned from the board of directors of the Company and his position as deputy CEO and effective from this date the committee was comprised of 5 members.

29. See note 26 above.

9.2 Board of directors' committees

The insurers in the Group have various board committees, as detailed in the table above, whose major duties are as follows:

9.2.1 Audit committee

The audit committee is in charge of examining deficiencies in the business management of the Company, approval of the annual and multi-annual work plans of internal control, deliberations on the issues detailed in the Supervision of Financial Services (Insurance) (Board of Directors and its Committees) Regulations, 5767-2007, and this, *inter-alia*, relying on the reports of the internal auditor and consultations with him and with the Company's external auditor and submitting recommendations to the board of directors with respect to the manners of rectifying the deficiencies that were found, and monitoring implementation of the audit plan and implementation of the findings of the reports of the internal auditor. Additionally the audit committee holds deliberations and passes resolutions with respect to the Company's transactions that require the committee's approval by law.

The audit committee of Menorah Mivtachim Pension has been functioning since 2004, pursuant to a directive on this subject, prescribed in the Income Tax Regulations (Rules for the Approval and Management of Provident Funds) 5724-1964 ("The Provident Fund Regulations"). The audit committee of Menorah Mivtachim Pension acts also as a monitoring committee for recipients of disability pensions, which operates in accordance with the directives of the Commissioner's directives on this subject. Additionally, the audit committee of Menorah Mivtachim Pension holds deliberations on the adequacy of the audit of the financial statements and the report of the external auditor with respect to those reports before submitting them for approval by the board of directors.

9.2.2 Committee on non-yield dependent investments (nostro)

Menorah Mivtachim Insurance has a committee on nostro investments which was appointed in accordance with the Supervision Law and the investment regulations. The nostro investments committee is a committee for the management of investments deriving from the types of liabilities that do not derive from yield dependent liabilities.

The committee's duties are *inter-alia*, to determine the policy on investments in the framework of overall investment policy of the Corporation that was determined by the board of directors; approval of certain transactions prior to their execution and rates of holdings of various investment assets; determination of investment procedures, control and follow up of the implementation of the investment policy that was decided upon.

9.2.3 Yield dependent investments committees (pensions and with profits)

Menorah Mivtachim Insurance has an investment committee on with-profits investments which was appointed in accordance with the Supervision Law and the investment regulations. The duties of the committee are, *inter-alia*, determining the policy on the investment of the monies held against yield dependent liabilities, in the framework of the overall policy established by the board of directors, particularly determining the policy on investments for the different investment tracks in the with-profits policies; approval of certain transactions prior to their execution and rates of holding in various investment assets; decisions relating to the use of means of control in various corporations held in the framework of the investments as aforementioned; determining procedures for investment, control and follow up of the implementation of the investment policy that was decided.

Menorah Mivtachim Pension has an investment committee that was appointed in accordance with the provisions of the Provident Funds Law (before the enactment of the said law, the committee acted by virtue of similar provisions in the provident funds regulations). The duties of the committee are similar to those detailed above, in all matters pertaining to the provident funds managed by Menorah Mivtachim Pension and the tracks of investment therein.

At present the committees are comprised of five members whose identity is identical in all of the committees, four of which are representatives of the public. The committees hold joint meetings. It should be pointed out that the aforementioned is also relevant to Menorah Mivtachim Provident, a subsidiary of the Company.

9.2.4 Joint credit committee

In accordance with the provisions of the Commissioner's circulars of August 2007 with respect to the management of credit risk incidental to investment activities and providing non-negotiable credit by institutional entities – infrastructure for professional and operational administrative support, and following the recommendations of the investment committee, the boards of directors of the institutional entities in the Group approved the composition of the common credit committee for Menorah Mivtachim Insurance (for yield dependant and non-yield dependant liabilities), for Menorah Mivtachim Gemel, for Menorah Mivtachim Pension and Shomera. The committee is in charge of the prior approval of the provision of credit incidental to investment activity which is not exceptional credit, in accordance with the authority divested to it in accordance with the credit policy approved at the investment committees and boards of directors of the institutional entities.

9.2.5 Balance sheet and Solvency II committee

In 2007 the board of directors of Menorah Mivtachim Insurance and the board of directors of Shomera appointed balance sheet committees, in accordance with the Supervision of Financial Services (Insurance) (Board of Directors and its Committees) Regulations, 5767-2007 and the Companies Law. The duties of the committees are, *inter-alia*, to hold deliberations and submit recommendations to the Company's board of directors on issues relating to the financial statements of the Company, as the case may be, including the opinion of the external independent auditors, the adequacy of the financial statements, the accounting policy, the integrity of disclosure and a survey of internal controls.

In accordance with a circular from the Commissioner of Insurance in July 2008 regarding preparedness for Solvency II, in October 2008 the board of directors of Menorah Mivtachim Insurance authorised the balance sheet committee of the Company to be responsible for the supervision and control of the process of preparing the Company for the implementation of the Solvency II directive. The committee convenes periodically on an ad-hoc basis and several times per year, and especially as part of the deliberation on the half-year financial report and the periodic report. The committee reports to the board of directors on an ad-hoc basis.

In October 2008 the board of directors of Shomera authorised a Solvency II Committee, comprised of 3 members of the board of directors, including one public director, which will convene periodically on an ad-hoc basis and several times per year.

9.2.6 Remuneration committee

In July 2007 the board of directors of Menorah Mivtachim Insurance appointed a remuneration committee. The duties of the committee are *inter-alia*, to make recommendations to the board of directors on policies relating to wages in the Company as well as the employment conditions of officers.

9.3 Compliance officer

Even though the legislative arrangement applying to the institutional entities in the Group does not require the appointment of a compliance officer, the institutional entities in the Group have appointed compliance officers as described hereunder.

Menorah Mivtachim Insurance

The management of Menorah Mivtachim Insurance is acting to implement the provisions of the law through different means. Regulatory provisions that relate to the activity of Menorah Insurance as an insurer are distributed to the relevant division heads who implement them in different manners including by determining procedures and controls for checking their implementation, as well as through training and qualifications for employees. During 2009 the assimilation of a computerised system commenced that will support the said activities.

The head of the commercial department and products in the life assurance division in Menorah Mivtachim Insurance serves as the officer in charge of the Company's compliance with its duties in the field of money laundering. The manager of the department of data protection risks in the Company serves as the data security officer for the purpose of implementing the directives in the field of information security in general and particularly on the subject of protection of privacy.

In December 2010 Menorah Mivtachim Insurance appointed Adv. Rona Lerrer as the compliance officer on a full time basis reporting directly to a member of the management who is responsible, *inter-alia*, for the organisation and methods and regulation field. Adv. Lerrer is a licensed lawyer and holds an investment marketing license from the Securities Authority and has served since 2008 as a risk auditor and compliance officer of Menorah Mivtachim Finances Ltd., a subsidiary of the Company as well as a risk auditor of the life assurance health division in 2009 until her appointment as aforementioned. Furthermore she was previously involved in investigative audits. As part of her position the compliance officer oversees compliance of the Company and its staff with legal provisions and acts to locate "compliance risks", their monitoring and dealing with them by performing compliance controls as part of an orderly work plan. The compliance department contains 2 further staff apart from the compliance officer. Adv. Lerrer also serves as the officer in charge of compliance with legal provisions and risk auditing in Menorah Mivtachim Gemel and in Menorah Engineers.

Menorah Mivtachim Pensions

In November 2010 Adv. Anat Yahav was appointed in Menorah Mivtachim Pensions as the compliance officer in place of Adv. Hila Ben Hanoch Levy who stopped working in the Company. Adv. Lehav has been employed as a lawyer in the legal department of Menorah Mivtachim Pension since June 2009 and she acts as the compliance officer parallel to the performance of other duties in the framework of the legal bureau of Menorah Mivtachim Pension. As part of her duty, the compliance officer assists the board of directors of Menorah Mivtachim Pension and its active management to ensure compliance by Menorah Mivtachim Pension with all of the requirements, rules and administrative directive applicable to Menorah Mivtachim Pension, whilst placing an emphasis on the activities of Menorah Mivtachim Pension with its customers, and in order to reduce the likelihood of breaching the said requirements, early disclosure of a breach of such requirements, reducing the exposure of Menorah Mivtachim Pension and its managers to claims and financial losses, as well as to preserve the reputation of Menorah Mivtachim Pension.

Shomera

At the end of 2006, Shomera appointed a regulatory officer whose duty is to implement and assimilate the various regulatory directives. Similarly, in February 2010 Shomera appointed Adv. Yoni Raz, the assistant legal counsel, who also serves as the regulatory officer, as aforementioned, as the compliance officer in Shomera. Mr. Raz has been a licensed lawyer since June 2009. The compliance officer is employed in the Company on a full time basis, and does not have any subordinates. As part of his duty, the compliance officer of Shomera is required to routinely monitor compliance of Shomera with all legal directives, and this in accordance with a work plan that was determined by the CEO of Shomera and the legal counsel. Furthermore, the compliance officer is responsible for coordinating between the various departments in Shomera in order to ensure preparedness for compliance with new legal directives, to ensure familiarisation with existing legal directives and their actual implementation in the departments, parallel to the variable fields of activity in the Company. The information systems department manager in Shomera serves as the data protection officer in order to ensure implementation of legal directives in respect of privacy protection and the directives of the Commissioner in this sector. Similarly, the various regulatory directives applicable to the activities of Shomera as an insurer are brought to the attention of the board of directors from time to time, and on a regular basis to its management and to the division heads involved in its assimilation, each on in respect of the sectors under their responsibility, *inter-alia*, via a comprehensive project of devising procedures and by way of adapting the mechanisation systems of Shomera.

9.4 Code of ethics

The Group is currently involved in devising and implementing a code of ethics for the Group. In this framework training sessions for managers and staff are being held.

PART F: RISK MANAGEMENT

10. Risk management

10.1 Risk management philosophy

For details on this subject see note no. 35 to the annual Financial Statements.

10.2 Work processes

For details on this subject see note no. 35 to the annual Financial Statements.

10.3 Analysis of risk factors

10.3.1 Changes in financial markets

This risk derives from changes in the fair value of financial instruments, as a result of fluctuations in the various market factors, such as interest, exchange rates, rates of inflation, share indices and credit margins. Any change in these risk factors might have an impact on the value of the Company's assets, its liabilities, and the value of the assets portfolio which it manages, and in respect of which it collects management fees. A major component of the Company's income derives from the revenues from management fees which derive from the return received on the assets managed by the Company. Calculation of management fees in a large part of life assurance policies is calculated as a function of the real annual return, and in the case of a negative return, it is based on a multi-annual calculation. In light of this, the profitability of the Company is affected significantly by the real return attained on the assets which it manages. A negative return would detrimentally affect the Company's income in the current period and even in a future period, until the achievement of a positive real return for the insureds. Furthermore, there are life assurance policies, where any change in the said risk factors affects the Company's financial margin (the gap between the return which the Company undertook to give the insureds, and the return which the Company attained on these assets). A further impact of these risk factors is the impact on the volume of assets managed by the Company. A decline in the volume of assets will affect the scope of the management fees which the Company collects.

The Group has a limited exposure to composite assets, whose market price may be affected by world credit crises or local credit crises. As at the date of the balance sheet the exposure to this risk was negligible.

10.3.2 Changes in the level of solvency of entities with liabilities to the Company

The stability and repayment ability of different entities with whom the Company has agreements, such as borrowers, issuers, banks and reinsurers is liable to affect the value of its assets. Due to the financial crisis and the deterioration to a real crisis (mainly worldwide) there was a dramatic increase in the probability of these entities going into liquidation. The Company will expand the use of quantitative tools in order to assess this risk in the most optimal manner.

10.3.3 Liquidity risk

The exposure to liquidity risks contains three main components. Firstly – the uncertainty with respect to the timing and size of its underwriting liabilities. Secondly – the Company is exposed to the risk of early redemption which constitutes an option of the insureds for withdrawing the money that they deposited in yield guaranteeing life assurance policies. The third component that affects liquidity risks is the active current trading on the Tel Aviv Stock Exchange. A prolonged general suspension of trading would detrimentally affect the Company's ability to realise the greater part of its securities, and would prejudice its ability to pay claims to its customers.

10.3.4 Cancellations risk

The Company is exposed to the possibility of its customers exercising the cancellation option of policies. Especially in the life assurance and long term savings sector the Company is exposed to the risk of fund portability reflected in the decisions of its customers and the public at large to transfer funds managed by the Company to competitors in the market, as well the transfer of funds to the Group from competitors, all this due to changes in the public preferences arising from risk appetite or dislike, quality of service, etc.

10.3.5 Changes in factors in the basis of pricing liabilities

The Company sells insurance policies covering different risks, including life assurance risks, health risks, liability risks and property risks. The frequency and severity of those events which the Company covers under the insurance policies, such as death, disability, damage to property (as a result of natural hazards or man-made losses), longevity etc. - are factors whose development cannot be foreseen. The risk derives from the fact that the premium collected for the insurance policies will be insufficient for paying the claims which will be lodged as a result of the realisation of those insurance risks.

10.3.6 Catastrophe events

Catastrophe events might have a simultaneous impact on several of the Group's fields of activity (a sudden increase in the number and amount of claims in various classes of business, a decline in the financial markets and in liquidity) and detrimentally affect the financial stability.

For example: a natural disaster (earthquake), a war or a large terrorist attack or a mass epidemic. The Company addresses this risk mainly by ceding it to reinsurers in the framework of various treaties.

10.3.7 Changes in the political situation

The political and security related situated in Israel is liable to affect the Company in two main manner. Firstly, changes in the financial markets as a result of the anticipation of a political-security related event is liable to affect the value of the Company's assets and the assets that it manages. Secondly, the occurrence of an event is liable to cause an economic slow-down and an increase in claims in respect of occurrences that the Company insures (such as property damage and bodily injury).

10.3.8 Changes in the socioeconomic situation

Changes in the socioeconomic situation (which are unrelated to the political situation) and a local economic recession are liable to affect the Company, *inter-alia*, in the following manner: A decline in sales, an increase in the redemption of life assurance policies, provident funds and participation units in trust funds and an increase in claims. Furthermore, an anticipation of such changes is liable to affect the financial markets immediately.

10.3.9 Regulatory changes

Changes in legal provisions, regulations, and the various regulatory directives, which apply to institutional entities involve monetary expenses for their implementation, such as information systems and personnel and have a direct impact on the Company's capital. Hereunder are examples of regulatory changes that have a direct effect on the financial condition of the Company: (A) An increase in capital requirements; (B) Establishing requirements and which have an impact on the regular commercial operations; (C) Changes in the tax laws applying to the Company or its products; (D) Changes in the rules for determining insurance tariffs; (E) Changes in the formulas for calculating reserves; (F) Changes in the principles of the products sold (capital plans, annuity plans).

10.3.10 Changes in judicial climate

The cost of defending claims, claim payments and changes in the judicial climate (legal precedents with respect to insurance products) are among the factors that entail uncertainty and might affect the results of the Company. The Company is aware of a trend of an increase in class actions due to the sophistication of legal instruments for instituting these claims and the specialisation of lawyers therein as well as in a developing trend of approving such legal actions. As a result, the Company is intending to monitor the development of such claims, to analyse their unique characteristics and to assess the practical ramifications on the Company in order to implement preventative / alleviative measures.

10.3.11 Changes in conditions of competition

The business results depend on the Company’s ability to operate competitively in the sector. Both the insurance sector and the long term investments sector undergo many changes and effectively become more and more competitive. The companies which compete with the Group are not only the insurance companies but also pension funds, provident funds and investment management companies. The Company’s ability to comply with the regulation requirements, to design innovative products and to develop orderly working relations with distributors (insurance agents and advisors in banks) is critical for the continuing profitability of the Company.

10.3.12 Changes in the world reinsurance market

Reinsurance is liable to limit the growth of the Company’s business. Since the Company has no control over the reinsurance market (it is mostly overseas), it cannot assess the availability and the price of reinsurance. One cannot be sure that reinsurers will be prepared to accept insurance risks at the same terms as those prevailing today. Hence, the Company may consider taking a greater exposure in the net retention or turning away business - in both cases profitability might be detrimentally affected.

10.3.13 Changes in assessment of reserves

An error or the use of a wrong model for assessing reserves might impair the profitability (the fluctuation of profit). From time to time, the way of calculating the reserves is checked and the assumptions used for assessing future claims are also checked against the accrued experience and are updated as necessary. Furthermore, new directives are also received from the regulator with respect to the way of calculating the reserves. The model risk also affects similarly the propriety of the tariff. The Group follows the "premium deficiency" method and relies, when possible, on the assessment of reinsurers who have more experience, aimed at reducing this risk.

10.3.14 General operating risks

The operating risk refers to a loss due to a failure in or incompatibility of processes, persons, or internal systems, or as a result of an event which is external to the organisation. For instance, an impairment of relations with agents or other distributors might cause a decline in sales; fraud and embezzlements of the Company's funds might cause unforeseen losses; hacking into a computer system might cause a temporary suspension of activity. A failure in the development and assimilation of computer systems which constitute the business core of the Group might result in limiting the Company's ability to develop new products and providing adequate solutions in serving the Company's customers and thereby impair the business development of the Company and its profitability.

10.3.15 External events

The occurrence of external events that are not included in the disaster recovery plan might affect the Company's capability to function effectively after an event, and as a result its business may be impaired.

10.4 Table of risk factors

The following table presents the risk factors described above by their nature – macro risks, sectorial risks, and special risks of the Company, which were rated in accordance with the assessments of the Company's management, according to their impact on the Company's business as a whole – high, medium and low impact:

Description of the risks	Risk rating			Notes
	Low impact	Medium impact	High impact	
Macro risks				
Changes in the financial markets		X		Note 10.3.1
Changes in the solvency of entities which are liable to the Company		X		Note 10.3.2
Liquidity risks	X			Note 10.3.3
Sectorial risks				
Cancellation risks		X		Note 10.3.4
Changes in factors in the basis of pricing liabilities		X		Note 10.3.5
Catastrophe event			X	Note 10.3.6
Changes in the political situation		X		Note 10.3.7
Changes in the socioeconomic situation	X			Note 10.3.8
Regulatory changes		X		Note 10.3.9
Changes in the legal climate		X		Note 10.3.10
Changes in conditions of competition		X		Note 10.3.11
Changes in the worldwide reinsurance market	X			Note 10.3.12
Changes in the assessment of reserves	X			Note 10.3.13
Special risks affecting the Company				
General operating risks			X	Note 10.3.14
External event	X			Note 10.3.15

10.5 Board of directors' opinion on the manner in which risks are managed

Considering the aforementioned and that stated in the annual Financial Statements, the board of directors is of the opinion that the risk management is satisfactory under the circumstances.

Menahem Gurevitch **Chairman of the Board of Directors**	**Ari Kalman** **General Manager**

Tel Aviv, 30th March 2011

MENORAH MIVTACHIM HOLDINGS LTD.

SECTION B:
BOARD OF DIRECTORS' REPORT

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MENORAH MIVTACHIM HOLDINGS LTD.

BOARD OF DIRECTORS' REPORT FOR THE YEAR 2010

The following Board of Directors' Report reviews the activity of Menorah Mivtachim Holdings Ltd. (hereinafter: **"the Company"**) for 2010 (hereinafter: **the Reporting Period**").

The Board of Directors' Report for 2010, reviews the principal changes in the Company's operations during the Reporting Period. The report was prepared in accordance with the Securities (Periodic and Immediate Reports) Regulations, 5730-1970. The Board of Directors' report is an integral part of the Periodic Report, all parts included, and the entire Periodic Report should be read as a single document.

Regarding the description of the consolidated insurers' business in the Company's reports, the report was prepared in accordance with the Control of Insurance Business (Reporting Details) Regulations, 5758-1998.

1. Board of Directors explanations on the state of the corporation's business

1.1 Description of the Company

1.1.1 The Company's shareholders

The Company is a public company whose shares are listed for trade on the Tel Aviv Stock Exchange (TASE). The Company's principal activity is the holding of companies involved in insurance, pensions, provident funds, finance and real estate. The Company's principal shareholders are Najaden Establishment and Palamas Establishment (foreign corporations) that hold 61.86%of its shares in trust for Mr. Menahem Gurwitz. The Company's CEO, Mr. Ari Kalman, who also serves as the chairman of Menorah Mivtachim Insurance Ltd., a subsidiary of the Company (hereinafter: **"Menorah Mivtachim Insurance"**), holds 2.72% of the Company's shares through the Staff Trust Company at the date of the report. The rest of the Company's shares are held by the public.

1.1.2 The Company's operating segments

For a description of the Group's operating segments, see the chapter – "Description of the Corporation's Business" and Section 8.1 below.

1.2 Developments during the Reporting Period

1.2.1 Commissioner's audit of Menorah Mivtachim Insurance concerning special loans

In September 2009, the Commissioner of Insurance informed the management of Menorah Mivtachim Insurance of his intention to conduct an audit in connection with retroactive transfers between investment tracks made during the course of 2008, and concerning loans that were given by Menorah Insurance several years ago, without adequate collateral at the time of extending the loan, including the function of the relevant organs.

It should be noted that with respect to the retroactive transfers that were discovered in the policies of several employees and/or agents, the amounts are insignificant. As for the financial significance of the loans that are the subject of the review, it should be noted that at December 31, 2010, the Group had outstanding loans in the amount of NIS 97.8 million before provision for doubtful debts, against the loans surrender values were accrued in policies in the amount of NIS 12.8 million, and the balance of the provision for doubtful debts in respect of the loans was NIS 60.2 million at the aforementioned date.

In July 2010, Menorah Mivtachim Insurance received the report issued by the Commissioner of Insurance in connection with the aforesaid loans (hereinafter: **“the Commissioner's Report”**). The Board of Directors of Menorah Mivtachim Insurance held several meetings to discuss the report and noted the Commissioner's findings, comments and conclusions, and although it disagrees with a large and significant number of them, it has taken action to ensure that Menorah Mivtachim Insurance will apply the Commissioner's instructions as specified pursuant to the Report, and it recently summarised this activity in a report submitted to the Commissioner.

1.2.2 Israel Securities Authority investigation (second-tier subsidiary)

In May 2010, the ISA launched an investigation into Menorah Mivtachim Mutual Funds Ltd. (a second-tier subsidiary of the Company) (“Menorah Funds”) and against the CEO of Menorah Funds. At the publication date of this report, the Company has no new information pertaining to the investigation so that, at this stage, it is unable to estimate its significance and outcome.

1.2.3 Menorah Mivtachim Real Estate

Menorah Mivtachim Real Estate Ltd. (a subsidiary of the Company) signed an agreement to acquire 42% of the shares in Solangia (a foreign company) that is engaged in the development and construction of solar energy infrastructures in Europe. At the reporting date, the total investment is 12.8 million euros, and after the reporting date an additional amount of 1.4 million euros was invested.

This investment is part of a line of credit that the Company extended to Menorah Real Estate. See also Section 8.2 below.

1.2.4 Belttrend Menorah Enterprises Ltd. (hereinafter – Belttrend)

Belttrend, an associated company of Menorah Mivtachim Real Estate Ltd. (a subsidiary of the Company) took non-recourse loans for the purchase of a property in Germany via partnerships under its control. A trustee on behalf of the lender (hereinafter – the trustee) commissioned a valuation of the property that was purchased. In accordance with a draft of this valuation, the value of the property is substantially lower than the value of the property in the accounting records and constitutes a breach of a financial stipulation. Belttrend is conducting discussions with the trustee to reach agreement regarding the plan of action as a result of the breach of a financial stipulation. The maximum balance of exposure of the group, in relation to its aforementioned investment, stands at approx. NIS 10 million.

1.2.5 Issue of debentures (Series B)

In July 2010, the Company issued non-marketable Series B debentures to financial institutions in the amount of NIS 170 million par value. The Company invested all the proceeds of the issue in Menorah Insurance as complex primary capital (“hybrid capital”).

In September 2010, the Company issued additional Series B debentures in the amount of NIS 80 million par value to an institutional investor, by way of an expansion of the aforementioned series. The proceeds of the issue were NIS 84.6 million, which includes a premium of 3.98% above pari. Consideration in the amount of NIS 83 million of the above proceeds was also invested in Menorah Insurance as complex primary capital (“hybrid capital”).

Midrug rated the debentures Aa3, outlook stable. The principal will be repaid in five equal, annual instalments from 2018 until 2022. The interest, at a rate (annual) of 4.5%, will be repaid each year from June 31, 2011. The principal and the interest are index linked.

1.2.6 Board of Directors and senior officers

In May 2010, Ms. Orly Yarkoni was appointed as a director of the Company.

In May 2010, the late Mr. Jacob Segal ceased serving as director of the Company.

In August 2010, Mr. Israel (Izzi) Tapuhi was appointed an external director of the Company and Mr. Bar-Kochba Ben Gara was re-elected for a second term as an external director of the Company.

In September 2010, Mr. Gedalia Doron stepped down as Chairman of the Board of Directors, and instead Mr. Menahem Gurwitz was appointed as Chairman of the Board. Mr. Doron continues to serve as a Company director. Concurrent with Mr. Gurwitz's appointment as Chairman of the Board of Directors, Mr.

Gurwitz terminated his tenure as CEO of the Company, and Mr. Ari Kalman was appointed to replace him. Until that date, Mr. Kalman had served as the Company's Deputy CEO and CEO of Menorah Insurance. Further to Mr. Kalman's appointment as Company CEO and Chairman of Menorah Mivtachim Insurance and Menorah Mivtachim Finance, and the termination of his position as the Company's Deputy CEO and CEO of Menorah Mivtachim Insurance, in October 2010 Mr. Motti Rosen was appointed as CEO of Menorah Mivtachim Insurance.

On January 1, 2011, Mr. Jacob Rosen stepped down as CEO of Menorah Mivtachim Pension Ltd., a second-tier subsidiary of the Company (hereinafter: **"Menorah Mivtachim Pension"**), and he was replaced by Mr. Yehuda Ben-Assayag. From the date of this appointment, Mr. Ben Assayag ceased to serve as deputy CEO and director of the Life Insurance Division in Menorah Mivtachim Insurance. Concurrently, Mr. Jacob Rosen was appointed as a director of Menorah Mivtachim Insurance.

In November 2010, Mr. Gurwitz stepped down as Chairman of the Board and as a director of Menorah Mivtachim Pension, and he was replaced by Mr. Eran Grifel, who until that date had served as Deputy Chair of the Board of Directors of Menorah Mivtachim Pension.

1.2.7 Legal proceedings

On the subject of development concerning exposure to the approval of actions that were filed against the subsidiary, Menorah Mivtachim Insurance and a consolidated company Shomera Insurance Company Ltd., as class actions, see Note 37 to the Financial Statements.

1.2.8 Description of the business environment

The economic environment and the impact of external factors on the Corporation's activity

1.2.8.1 The capital marked and development of the macroeconomic environment

The year 2010 was characterised by a positive trend in the real markets, whereas the Israeli economy was characterised by a relatively fast pace of recovery compared to other developed economies in the world. This recovery is reflected both in the relatively fast growth of the Israeli economy during the course of the year 2010 as well as in the Combined Index data published by the Bank of Israel as well as by Israel becoming a member of the Organisation for Economic Cooperation and Development.

According to economic data published by the Central Bureau of Statistics, the growth of the Israeli economy in 2010 reached 4.5%, a relatively high rate compared to the previous forecast at the beginning of 2010. In 2010 the business production grew by a rate of 5.3% and the private consumption grew by a rate of 4.7%. The Combined Index which was published by the Bank of Israel to analyse the state of the economy registered an increase during 2010 by a rate of approx. 5%, compared to an increase of only approx. 0.5% during the course of the previous year.

The recovery of the Israeli economy started earlier and was quicker than most developed economies. In worldwide comparative terms Israel grew faster than the USA (2.9%), the Euro block (2.3%) and the average for the OECD nations (3.1%). According to statistics published by the Central Bureau of Statistics the GDP per capita in Israel grew by a rate of 2.7% in 2010, and this after the GDP per capita reduced by 1.1% in 2009. Some of the prominent GDP elements were investments in fixed assets. Furthermore, there was a considerable improvement in domestic consumption and a recovery in foreign trade commenced. Exports grew at a rate of 12.6% and imports by a rate of 11.5%, this following a sharp decline in 2009. During the course of 2010 there was also an improvement in the trade and services payment index and the sales index in the retail chains.

Recent indications reinforce the assessment regarding a considerable further improvement in economic activity, led by local demand, whereas in the fourth quarter of 2010 there was an increase of 7.8% (in annualised terms), considerably higher than the previous forecasts in respect thereof. Nonetheless, exports excluding diamonds increased in the fourth quarter by only 2.2% (in annualised terms), whilst civil imports excluding diamonds, ships and aircraft increased by 20.7% (in annualised terms). Domestic consumption grew by a high rate of 9.8% (in annualised terms) and at correspondingly the purchase of durable goods increased by approx. 40% (in annualised terms). Investments in fixed assets continue to increase and in the fourth quarter increased by 15.9% (in annualised terms), whilst the investment in residential construction increased in the second quarter of 2010 by 13.8% (in annualised terms).

It should be pointed out that from a survey of companies by the Bank of Israel which was published after the date of the balance sheet to conclude the year 2010 it transpires that industrial companies reported an increase in the number of employees as well as a significant and ongoing increase in the utilisation of machinery and equipment. Reports from trading companies are similar and they also reported an increase in the number of employees and an increase in sales.

The ongoing expansion of local economic activity encompassed the majority of industries in the economy and considerably improved the employment situation, such that the unemployment rate out of the total workforce reached a record low of approx. 6.2% during the year. Corresponding to the increase in unemployment data, during the period surveyed a surge in the expansion rate of the number of individuals employed in the Israeli economy was registered, such that the rate of employed individuals out of the total population at work age returned to the level which prevailed prior to the global financial crisis which occurred towards the end of 2008. The recovery in the job market was also reflected in an increase in the real average wage for a salaried position in the business sector by a rate of approx. 2.5% in the 12 months ending November 2010, compared to a decline in wages registered in the year 2009 due to the global crisis. Nonetheless, the ongoing recovery in the job market was also apparent in relation to the number of unemployed individuals per open position, serving as an index of pressure in the employment market. This index continued to decrease over the course of the surveyed period as a result of both a decline in the number of unemployed individuals as well as due to an increase in the number of open positions.

The Consumer Price Index increased in 2010 by a rate of approx. 2.7%, within the range of the price stability target. Net of housing prices the Consumer Price Index increased in 2010 by 1.9%. The Consumer Price Index in 2010 was influenced in the main by a sharp increase in the price of goods, surplus demand in the local housing market and due to a reduction in product gap (mainly due to increased wages).

House prices, measuring in accordance with a house price survey and which is not included in the Consumer Price Index increased in 2010 by approx. 17.3%. The housing cost index, based mainly on renewable lease agreements and which is included in the Consumer Price Index increased in 2010 by approx. 4.9%.

The implication of the gap is that the yield obtained from rent of apartments has decreased in the last years. The decline in the anticipated yield has not to date resulted in a significant decline in demand for residential investment property since the investors anticipate ongoing increase in the prices of apartments i.e. capital gains.

Massive printing of dollars by the Fed, as well as the purchasing power of the Chinese and natural disasters in Russia, Canada, Kazakhstan, Europe and South America contributed significantly to the fast increase in the price of goods worldwide. The prices of agricultural products increased in the second quarter of 2010 at a pace of tens of percentage points and put upwards pressure on food prices worldwide. The increase in the prices of goods resulted in political instability in some Arab countries towards the end of 2010, a phenomenon which exacerbated during the first quarter of 2011.

During the course of 2010 the Bank of Israel continued to moderately and gradually increase interest rates. Over the course of 2010 the Bank of Israel interest rate was increased only four times, from 1% to 2%, such that in practice a negative interest rate prevailed in the Israeli economy. The gradual increase of interest was affected by two central factors. On the one hand the low interest rates encouraged the public to move to real estate basis investment channels, which resulted in a considerable increase in housing prices in the last two years. Similarly, the steps taken by the Bank were also influenced by inflation expectations, which moved around the bottom level of the inflation target. On the other hand, the Bank of Israel refrained from increasing the interest at a quicker pace due to the low interest rates in the developed nations and due to the concern that increasing the interest rate gaps would increase the value of the shekel in the year 2010 and increased the short term capital movements entering Israel. The slow increase of interest in Israel arose both from the concern that the economic recovery worldwide would not be sustainable despite the fact that the growth rate and the inflation expectations were increased over the course of the last year.

The overall deficit of the government (excluding credit) in 2010 totalled NIS 30.2 billion being approx. 3.7% of GDP. In December 2010 the deficit was NIS 12.6 billion due to a high level of expenditure exceeding the regular season level. The total tax receipts in 2010 totalled NIS 195.4 billion – when deducting legislative amendments and one-off income this represents a real increase of 7.5% compared to last year.

The year 2010 was characterised by the division of the global economy into two blocks: The first group contains developed economies (USA, the Euro block), which were badly affected by the crisis and are undergoing a slow and unstable process of recovery. The second block contains emerging nations and developed nations such as Australia, Germany and Israel which passed the crisis without any significant damage and displayed high growth rate increases over the course of the year 2010.

Towards the end of 2010 a larger fiscal program than that which was approved only two years ago was approved in the American economy. Furthermore, approximately six months after the Central American Bank started to provide an indication of future steps that will be taken in order to dry up all of the liquidity that it injected into the markets during the crisis, during the fourth quarter of 2010 the Bank published a program whose aim is to inject further liquidity into the markets and this in order to ensure that the American economy grows. The American debt continued to increase to dimensions which are liable to put the faultless credit rating of the USA at risk. At the same time, the US employment market is having difficulties in recovering from the crisis and the unemployment rate remained high into 2010. Over the course of 2010 the USA real estate market continued to shows signs of weakness.

The debt crisis in Europe appears to be the central problem affecting the continent in 2010 and is expected to remain the case next year. Furthermore, over the course of the year 2010 the concern that some European states would return to negative growth started to materialise whereas in some of them the concern arose that without external assistance they would be unable to repay their debts.

Following loss of faith on the part of investors in the data published by the Greek government regarding growth, the deficit and the debt and after loss of faith in the ability of Greece to implement the austerity program that it was required to implement, the Euro block established a support fund for European countries in distress. Six months later, Ireland was also in need of aid however Ireland, contrary to Greece, did not have credibility problems. The problem of Ireland is the intensity by which its banks collapsed, which arose from very high leverage. Ireland nationalised the largest banks at a cost estimate at one third of the annual GDP of Ireland.

The majority of the European states, starting with Greece through to Germany, have implemented an austerity plan in the last year, and in some of case the question has arisen as to whether the cutbacks are liable to return the economies to recession where the damage from the plan will exceed its benefit. As a result of these measures we were witness during the year 2010 to a reduction in the credit ratings of certain countries, mainly in Western Europe. The credit rating of Greece was reduced to “junk”; the rating of Ireland was reduced in December 2010 by five levels all at once. The ratings of Spain and Japan were also cut, whereas in the USA the rating companies warned that if the American administration does not show a more responsible fiscal policy, its rating is liable to be affected.

Allaying the fear that the debt crisis in Greece and Ireland might spill over into other states in the Euro block, due to the establishment of the support fund for European countries which have fallen into financial difficulties renewed trust in the markets, was reflected in data from the middle of the year. Nonetheless, during the course of the fourth quarter of the year 2010 the concern once again arose that Belgium, Spain and Portugal will also need assistance, after Greece and Ireland received assistance from the EU. This is also liable to result in the future dismantling of the Euro block if such a scenario indeed materialises.

In China the concerns of a real estate bubble developing increased. These concerns and the high level of inflation caused the Chinese government to implement measures to restrain the local demands. The steps taken include increasing interest rates, increasing the reserve ratio in the commercial banks and imposing administrative restrictions on the housing market.

A further global phenomenon which was prominent in 2010 is the “currency war”. The gap between the low interest rates in the developing economies which were affected by the crisis (USA, the Euro block and Japan) and high interest rates in countries which were largely unaffected by the crisis (Brazil, Australia, Israel and others), resulted in massive capital movements in order to obtain high yields. As an outcome, currency valuation pressures emerged in the competitiveness of the countries which are on the receiving end of these capital movements. In order to cope with these pressures several countries started intervening in the foreign currency market by purchasing foreign currency balances and by imposing restrictions on capital movements.

Nonetheless, recent indicators attest to the ongoing fast growth of the emerging economies and a slow-down in the growth of the American economy. In the Euro block the expectations of increased demand increased, especially in Germany and France. Britain stands out in a decreased growth rate in the fourth quarter of 2010. The recent economic indicators for the global economy were better than previous estimations and resulted in the growth forecasts being increased. In January 2011 the IMF updated the global growth forecast for 2011 to 4.4% (compared to a previous forecast of 4.2%), whilst increasing the growth rate in the USA considerably to 3% (compared to a previous forecast of 2.3%).

1.2.8.2 The bond and stock markets

In 2010 the sharp increase in bond prices continued in Israel and worldwide. Most of the increase occurred in the second half of the year, against the background of the recovery of the US stock market and after in the first half of the year the indices displayed relative weakness against the background of the debt crisis in the Euro block. The increase in share and bond prices arose, *inter-alia*, from the fact that central bank interests in the leading developed economies are very low and due to the expectation on the part of the investors that these interest rates are likely to remain low for a long time as well as due to the economic recovery worldwide. The prominent sector this year in the Israeli stock exchange was the gas and oil exploration sector which had increased by the end of 2010 by a rate of approx. 49%. The increases in participation unit prices of companies involved in this sector arose mainly from signs of large amounts of gas being found.

By the end of 2010, the TA25 index increased by approx. 15.8% and registered all-time highs whilst the TA100 index increased by approx. 14.9%. The TA75 index increased by approx. 15.7%.

The upwards trend was also registered in the majority of the leading worldwide share indices. The NASDAQ increased by approx. 17.4% whilst the Dow Jones increased by approx. 11%. The FTSE index increased by approx. 10.3%, the German DAX increased by approx. 16.1%. On the other hand, the French CAC declined by approx. 2.2% and the Chinese share index by approx. 23.5%.

Over the course of 2010, the corporate debenture market registered sharp price increases and a significant decline of gross yields. In summary for the year, the Tel Bond 20 market increased by approx. 11.1% and the government bond 40 index increased by approx. 10.8%. The government linked debenture index increased by approx. 8% and the shekel government debenture index increased by approx. 5%.

The significant capital import in the emerging markets increased the activity in the global currency market; at the same time interventions in world currency markets increased – both by massive purchases of foreign currency by the central banks as well as the imposition of restrictions on capital movements.

The intervention of the Bank of Israel in US Dollar trading also continued in 2010. The foreign currency balances of the Bank of Israel increased over the period from a level of approx. US$ 60.6 billion to level of US$ 70.9 billion at the end of December 2010.

The intervention of the Bank of Israel in trade was intended to attempt to moderate irregularities in the dollar rate in relation to the basket of currencies and an attempt to prevent speculative attacks on the local currency. Despite the massive intervention of their Bank of Israel, the interest rate gaps between the shekel and major world currencies as well as the surplus in the current account of Israel caused a sharp appreciation of the shekel during the last year. In summary, in the year 2010 the shekel appreciated by approx. 6% compared to the representative rate of the US dollar, whereas the representative rate of the Euro compared to the shekel during the course of the period declined by approx. 12.9%.

2. Financial situation

2.1 Principal data from the financial statements:

2.1.1 Data from the consolidated balance sheets (in NIS thousands):

(NIS thousands)	December 31, 2010	December 31, 2009
Total assets for yield-dependent contracts	11,974,019	10,169,178
Total other financial investments	14,413,561	13,261,052
Other assets	4,765,424	4,470,110
Total assets	31,153,004	27,900,340
Shareholders' equity	2,253,732	1,950,650
Liabilities		
Liabilities for insurance contracts and non yield-dependent investment contracts	13,805,715	12,925,047
Liabilities for insurance contracts and yield-dependent investment contracts	11,908,196	10,238,194
Financial liabilities	1,720,140	1,513,374
Other liabilities	1,465,221	1,273,075
Total capital and liabilities	31,153,004	27,900,340

At December 31, 2010, the Company's assets totalled NIS 31,153 million, compared with NIS 27,900 million at December 31, 2009. The increase in assets during the Reporting Period was mainly the result of rising prices in the capital markets that in turn led to an increase in the value of the assets for yield-dependent investment contracts and insurance contracts and other financial investments, an increase in the volume of business, and an increase in the volume of financial liabilities.

2.2 Shareholders' equity

At December 31, 2010, the Company's equity totalled NIS 2,254 million, compared with NIS 1,951 million at December 31, 2009. The increase in equity can be attributed principally to profit of NIS 282 million, to an increase in the capital reserve stemming from available-for-sale financial assets in the amount of NIS 21 million, and to an increase in a capital reserve in respect of a share-based payment transaction in the amount of NIS 2 million.

In November 2009, Control of Financial Services (Minimum Equity Required of an Insurer) Regulations that apply to the Group's insurers were amended. Under the amendment, the capital that Menorah Mivtachim Insurance and Shomera will be required to hold at December 31, 2011 will increase by NIS 706 million and NIS 72 million respectively. At the date of the financial report, Menorah Mivtachim Insurance and Shomera have a capital surplus of NIS 678 million and NIS 18 million respectively. It should be noted that to comply with all the capital requirements under the new regulations, as will be in force at December 31, 2011, at the reporting date Menorah Mivtachim Insurance has a capital surplus of NIS 396 million and Shomera has a capital shortfall of NIS 11 million, and this after deducting primary capital over and above the restriction regarding basic double equity of NIS 36 million. Ignoring the aforesaid primary capital deduction, Shomera has a capital surplus of about NIS 25 million.

In January 2011, draft Control of Financial Services (Provident Funds) (Minimum Equity Required of a Management Company) Regulations, 5769-2009, as well as a draft circular concerning capital requirements for management companies, were published. Under the draft, Menorah Mivtachim Pension will be required to hold additional equity of NIS 71 million. At the date of the financial report, Menorah Mivtachim Pension has a capital surplus, after this additional requirement, of NIS 310 million.

The Company has other subsidiaries to which the provisions concerning the retaining of minimum shareholders' equity apply. At the date of approving the financial statements, all the Group's companies are in compliance with the capital requirements applicable to them, as the case may be. For further details concerning shareholders' equity, see Note 15 to the Financial Statements.

2.3 Dividend

In 2008, 2009 and 2010 no dividend was distributed.

2.4 Liabilities

At December 31, 2010, the Company's liabilities totalled NIS 28,899 million, compared with NIS 25,950 million at December 31, 2009. The increase in total liabilities during the Reporting Period is mainly due to the charging of the yield on the capital market to liabilities in respect of yield-dependent investment contracts and insurance contracts, to an increase in the volume of business that increased the liabilities in respect of insurance contracts, and an increase in the volume of financial obligations.

3. Results of Operations

3.1 Data from the Consolidated Income Statement

(NIS thousands)	1-12/2010	1-12/2009	1-12/2008
Premiums earned, gross	4,270,262	4,069,594	3,895,779
Premiums earned on retention	3,365,444	3,337,873	3,292,227
Income (loss), net from investments and other financing income	2,309,812	4,112,369	1,478,369) (
Income from management fees	643,793	457,703	398,151
Income from commissions	230,131	178,421	135,474
Payments and changes on liabilities for insurance contracts and investment contracts in retention	4,485,541	5,961,484	1,219,008
Commissions, marketing expenses and other purchasing expenses	914,837	868,805	840,779
General and other administrative expenses	592,334	520,430	459,675
Financing expenses	121,874	140,076	143,972
Company's share in earnings of affiliates, net	121	(1,808)	16,370
Profit (loss) before taxes on income	434,715	593,763	(299,581)
Taxes (tax benefits) on income	152,768	190,793	(67,451)
Net profit (loss)	281,947	402,970	(232,130)
Overall profit (loss):	301,056	672,547	(402,957)

3.2 Data on insurance premiums

(NIS thousands)	1-12/2010	1-12/2009	1-12/2008
Motor casco	886,312	866,188	806,223
Compulsory motor	609,679	601,875	545,400
Property and other branches	527,563	528,369	522,079
Other liabilities branches:	243,950	246,766	240,314
Total general insurance	2,267,504	2,243,198	2,114,016
Life insurance and long-term savings	2,001,514	1,827,732	1,783,022
Adjustments and setoffs	1,244	(1,336)	(1,259)
Total premiums earned, gross	4,270,262	4,069,594	3,895,779

3.3 General

Summary of results of operations (in NIS thousands):

Net profit (loss) from operating segments:

(NIS thousands)	1-12/2010	1-12/2009	1-12/2008
Pre-tax profit from operating segments			
Profit from life assurance and long-term savings	222,524	340,737	13,344
Profit (loss) from general insurance	157,932	214,879	(47,456)
Total pre-tax profit (loss) from reportable operating segments	380,456	555,616	(34,112)
Pre-tax profit (loss) from other activity (not included in the segments)	54,259	38,147	(265,469)
Total pre-tax profit (loss)	434,715	593,763	(299,581)
Taxes on income (tax benefits)	152,768	190,793	(67,451)
Net profit (loss)	281,947	402,970	(232,130)
Attributed to:			
The Company's shareholders	281,616	402,798	(231,784)
Minority interests	331	172	(346)
Net profit (loss)	281,947	402,970	(232,130)

Overall profit (loss) from operating segments:

(NIS thousands)	1-12/2010	1-12/2009	1-12/2008
Pre-tax overall profit from operating segments			
Overall profit (loss) from life assurance and long-term savings	243,006	414,887	(35,256)
Overall profit (loss) from general insurance	165,717	391,581	(159,457)
Total pre-tax overall profit (loss) from reportable operating segments	408,723	806,468	(194,713)
Comprehensible pre-tax profit (loss) from other activity (not included in the segments)	52,538	200,636	(368,723)
Total comprehensible pre-tax profit (loss)	461,261	1,007,104	(563,436)
Taxes on income (tax benefits)	160,205	334,557	(160,479)
Overall profit (loss):	301,056	672,547	(402,957)
Attributed to:			
The Company's shareholders	300,725	672,375	(400,546)
Minority interests	331	172	(2,411)
Overall profit (loss):	301,056	672,547	(402,957)

3.4 Changes in the results of operations during the Reporting Period

Net profit during the Reporting Period totalled NIS 282 million, compared with net profit of NIS 403 million in 2009 and a loss in the amount of NIS 232 million in 2008.

Overall profit, consisting of net profit plus the net change in a capital reserve in respect of available-for-sale assets and other changes that affect equity, totalled NIS 301 million in 2010, as against overall profit in the amount of NIS 673 million in 2009 and a overall loss of NIS 403 million in 2008. The decline in overall profit this year, compared with the previous year, is mainly due to the fact that the yields on the different investment channels in the capital market this year are lower than for the corresponding period last year.

Profit from life assurance business and long-term savings, before income tax, in 2010, totalled NIS 223 million, as against NIS 341 million in 2009, and profit of NIS 13 million in 2008 (see Section 3.5.1 below).

Profit from general insurance business before income tax, in 2010, totalled NIS 158 million, as against NIS 215 million in 2009, and a loss of NIS 47 million in 2008 (see Section 3.5.1 below).

Profit from other activity that is not insurance business, before income tax, in 2010, totalled NIS 54 million, as against NIS 38 million in 2009, and a loss of NIS 265 million in 2008. The increase in profit from other activity this year compared with the corresponding period last year can be attributed to an NIS 18 million increase in revenues from management fees, mainly in respect of mutual funds, due to an increase in the volume of assets under management, to an increase in income from investments that are not attributed to the operating segments, in respect of the exercising of marketable securities in the amount of NIS 17 million, a reduction in financing expenses in the amount of NIS 17 million due to the CPI rising more slowly this year than in 2009, and in contrast to an increase in general and administrative expenses in the amount of NIS 23 million stemming, in part, from the cost of a NIS 14 million fine that the Commissioner imposed on Menorah Insurance, as well as to an increase in payroll expenses due to an increase in the number of employees, and a NIS 12 million increase in commission expenses.

3.5 Financial information by operating segment

3.5.1 Life assurance and long-term savings

Performance in the long-term savings sector (in NIS thousands):

(NIS thousands)	1-12/2010	1-12/2009	1-12/2008
Premiums earned, gross	2,001,514	1,827,732	1,783,022
Profit (loss), net from investments and financing income	1,906,976	3,670,145	1,478,152) (
Income from management fees	556,953	391,949	339,478
Income from commissions	44,553	41,535	61,609
Payments and changes in liabilities for insurance contracts and investment contracts, gross	3,434,324	4,796,058	20,609
Commissions, marketing expenses	390,507	361,470	350,989

and other purchasing expenses			
General and other administrative expenses	422,783	375,593	303,857
Pre-tax profit	222,524	340,737	13,344
Overall pre-tax profit (loss)	243,006	414,887	(35,256)

The life assurance premiums totalled NIS 2,002 million in 2010 compared to NIS 1,828 in 2009 and compared to NIS 1,783 million in 2008, increases of 10% and 3% respectively. The percentage increase in 2010 is higher than the percentage increase in 2009 due to the ongoing economic recovery (which commenced in the second quarter of 2009) and from one-off premiums of NIS 199 million (of which NIS 125 million were received for government office tenders for immediate payment to retirees of the same offices) compared to one-off premiums of NIS 74 million in 2009 (of which NIS 35 million in respect of government offices).

Furthermore, in 2010 premiums were received which were attributed directly to insurance liabilities (without an insurance element) in the sum of NIS 400 million compared to NIS 238 million in the year 2009.

The policies which were redeemed in the year 2010 totalled NIS 602 million compared to the sum of NIS 493 million in the year 2009, an increase of 23%. The average rate of redemptions from the reserve stood at 4% in the year of the report (identical to last year’s rate). Redemptions in respect of policies whose premiums in respect thereof were attributed directly to insurance liabilities (without an insurance element) totalled approx. NIS 189 million in the year 2010 compared to the sum of approx. NIS 238 million in the year 2009.

The pre-tax profit from life assurance and long term savings business totalled the sum of approx. NIS 223 million in the year 2010 compared to a profit of approx. NIS 341 million in the year 2009 and compared to a profit of approx. NIS 13 million in the year 2008. The reduction in profit arises from a reduction in profit from life assurance business of approx. NIS 124 million and correspondingly an increase in profit from pension business in the sum of approx. NIS 4 million and an increase in profit from provident fund business in the sum of approx. NIS 2 million.

The reduction in profit from life assurance business arises from an increase in the sum of approx. NIS 92 million in liabilities in respect of insurance contracts and payments in respect of insured events (including in respect of revising reserves, assumptions and actuarial estimated), from an increase in administrative and general expenses and commissions (including expenses which were attributed as acquisition costs and expenses in connection with claim payments) in the sum of approx. NIS 46 million predominately due to an increase in the number of staff and expenses in respect of amortisation and automation, a reduction in income from investment in respect of policies which do not have a savings component (and which are not included in the financial margin) in the sum of approx. NIS 34 million arising from the fact that in the year 2010 the capital market yield was lower than the yield in the year 2009. On the other hand, there is an increase in the financial margin including income from management fees and income from investment in respect of yield dependant policies in the sum of approx. NIS 89 million arising from the fact that management fees increased by approx. NIS 120 million since the Company collected variable management fees during the whole year in 2010 compared to 2009 in which variable management fees were collected only in the fourth quarter of the year 2009, after the investment losses in respect of the year 2008 were covered (NIS 109 million in the year 2010 compared to NIS 10 million in the year 2009) and furthermore the fixed management fees increased from NIS 72 million in the year 2009 to the sum of NIS 92 million in the year 2010 due to an increase in the volume of assets managed and on the other hand income from investments in respect of policies containing a savings element declined by approx. NIS 51 million. For further details see clause 3.5.1.1 hereunder.

The profits from investments from life assurance business totalled approx. NIS 1,563 million in the year 2010 compared to a profit of approx. NIS 3,262 million in the year 2009 and compared to losses in the sum of approx. NIS 1,744 million in the year 2008. In the year 2010 the trend of recovery which had started in the second quarter of the year 2009 continued however at lower rates than those achieved in the year 2009 following the economic crisis which occurred in the year 2008.

The total overall profit from life assurance and long term savings business in the year 2010 totalled the sum of approx. NIS 243 million compared to an overall profit of approx. NIS 415 million in the year 2009 and compared to a loss of approx. NIS 35 million in the year 2008.

3.5.1.1 Life assurance sector – Breakdown of the results according to types of policies

A. Policies containing a savings element

The premiums from policies which were issued up to and including the year 1990 (the majority of which are index linked and yield guaranteeing and largely backed-up by designated bonds), totalled approx. NIS 92 million in the year 2010, compared to approx. NIS 109 million in the year 2009. The profit from these policies totalled approx. NIS 57 million in the year 2010 compared to approx. NIS 107 million in the year 2009. The overall profit from these policies totalled approx. NIS 73 million in the year 3020 compared to approx. NIS 177 million in the year 2009. The financial margin from these policies totalled approx. NIS 55 million in the year 2010 compared to approx. NIS 66 million in the year 2009. The decline in the overall profit arises mainly from a decline in yields compared to the corresponding period last year and from revised reserves, assumptions and actuarial estimations.

The premiums in yield dependant policies which were issued between 1991 and 2003 inclusive totalled approx. NIS 630 million in the year 2010 compared to approx. NIS 672 million in the year 2009. The profit from these policies totalled approx. NIS 54 million in the year 2010 compared to a loss in the sum of approx. NIS 50 million in the year 2009. The overall profit from these policies totalled approx. NIS 55 million in the year 2010 compared to an overall loss of approx. NIS 50 million in the year 2009. The increase in profit compared to the corresponding period last year arises mainly from the collection of variable management fees this year compared to marginal variable management fees in the previous year, in which the Company started to collect variable management fees effective from November 2009, at which time the real accumulative loss which had been incurred as a result of the crisis in the capital market in the year had been covered.

Yield guaranteeing policies which were issued from the year 2004 onwards are mostly in respect of a transaction with government offices, relating to early retirement arrangements of employees, according to which an immediate annuity is guaranteed to the retirees, as mentioned above. The premiums from these policies totalled approx. NIS 125 million in the year 2010 compared to approx. NIS 36 million in the year 2009. The loss from these policies totalled approx. NIS 14 million in the year 2010 compared to a profit of approx. NIS 6 million in the year 2009. The loss this year arises from capitalisation of the liabilities to pay future annuities at the time of the deposit at risk free interest, in accordance with the directives of the Commissioner’s circulars, and does not necessarily represent the economic profit which is meant to arise from these lump-sum premiums.

The premiums in yield dependant policies which were issued from the year 2004 onwards totalled approx. NIS 566 million in the year 2010 compared to approx. NIS 450 million in the year 2009. The increase in premium increases mainly from an increase in new sales and from an increase in lump-sum deposits. The loss from these policies totalled approx. NIS 85 million in the year 2010 compared to a loss of approx. NIS 37 million in the year 2009. The increase in the loss arises mainly from an increase in wage costs due to an increase in the number of employees, an increase in amortisation costs and expenses in respect of computerisation and revising reserves, actuarial assumptions and estimates. On the other hand there is an increase in management fees which are collected as a percentage of the balance of assets in the sum of approx. NIS 16 million arising from an increase in the volume of the managed assets.

B. Policies which do not contain a savings element

The premiums in term assurance policies sold as stand-alone policies, to individuals, totalled approx. NIS 315 million in the year 2009 compared to approx. NIS 281 million in the year 2009. The profit from these policies totalled approx. NIS 46 million in the year 2010 compared to approx. NIS 54 in the year 2009. The overall profit from these policies totalled approx. NIS 47 million in the year 2010 compared to approx. NIS 55 million in the year 2009. The reduction in profit arises predominately from an increase in administrative and general expenses.

The premiums in term assurance policies sold as group policies, covering groups of insureds, totalled approx. NIS 18 million in the year 2010 compared to approx. NIS 31 million in the year 2009. The profit from these policies totalled approx. NIS 2 million in the year 2010 compared to approx. NIS 22 million in the year 2009. The decline in profit arises mainly from an underwriting deterioration in the year 2010 compared to the previous year.

The premiums in long term care policies sold as stand-alone policies to private individuals totalled approx. NIS 50 million in the year 2010 compared to approx. NIS 44 million in the year 2009. The loss from these policies totalled approx. NIS 7 million in the year 2010 compared to a profit in the sum of approx. NIS 56 million in the year 2009. The decline in profit arises mainly from changes to liabilities in respect of insurance contracts and payments in respect of insured events (including in respect of updating reserves, actuarial assumptions and estimates).

In respect of group long term care policies in 2010 the Company registered an overall loss of approx. NIS 1 million compared to an overall profit of approx. NIS 3 million in the year 2009.

The premiums in other health policies totalled approx. NIS 205 million in the year 2010 compared to approx. NIS 203 million in the year 2009. The profit from these policies totalled approx. NIS 21 million in the year 2010 compared to a profit of approx. NIS 37 million in the year 2009. The overall profit from these policies totalled approx. NIS 21 million in the year 2010 compared to approx. NIS 40 million in the year 2009. The decline in profit arises mainly from changes to liabilities in respect of insurance contracts and payments in respect of insured events (including in respect of revising reserves, actuarial assumptions and estimates).

C. Yield dependant policies

Insurance reserve funds which accrue in yield dependant policies are invested in accordance with the directives of the Supervision of Financial Services (insurance) Law and its regulations. These investment profits are attributed to the insureds net of management fees.

Liabilities arising from yield dependant policies as of 31st December 2010 totalled approx. NIS 11,098 million compared to the sum of NIS 10,238 million as of 31st December 2009; an increase of approx. 17%. The said increase arises mainly from profits from investments in the period of the report and income from premiums less redemptions and settlements in the year 2010.

D. Details concerning yield rates in profit-sharing policies:

Policies issued from 1992-2003 (Fund J)

	1-12/2010	1-12/2009	1-12/2008
Real yield before payment of management fees	9.14%	35.37%	(26.44%)
Real yield after payment of management fees	7.22%	34.43%	(26.88%)
Nominal yield before payment of management fees	11.63%	40.53%	(23.12%)
Nominal yield after payment of management fees	9.66%	39.26%	(23.58%)

Policies issued from 2004 (New Fund J):

	1-12/2010	1-12/2009	1-12/2008
Real yield before payment of management fees	9.14%	35.37%	(26.44%)
Real yield after payment of management fees	7.53%	33.82%	(27.40%)
Nominal yield before payment of management fees	11.63%	40.53%	(23.12%)
Nominal yield after payment of management fees	9.98%	38.92%	(24.12%)

E. Details concerning investment profit (loss) credited to holders of profit-sharing policies and management fees (in NIS millions):

	1-12/2010	1-12/2009	1-12/2008
Nominal investment profit (loss) credited to policyholders after management fees	937.4	2,536.1	(1,908.8)
Fixed management fees	92.1	71.9	63.5
Variable management fees	109.1	9.8	-
Total management fees	201.2	81.7	63.5

During the Reporting Period, income from management fees on yield-dependent life assurance policies amounted to NIS 201 million compared with NIS 82 million last year, and NIS 64 million in 2008, an increase of 145% and 28% respectively. On yield-dependent policies that were issued between 1992 and 2003 (Fund J), the insurer may collect fixed management fees and variable management fees at the rates specified in the regulations and that are derived from the real yield in the investment portfolio. Variable management fees are only collected in respect of a real, positive yield. If a real negative yield is attained, the insurer may not collect the variable management fees until the yield attained covers the real loss. Due to price rises in the capital market during the Reporting Period, a real positive (gross) yield of 9.14% was attained in respect of these policies (in 2009 the yield was 35.37%). Consequently, throughout 2010, the Group collected variable management fees of NIS 109 million, compared with 2009 in which it collected variable management fees of NIS 10 million from November 2009, the date on which it covered the real, cumulative loss caused by the capital market crisis of 2008. It should be noted that regarding yield-dependent policies that were issued from 2004, only fixed management fees are collected so that the return on the investments has no direct impact on the collection of the management fees.

F. Composition of the assets in yield-dependent policies (in NIS thousands):

	at December 31, 2010	at December 31, 2009
Deferred acquisition costs	9,041	10,318
Receivables and debit balances	20,063	28,819
Premiums due	71,729	83,146
Marketable debt assets	3,978,994	3,368,586
Non-marketable debt assets (including loans and deposits)	3,113,897	3,037,997
Shares	3,226,376	2,496,219
Other	1,486,344	1,038,798
Cash and cash equivalents	67,575	105,295
Total	11,974,019	10,169,178

3.5.1.2 Pension sector

The results of activity in the pension sector relate to performance by a consolidated company – Menorah Mivtachim Pension Ltd.

Principal results of operations in the pension sector (in NIS thousands):

	1-12/2010	1-12/2009	1-12/2008
Income from management fees	279,447	246,964	226,562
Income from commissions	330	236	36
Net profit from investments and financing income	10,712	18,046	2,907
Commissions, marketing expenses and other purchasing expenses	55,596	48,661	42,327
General and other administrative expenses	138,878	124,713	108,472
Pre-tax profit	96,015	91,872	78,706

Income from management fees increased by approx. NIS 32 million, an increase of approx. 13% compared to the year 2009. This increase arises from an increase in the scope of income from management fees from contributions which were charged, at a rate of 15%, as well as from an increase in the scope of income from management fees from the accrual, in light of the increase in the scope of accrued assets which increased by a rate of 22%. The scope of managed assets increased due to the increase in income from investments over the scope of the managed assets as well as from a positive accumulation arising mainly from an increase in the collection of contributions in the year 2010 compared to 2009.

The marketing, administrative and general expenses increased in the period of the report by approx. NIS 21 million, an increase of approx. 12% compared to the year 2009. The increase arises mainly from an increase in the number of staff and from computer expenses in the management company of the pension fund.

3.5.1.3 Provident fund sector -

The results of activity in the provident fund sector relate to a second-tier subsidiary, Menorah Mivtachim Gemel Ltd.

Principal results of operations in the provident fund sector (in NIS thousands):

	1-12/2010	1-12/2009	1-12/2008
Income from management fees	76,259	63,302	49,442
Net profit from investments and financing income	332,794	389,611	262,767
Change in liabilities for investment contract	292,537	347,296	304,574
Commissions, marketing expenses and other purchasing expenses	9,986	7,591	6,436
General and other administrative expenses	51,406	45,900	33,413
Financing expenses	2,529	1,710	3,114
Pre-tax profit (loss)	52,595	50,416	(35,328)

Income from management fees rose by approx. NIS 13 million, an increase of approx. 20% compared to the corresponding period last year. The rise is due to an

11% increase in the volume of managed assets arising from increases in values in the capital market and on the other hand the net income in respect of yield guaranteeing provident funds declines declined by approx. NIS 2 million (NIS 40 million in the year 2010 compared to approx. NIS 42 million in the year 2009).

Marketing administrative and general expenses increased by approx. NIS 8 million – an increase of approx. 19% compared to the corresponding period last year, arising mainly from an increase in the number of staff.

3.5.2 Performance in the general insurance operating segments

General insurance business is divided into three areas of activity: Compulsory motor (motor act), motor casco (casco), and other general insurance business (other liabilities and other property branches).

Principal results in the general insurance sector (in NIS thousands):

	1-12/2010	1-12/2009	1-12/2008
Gross premiums	2,279,287	2,277,818	2,157,323
Net profit from investments and financing income	236,342	290,980	118,011
Income from commissions	166,970	119,505	59,170
Payments and changes in liabilities for insurance contracts, gross	1,730,966	1,664,935	1,644,623
Commissions, marketing expenses and other purchasing expenses	494,049	487,397	469,013
General and other administrative expenses	95,632	99,329	71,791
Pre-tax profit (loss)	157,932	214,879	(47,456)
Overall pre-tax profit (loss)	165,717	391,581	159,457) (

During the Reporting Period, profit from general insurance business totalled NIS 158 million, compared with profit of NIS 215 million for the corresponding period last year. The decline in profit is the result of a decline in profit from motor casco insurance in the amount of NIS 33 million, an increase in profit from compulsory motor insurance in the amount of NIS 4 million, a decline in profit from other property branches in the amount of NIS 15 million, and a decline in profit in the other liabilities branch in the amount of NIS 13 million. Regarding the details of the change in profit from the general insurance branches, see Sections 3.5.2.1, 3.5.2.2 and 3.5.2.3 below.

Income from gross premiums earned during the Reporting Period was NIS 2,279 million, compared with NIS 2,277 million for the corresponding period last year. Gross premiums grew due to a NIS 24 million increase in the premium from motor casco insurance stemming from an increase in the volume of business, a reduction in premiums from compulsory motor insurance in the amount of NIS 55 million due to the transfer of part of the premiums to Karnit following the transfer of insurance liability for the provision of medical services from the insurance companies to the health funds as of January 2010 (for details see Section 4.1.4 in the chapter – Description of the Corporation's Business). In contrast, the premium grew by 5% offsetting the aforementioned decline in premiums. In addition, premiums form other general insurance fell by NIS 3 million (a NIS 4 million increase in other property branches and a NIS 7 million decline in other liabilities branches).

Income from investments, net, during the Reporting Period totalled NIS 236 million, compared with NIS 291 million for the corresponding period last year – a decline of 19%.

Income from commissions during the Reporting Period totalled NIS 167 million, compared with NIS 120 million for the corresponding period last year – an increase of 39%. This change is due to the inclusion of an additional reinsurer in a multi-sector reinsurance treaty, to extending the scope of the said treaty with the leading reinsurer to the compulsory motor sector as well, and to changes in the reinsurance treaty in the motor casco branch.

3.5.2.1 Principal results of operations in the compulsory motor sector (in NIS thousands):

	1-12/2010	1-12/2009	1-12/2008
Gross premiums	602,065	621,979	557,301
Profit from investments, net and financing income	152,771	177,447	62,661
Income from commissions	12,058	-	-
Payments and changes in liabilities for insurance contracts, gross	605,126	615,264	566,335
Commissions, marketing expenses and other purchasing expenses	57,064	60,652	58,747
General and other administrative expenses	30,906	32,275	25,182
Pre-tax profit (loss)	79,219	74,815	(47,506)
Overall pre-tax profit (loss)	84,464	187,790	(114,493)

The pre-tax profit in the year 2010 was approx. NIS 79 million compared to a profit of approx. NIS 75 million in the corresponding period last year. The increase in profit arises mainly from an increase in the release from accrual in the sum of approx. NIS 25 million and on the other hand a negative claims development (changes to the reserves for the closed years) in the sum of approx. NIS 12 million and in respect of a profit in the sum of approx. NIS 9 million which was registered in the year 2009 cancelling out a loss which was registered in the year 2008 in respect of the 2008 underwriting year due to the fact that according to the accounting method used in the industry (surplus income over expenses) the Company can recognise profits in the open years up to the amount of the losses which were registered in the previous years.

3.5.2.2 Principal results of operations in the motor casco sector (in NIS thousands):

(NIS thousands)	1-12/2010	1-12/2009	1-12/2008
Gross premiums	902,069	877,843	836,971
Profit from investments, net and financing income	24,706	37,196	18,682
Income from commissions	58,110	28,659	2,823
Payments and changes in obligations for insurance contracts, gross	638,300	607,760	605,606
Commissions, marketing expenses and other purchasing expenses	227,107	220,022	200,962
Other general and administrative expenses	32,574	37,878	21,511
Pre-tax profit (loss)	6,948	40,008	(286)
Overall pre-tax profit (loss)	7,829	64,820	(19,492)

Pre-tax profit for the Reporting Period was NIS 7 million, compared with profit of NIS 40 million for the corresponding period last year. During the Reporting Period, the claims ratio deteriorated compared with the previous year and due to a decline in income from investments.

3.5.2.3 Principal results of activity other general insurance branches (in NIS thousands):

(NIS thousands)	1-12/2010	1-12/2009	1-12/2008
Gross premiums	775,153	777,996	763,051
Profit from investments, net and financing income	58,865	76,337	36,668
Income from commissions	96,802	90,846	56,347
Payments and changes in liabilities for insurance contracts, gross	487,540	441,911	472,682
Commissions, marketing expenses and other purchasing expenses	209,878	206,723	209,304
Other general and administrative expenses	32,152	29,176	25,098
Pre-tax profit	71,765	100,056	336
Overall pre-tax profit (loss)	73,424	138,971	(25,472)

The pre-tax profit in 2010 stood at approx. NIS 72 million compared to a profit of approx. NIS 100 million in the corresponding period last year.

The reduction in profit in the other property classes in the sum of NIS 15 million (in 2010 a total of NIS 36 million compared to NIS 51 million in 2009) arising from a deterioration of the loss ratios and a decline in investment income.

The reduction in profit from the liability classes in the sum of NIS 13 million (in 2010 totalling NIS 36 million compared to NIS 49 million in 2009) arising from a release of the accrual compared to the same period last year due to large claims in the 2007 underwriting year and a decline in income from investment, and on the other hand an underwriting improvement in the closed years, mainly in the employers' liability and third party liability classes of business.

3.5.2.4 Premiums, gross, and profit by general insurance operating segments (in NIS thousands):

	Motor casco	Compulsory motor	Property and other	Liabilities	Total
Total premiums, gross					
01-12/2010	902,069	602,065	535,583	239,570	2,279,287
01-12/2009	877,843	621,979	532,088	245,908	2,277,818
01-12/2008	836,971	557,301	519,217	243,834	2,157,323
Profit (loss)					
01-12/2010	6,948	79,219	36,068	35,697	157,932
01-12/2009	40,008	74,815	51,479	48,577	214,879
01-12/2008	(286)	(47,506)	2,800	(2,464)	(47,456)

3.5.3 Results of activity in the financial products and services segment

Other activity that is not from insurance business includes the results of the financial products and services sector. Results in the financial products and services sector relate to the subsidiary – Menorah Mivtachim Finance Ltd. (formerly: “Menorah Finance Ltd.”), that began to operate through subsidiaries in June 2005, and do not include the results of Menorah Mivtachim Gemel Ltd. (a subsidiary of Menorah Finance), whose results appear separately as part of the results for life assurance activity and long-term savings.

(NIS thousands)	**1-12/2010**	**1-12/2009**	**1-12/2008**
Income from management fees and underwriting commissions	102,463	80,050	64,252
Profit (losses) from investments, net	3,166	29,492	(12,303)
Total income	105,629	109,542	51,949
Total expenses	95,290	79,674	102,079
Profit (loss) before income tax	10,339	29,868	(50,130)
Net profit (loss) for the period	10,629	27,251	(48,435)

The decline in profit (NIS 10 million in 2010, compared with NIS 30 million in 2009) is the result of a decline in investment income in 2010 as against 2009, in the amount of NIS 26 million, an increase in expenses for distribution fees, operations, and management fees in the amount of NIS 15 million, and in contrast to a NIS 23 million increase in revenues from management fees and underwriting commissions, mainly as a result of the increase in the volume of assets held under management by Menorah Mivtachim Mutual Funds and an increase in underwriting commissions.

3.6 Cash flows

In the current year these amounted to NIS 8 million.

Net cash flows used in investment activity were NIS 309 million for the Reporting Period.

Net cash flows derived from financing activity were NIS 170 million for the Reporting Period.

After the effect of the exchange rate on cash balances in the amount of NIS 2 million, the cash balances declined during the Reporting Period by NIS 132 million. The cash balance at the beginning of the period was NIS 636 million. Total cash and cash equivalents at the end of the period was NIS 504 million.

3.7 Sources of financing

At the reporting date, retained financial liabilities were NIS 1,720 million, compared with NIS 1,513 at December 31, 2009.

The average volume of the financial liabilities in the reporting year was NIS 1,577 million.

In May 2010, Midrug announced that it would lower the rating for Series A debentures issued by the Company to Aa3, outlook stable.

Regarding a private issue of debentures (Series B) to institutional investors in July and September 2010 in the amount of NIS 250 million, see Section 1.2.5 above.

In 2010, the Group repaid loans to banks and financial institutions in the amount of NIS 85 million (most of the repayment, about NIS 71 million, was made by Menorah Mivtachim Insurance), compared with NIS 156 million in 2009 (most of this repayment, about NIS 136 million, was made by Menorah Mivtachim Finance).

4. Report concerning exposure to market risks and ways of managing them

The report concerning market risks presented below refers to the investments of the Company and its subsidiaries, excluding the insurance companies (Menorah Mivtachim Insurance Ltd. and its subsidiaries), pursuant to the Securities (Periodic and Immediate Reports) Regulations, 5730-1970.

4.1 Head of the Company's risk management

Mr. Yaron Gannot is responsible for the Company's risk management. Mr. Gannot is a qualified Financial Risk Manager (FRM), with a qualification issued by GARP (Global Association of Risk Professionals), and he also has an MBA from Carnegie Mellon University in the US.

4.2 General description of market risks

Market risk can be attributed to fluctuations in the fair value of financial instruments due to changes in market risk factors such as interest, currency exchange rate, share index, etc. The Company (and its subsidiaries) is exposed to market risks in its nostro portfolio as well as to changes in the value of the assets that it manages through its subsidiaries (assets under management) in respect of which it collects management fees.

During the course of its business activity, the Company acquires financial and real assets against its available capital and bonds that it raises from the public.

Accordingly, the Company is exposed to market risks on the asset side as well as on its liabilities side.

The assets managed as part of the activity by subsidiaries (provident funds, mutual funds and portfolio management) are exposed to volatile market risk factors and are reflected in the market prices of these assets. The subsidiaries adjust the value of the assets under management to market prices on a daily basis (Mark to Market), and if no market price is available they calculate fair value using a revaluation model (Mark to Model). Fluctuations in the value of the managed assets and financial instruments affect the level of the management fees that the subsidiaries collect, thus affecting their profits. Furthermore, the subsidiary Menorah Mivtachim Gemel manages five yield-guaranteed provident funds. Most of the obligations to the members of these funds are backed by Accountant General's (Treasury) deposits, however the part that is not backed is influenced by changes in market factors thus directly exposing the Company's equity to market risk.

Menorah Mivtachim Underwriting and Management serves as an underwriter for new issuances. As part of its activity, Menorah Mivtachim Underwriting exercises underwriting commitments thus exposing it to changes in the prices of the assets it acquired as part of these commitments. At the reporting date, the exposure to market risks is insignificant.

4.3 Changes in exposures during the Reporting Period:

4.3.1 Exposure to interest rate risk

The Group's exposure to interest rate risk is due to changes in the real and nominal interest rate curves in Israel and abroad on the fair value of marketable debt assets and non-marketable debt assets, as well as the fair value of marketable and non-marketable financial liabilities. At the end of 2010, the Group's assets were exposed to this risk in the amount of NIS 961 million (in the previous year – NIS 788 million). At the end of 2010, the Group's liabilities were exposed to this risk in the amount of NIS 1,011 million (in the previous year – NIS 696 million). There was no significant change in the profile of the interest rate risk. In the yield-guaranteed provident funds, the component in respect of the investments issued by the Accountant General was not taken into account when calculating the exposure to the interest rate risk as they are hedged against the members' rights. This calculation was made in respect of the part that is not covered by the Accountant General's investments.

4.3.2 Exposure to currency risk

The Group's principal currency risk is to the US dollar and the euro. This risk stems mainly from activity by the subsidiary Menorah Mivtachim Real Estate. The Company partially hedges this risk through forward transactions. There was no significant change in the currency risk during the course of 2010. See the sensitivity test relating to the currency risk.

4.3.3 Exposure to equity risk (shares, funds, and capital instruments)

The Group is exposed to changes in the market value of shares. At the end of 2010, the Group's exposure to this risk was NIS 51 million (in the previous year – NIS 21 million). See sensitivity test relating to this risk.

4.3.4 Exposure to spread risk

The Group is exposed to changes in the fair (market) value of a marketable corporate debenture. This value is influenced mainly by an expansion of the credit spread inherent in the price of the debenture. At the end of 2010, the Group's exposure to this risk was NIS 403 million (in the previous year – NIS 349 million). See sensitivity test relating to this risk.

4.3.5 Exposure to credit default risk

The Group is exposed to the credit default risk inherent in marketable and non-marketable debt assets. The risk is reflected in the probability of companies that have issued the debt becoming insolvent, that they will not pay the interest and/or principal and that the Group will be forced to recognise the loss (to register impairment). The Group records its investment in marketable debentures at market value and its investments in non-marketable bonds at adjusted costs. Consequently, pursuant to the Commissioner's instructions, no deduction was made in respect of the credit default risk. The Group's total exposure to this risk is NIS 849 million (in the previous year – NIS 659 million).

4.3.6 Exposure to changes in real-estate prices (property risk)

The Company is exposed to the real-estate market in Russia, India and Germany in the amount of NIS 178 million (in the previous year – NIS 141 million). The direct investment in real estate is valued according to market value, if available, or to a valuation prepared by an expert on rental property, or stated at the investment cost in the event of property development. During 2010, there was no significant change in the real estate prices.

4.3.7 Exposure to basis risk

The Group's exposure to basis risk is due to the various index bases of its assets and liabilities. There was no significant change in the basis risk.

4.4 The Company's policy regarding the management and supervision of market risks

The Company's policy regarding the management of nostro market risks focuses on investing primarily in highly rated debt assets, while retaining a low level of exposure to shares.

The subsidiaries manage the risks inherent in their customers' assets carefully and sensibly without attempting to eliminate these risks entirely, but rather to find the correct balance between the risk taken and the anticipated yield. Risk management policy in asset management activity (funds and portfolios) consists of the following principles:

- Responsibility for risk management is divided among the organisation's officeholders and functionaries, from the Board of Directors, through the Investment Committee, investment department, to the risk management departments and middle office.
- Monitoring the risk – risk management restrictions that include restrictions applicable to exposure and risk are used to mitigate the financial risks. The restrictions include statutory restrictions, restrictions imposed by the Board of Directors and by the Investment Committee. The restrictions are regularly monitored by the middle office and by the risk controller in the risk management department.
- Nostro (including yield-guaranteed funds) – assets are managed against liabilities: the allocation of assets is derived from adjusting the linkage bases, as well as the expected time and timing of the assets and liabilities. Assets are effectively

managed against liabilities by limiting the exposure to interest rate risk (average duration disparity), by restricting the market risk by means of the Tail VaR index, and by tracking the correlation of asses to liabilities for different repayment periods.

- In managed portfolios (provident funds) – effective risk management: The allocation of strategic assets to each managed portfolio, formulating benchmark portfolios, measuring absolute and relative risks (relative to benchmark portfolios), the calculation of risk-adjusted performance indices and analysis of the impact of extreme scenarios is performed by the risk managers on a quarterly basis and findings are reported to the investment committees and the Board of Directors.
- The investment managers must understand the risks inherent in their chosen investment strategies and find the level of performance that justifies the risk level they take.
- Provident funds are classified according to criteria for the growth rate of the assets and stability of the fund, in an effort to define restrictions that are effective for their liquidity. In funds whose assets have grown more slowly and are less stable, a lower threshold is defined for the weight of non-marketable securities in the portfolio.
- Holding of derivatives – the Company holds derivatives designed to hedge the exposure to foreign exchange resulting from the activity of the subsidiary Menorah Real Estate. The derivates are forward transactions on the dollar and euro exchange rates. Sensitivity tests of the currency risk factor include the effect of the positions on these derivatives.

4.5 Description of the risk management process

4.5.1 The risk management process has five components:

- **Risk Identification.** A study to identify risks is conducted every year with the participation of the Company's senior executives. The study attempts to identify new risks, re-assesses existing risks and examines the measures taken for dealing with risks that have materialised.
- **Risk measurement.** The Company measures financial risks using advanced programs for quantifying market risks and credit risks.
- **Risk management.** The Company manages financial risks principally by limiting its exposure to equity risk, interest rate risks, currency and credit risks. The restrictions defined by the subsidiaries' managements are designed to mitigate the risks and the damage that may be incurred due to unforeseen changes in the markets. The restrictions outline the impact of the investment portfolio's exposure to these unforeseen changes. The

restrictions are generally determined at the level of exposure to the risk factors (their proportion of the total assets in the portfolio) and at the level of overall risk and proportionate risk with respect to the benchmark portfolio.

- In the context of provident fund management, the restrictions on exposures to market risk factors are derived from the allocation of the assets included in the investment policy. The restrictions are regularly monitored by the middle office and risk controller, and findings are reported to the Investment Committee. The restrictions address exposures reflected in the maximum rate of shares, exposure to foreign exchange, weight in the portfolio of a single issuer or group of issuers, and they also address the liquidity risk in the form of restrictions on the maximum rate of the holding of non-marketable securities. Likewise, the restrictions address the risk with respect to benchmark portfolios that are adjusted to each and every fund.
- In the context of mutual fund management, the restrictions on exposure to market factors, at fund level, are derived from the composition of the assets as defined in the fund's prospectus and they are monitored daily.
- In the context of portfolio management, the restrictions on exposures to market factors are derived from the agreements with the customers and from periodic adjustments made after consultation with them.
- **Risk control.** Financial risks are monitored by the control and reporting department (middle office) and by the risk management department. On-going oversight of market risk management is performed by the investment committees. See the oversight measures detailed below.
- **Reporting.** Reports are regularly prepared for the boards of directors of the Group's different companies, for the investment committees and CEOs of the subsidiary companies.

4.6 Oversight of the risk management policy

On-going oversight of market risk management is performed by the various investment committees of the subsidiaries:

4.6.1 Methods of overseeing the risk management policy for assets managed by the subsidiaries are:

On-going control over exposure to the risk factors in each asset portfolio, and making the necessary adjustments to the composition of the assets derived from the approved investment policy (in mutual funds – according to the prospectus and the law).

Quantifying the market risks at asset portfolio level using a model similar to the one mentioned in the Financial Institutions Circular published by the Commissioner in November 2007, which outlines provisions for implementing an HSSTD risk index.

Monitoring the risk index and performance index to reflect the yield achieved relative to the risk taken in each and every portfolio.

4.7 Balance of linkage bases

Linkage balance without insurance at December 31, 2010

NIS millions	NIS – not linked	NIS – not linked	In foreign currency or linked to F/C (*)	Non-financial and other details	Insurance company	Total
Intangible assets	-	-	-	257	822	1,079
Deferred tax assets	-	-	-	-	1	1
Deferred acquisition costs	-	-	-	-	883	883
Fixed assets	-	-	-	3	196	199
Investments in affiliates	-	-	3	-	22	25
Investment property	-	-	-	103	71	174
Reinsurance assets	-	-	-	-	1,337	1,337
Current tax assets	-	6	-	-	93	99
Receivables and debit balances	2	(4)	-	3	108	109
Premiums due	-	-	-	-	525	525
Finance investments for yield-dependent contracts	-	-	-	-	11,806	11,806
Other finance investments						
Marketable debt assets	116	362	4	-	3,974	4,456
Non-marketable debt assets	-	4,059	189	-	4,918	9,166
Shares	15	-	7	-	272	294
Other	30	16	35	-	417	498
Total financial investments	161	4,436	235	-	9,581	14,413
Cash and cash equivalents for contracts						

Yield dependent	-	-	-	-	68	68
Other cash and cash equivalents	82	-	-	-	354	436
Total assets	245	4,439	238	365	25,866	31,153
Total equity	-	-	-	204	2,049	2,253
Liabilities						
Liabilities for insurance contracts and non yield-dependent investment contracts	-	4,341	-	-	9,465	13,806
Liabilities for insurance contracts and yield-dependent investment contracts	-	-	-	(1)	11,909	11,908
Deferred tax liabilities	-	-	-	25	133	158
Liabilities for employee benefits, net	3	-	-	-	116	119
Current tax liabilities	-	20	-	-	13	33
Surplus losses over investments in affiliates	-	-	4	-	-	4
Other payables and credit balances	26	(1)	-	-	1,127	1,152
Financial liabilities	34	632	-	-	1,054	1,720
Total liabilities	63	4,992	4	24	23,817	28,900
Total equity and liabilities	63	4,992	4	228	25,866	31,153
Total balance sheet exposure	182	(553)	234	137	-	-
Exposure to underlying assets through derivatives in delta terms	137	-	(137)	-	-	-
Total exposure	319	(553)	97	137	-	-

(*) mainly dollar and euro

Most of the exposure to basis risks can be attributed to the index-linked liabilities that were partially invested in a subsidiary in the currency relevant for its operations, as the case may be (dollar and/or euro). The Company is exposed to increases in the CPI that may result in an increase its financing expenses. About half of the exposure to changes in the exchange rate of the shekel against the dollar the euro is hedged through currency derivatives (currency contracts).

4.8 Sensitivity tests

The following table shows the Company's assets and liabilities at their fair value (middle column). Likewise, the effect of changes in various market risk factors on the fair value of the assets and liabilities was measured.

The fair value of the assets and liabilities that are exposed to changes in real interest rates (real interest is the nominal interest rate net of the effect of the CPI), is calculated as the present value of future, quarterly, cash flows, capitalised according to a curve of the risk-free real interest rate plus the appropriate spread for rating each security. The fair value of the financial liabilities is calculated as the present value of future, quarterly cash flows, capitalised according to a curve of the risk-free real interest rate plus a margin that reflects the credit risk inherent in the market value of the debenture issued by the company.

The fair value of the assets and liabilities that are exposed to changes in the shekel interest rate is calculated as the present value of future, quarterly, cash flows, capitalised according to a curve of the risk-free shekel interest rate plus the appropriate margin for rating each security. The fair value of the financial liabilities is calculated as the present value of future, quarterly cash flows, capitalised according to a curve of the risk-free real interest rate plus a margin that reflects the credit risk inherent in the market value of the debenture issued by the company.

The fair value of the assets exposed to changes in the stock market is calculated at their Mark to Market price or according to an outside economic evaluation of their fair value. The market factor chosen for performing the sensitivity test is the TA-100 index, and the change in fair value was calculated according to the beta of the asset to the share index. Thus, if the beta of asset X to the TA-100 index is 1.5, and the TA-100 index rose by 10%, then the fair value of the asset will rise by 15% (1.5 x 10%).

4.8.1 Sensitivity tests of interest rate factor (relative change in interest rate curve)

All amounts are in NIS thousands at December 31, 2010

(NIS thousands)	10% decrease in real interest rate curve	5% decrease in real interest rate curve	Fair value	5% increase in real interest rate curve	10% increase in real interest rate curve
Marketable debt assets	1,611	802	380,157	(795)	(1,583)
Non-marketable debt assets	3,130	1,549	314,788	(1,517)	(3,002)
Bank loans	-	-	(4,125)	-	-
Marketable debenture that was issued	(3,570)	(1,780)	(680,460)	1,769	3,526
Non-marketable debenture that was issued	(4,364)	(2,170)	(283,565)	2,147	4,270
Total	(3,193)	(1,599)	(273,205)	1,604	3,211

	10% decrease in shekel interest rate curve	5% decrease in shekel interest rate curve	Fair value	5% increase in shekel interest rate curve	10% increase in shekel interest rate curve
Marketable debt assets	1,183	588	116,398	(582)	(1,158)
Bank loans	(474)	(236)	(42,657)	234	465
Total	709	352	73,741	(348)	(693)

	10% decrease in dollar interest curve	5% decrease in dollar interest curve	Fair value	5% increase in dollar interest curve	10% increase in dollar interest curve
Marketable debt assets	14	7	3,508	(7)	(14)
Non-marketable debt assets	2	1	380	(1)	(2)
Real-estate debt assets	367	183	39,963	(182)	(363)
Total	383	191	43,850	(190)	(379)

	10% decrease in euro interest rate curve	5% decrease in euro interest rate curve	Fair value	5% increase in euro interest rate curve	10% increase in euro interest rate curve
Real-estate debt assets	979	487	105,342	(483)	(962)

All amounts are in NIS thousands at December 31, 2009

(NIS thousands)	10% decrease in real interest rate curve	5% decrease in real interest rate curve	Fair value	5% increase in real interest rate curve	10% increase in real interest rate curve
Marketable debt assets	2,497	1,241	331,817	(1,227)	(2,441)
Non-marketable debt assets	3,779	1,875	309,558	(1,847)	(3,666)
Bank loans	(3)	(2)	(8,297)	2	3
Marketable debenture that was issued	(7,017)	(3,489)	(643,500)	3,452	6,866
Total	(744)	(375)	(10,422)	380	762

	10% decrease in shekel interest rate curve	5% decrease in shekel interest rate curve	Fair value	5% increase in shekel interest rate curve	10% increase in shekel interest rate curve
Marketable debt assets	552	274	50,470	(271)	(539)
Bank loans	(390)	(194)	(44,087)	192	383
Total	162	80	6,383	(79)	(156)

	10% decrease in dollar interest rate curve	5% decrease in dollar interest rate curve	Fair value	5% increase in dollar interest rate curve	10% increase in dollar interest rate curve
Marketable debt assets	23	12	4,264	(12)	(23)
Real-estate debt assets	367	183	35,360	(182)	(390)
Total	390	195	39,624	(193)	(413)

	10% decrease in euro interest rate curve	5% decrease in euro interest rate curve	Fair value	5% increase in euro interest rate curve	10% increase in euro interest rate curve
Real-estate debt assets	601	300	56,862	(298)	(593)

4.8.2 Sensitivity tests of shekel/dollar foreign exchange risk factor and shekel/euro foreign exchange risk factor

All amounts are in NIS thousands at December 31, 2010

	20% decline in foreign exchange rate	10% decline in foreign exchange rate	Fair value	10% rise in foreign exchange rate	20% rise in foreign exchange rate
Assets exposed to foreign currency	(37,815)	(18,908)	189,077	18,908	37,815
Forward contracts	27,490	13,745	1,450	(13,745)	(27,490)
Total	(10,325)	(5,163)	190,527	5,163	10,325

All amounts are in NIS thousands at December 31, 2009

	20% decline in foreign exchange rate	10% decline in foreign exchange rate	Fair value	10% rise in foreign exchange rate	20% rise in foreign exchange rate
Assets exposed to foreign currency	(29,829)	(14,915)	149,146	14,915	29,829
Forward contracts	17,114	8,557	3,160	(8,557)	(17,114)
Total	(12,715)	(6,358)	152,306	6,358	12,715

4.8.3 Sensitivity tests of equity risk factor

All amounts are in NIS thousands at December 31, 2010

	20% decline in share indices	10% decline in share indices	Fair value	10% rise in share indices	20% rise in share indices
Marketable shares	(3,566)	(1,784)	21,191	1,786	3,575
Funds and non-marketables	(1,573)	(787)	29,898	787	1,573
Total	(5,139)	(2,571)	51,089	2,573	5,148

All amounts are in NIS thousands at December 31, 2009

	20% decline in share indices	10% decline in share indices	Fair value	10% rise in share indices	20% rise in share indices
Marketable shares	(2,885)	(1,443)	19,079	1,443	2,885
Funds and non-marketables **	(1,375)	(687)	6,873	687	1,375
Total	(4,260)	(2,130)	25,952	2,130	4,260

4.8.4 Sensitivity tests of credit margin factor

All amounts are in NIS thousands at December 31, 2010

	50% expansion of grossed-up credit margin	25% expansion of grossed-up credit margin	Fair value	25% contraction of grossed-up credit margin	50% contraction of grossed-up credit margin
Non-marketable corporate debenture	(19,160)	(10,055)	301,454	11,197	23,785
Real-estate debt assets	(16,961)	(8,480)	145,305	8,480	16,961
Marketable corporate debentures	(26,821)	(14,063)	402,600	15,650	33,328
Total	(62,942)	(32,598)	849,359	35,327	74,074

All amounts are in NIS thousands at December 31, 2009

	50% expansion of grossed-up credit margin	**25% expansion of grossed-up credit margin**	**Fair value**	**25% contraction of grossed-up credit margin**	**50% contraction of grossed-up credit margin**
Non-marketable corporate debenture	(14,107)	(7,054)	309,786	7,054	14,107
Real-estate debt assets	(13,843)	(7,317)	92,222	8,228	17,509
Marketable corporate debentures	(18,185)	(9,093)	349,483	9,093	18,185
Total	(46,135)	(23,464)	751,491	24,375	49,801

4.8.5 Tests of extreme scenarios

Extreme changes in share indices and interest rates over the last ten years were examined. The results show that there were no daily changes of more than 20% in the share indices and of more than 10% in the exchange rates, that were tested in the aforementioned sensitivity tests. However, on certain dates there were daily changes of more than 10% in the interest rate. These changes also reached thousands of percent in the low interest rate environment early in 2009. Accordingly, an extreme scenario test was performed similar to the test performed the previous year.

Following are possible results of these extreme scenarios tested on the assets:

All amounts are in NIS thousands at December 31, 2010

	2% drop in real interest rate	**Fair value**	**2% rise in real interest rate**
Marketable debt assets	30,419	380,157	(26,517)
Non-marketable debt assets	48,159	314,788	(37,618)
Bank loans	(69)	(4,125)	67
Marketable debenture that was issued	(57,740)	(680,460)	50,739
Non-marketable debenture that was issued	(47,088)	(283,565)	38,834
Total	(26,320)	(273,205)	25,504

	2% decline in shekel interest curve	**Fair value**	**2% rise in shekel interest curve**
Marketable debt assets	6,730	116,398	(6,092)
Bank loan	(2,033)	(42,657)	1,872
Total	4,697	73,741	(4,220)

	2% decline in dollar interest curve	**Fair value**	**2% rise in dollar interest curve**
Marketable debt assets	165	3,508	(152)
Non-marketable debt assets	22	380	(20)
Real-estate debt assets	3,502	39,963	(3,146)
Total	3,689	43,850	(3,318)

	2% decline in euro interest curve	Fair value	2% rise in euro interest curve
Real-estate debt assets	7,989	105,342	(7,094)

All amounts are in NIS thousands at December 31, 2009

	2% decline in real interest rate	Fair value	2% rise in real interest rate
Marketable debt assets	27,093	331,817	(23,463)
Non-marketable debt assets	34,523	309,558	(28,622)
Bank loan	(253)	(8,297)	240
Marketable debenture that was issued	(69,333)	(643,500)	59,517
Total	(7,970)	(10,422)	7,672

	2% decline in shekel interest curve	Fair value	2% rise in shekel interest curve
Marketable securities	2,916	50,470	(2,646)
Bank loan	(2,163)	(44,087)	1,979
Total	753	6,383	(667)

	2% decline in dollar interest curve	Fair value	2% rise in dollar interest curve
Marketable debt assets	239	4,264	(217)
Real-estate debt assets	2,878	35,360	(2,639)
Total	3,117	39,624	(2,856)

	2% decline in euro interest curve	Fair value	2% rise in euro interest curve
Real-estate debt assets	4,683	56,862	(4,256)

5. Corporate governance

5.1 Report on directors who have financial and accounting skills

The Company's Board of Directors prescribed that the Company should have at least three directors with financial and accounting skills, and this when considering the nature of the accounting issues and accounting control issues that arise during the preparation of the Company's financial statements in view of its operating segments and the scale and complexity of the Company as a holding company in the insurance, pension and finance industry. This decision also reflects the close support provided by the Company's CPA and external auditors, including that they attend the Board of Directors meetings that discuss the financial statements or any other accounting issue.

Members of the Company's Board of Directors who have financial and accounting skills, and the facts by virtue of which they can be deemed such, are:

1. **Doron Gedalia –** MBA from Harvard University in the US. In the past served as a director and Chairman of the Audit Committee of Discount Bank for Industrial Finance, chairman of Kedem Chemicals (public company) and Manulife – Menorah Life Assurance Company, as well as a director of Clal Electronics Industries.

2. **Shlomo Milo –** has a degree in Industrial Engineering & Management. Serves as CEO of Kinnetic Energies Ltd. Previously served as CEO of Delek Infrastructures and Chairman of I.D.E. Technologies (desalination engineering), CEO of Israel Military Industries, Chairman of Ashot Ashkelon Ltd. (public company), and CEO of Zion Cables Ltd. (public company).

3. **Bar-Kochba Ben Gara –** has a BA in Political Science combined with interdisciplinary studies from the Hebrew University of Jerusalem, also attended Management Training Studies - the insurance stream, at the Managers Advancement Program, Tel Aviv University. Serves as an external director of the Company, and an external director of Menorah Mivtachim Insurance Ltd. and Shomera Insurance Company Ltd. Served as CEO of the Phoenix Insurance Company and CEO and chair of other insurers within the Phoenix Group. Also served as a director of Mehadrin Ltd. until December 2009.

4. **Orly Yarkoni –** has a BA in Maths and Statistics from the Hebrew University, a diploma in actuarial studies from Haifa University and an M.Sc. in Operations Research from Tel Aviv University's School of Mathematical Sciences. Served as CEO of Yashir IDI Insurance Company and deputy CEO and head of General Insurance and Health Insurance at the Migdal Group. Is a director at Menorah Mivtachim Ltd., at Peninsula Finance Ltd., Mey Eden (external director), Plasto-Sac Ltd., (external director), Amot Investments Ltd., and BioCancell Therapeutics Inc. Ltd. (external director).

5. **Israel Tapuhi** - has a B.Com., majoring in economics, business administration and accounting from Melbourne University, Australia. Served as an external director of the Strauss Group Ltd., Harel Insurance Investments and Financial Services, and Harel Insurance Ltd. Also served as a director at Israel Electric Corp. Ltd., and M.D.G. Medical Inc. Also serves as a director of Menorah Mivtachim Insurance, Paz Oil Company Ltd., Paz Ashdod Refinery Ltd., Shikun U'Binuy Holdings Ltd., Mor International Real Estate Ltd., Tel Aviv Centennial Properties Ltd., Tapi Investments Ltd., and Labriz Holdings Ltd.

5.2 Disclosure concerning the percentage of independent directors in the corporation

At the date of this report, the Company has not adopted in its articles the provision concerning the percentage of independent directors prescribed in the Companies Law, 5759-1999. It should be noted that six directors serve on the Company's Board of Directors of which two are external directors who for this purpose are considered independent directors and constitute one third of the Board of Directors.

5.3 Sole authorised signatories

At the reporting date, the Company has no sole authorised signatories.

5.4 Charitable donations

From time to time, the Group's companies make charitable donations to various social causes. In 2010, charitable donations were made in the amount of NIS 221,000. There is no official policy on this matter.

5.5 Disclosure concerning the Corporation's internal auditor

5.5.1 Details of the internal auditor

During the Reporting Period, the Company's internal auditor was Shmuel Schwartz, CPA, (MBA), who was appointed to this position on January 8, 2007. The internal auditor meets all the conditions prescribed in Section 3(a) of the Internal Audit Law, 5752-1992 (hereinafter: **"the Internal Audit Law"**), and in the provisions of Section 8 of the said law, as well as the provisions of

Section 146(B) of the Companies Law, 5759-1999 (hereinafter: **"the Companies Law"**):
As far as the Company is aware, the internal auditor does not hold any securities of the Company or any associated entity.

5.5.2 Method of appointment

The internal auditor was appointed on January 8, 2007, at the recommendation of the Audit Committee and approved by the Board of Directors. The appointment was approved taking note of his qualifications, skills and experience with the Company and Menorah Mivtachim Insurance, of his previous position as deputy CEO and CFO for 7 years. The internal auditor is a Company employee. Other than his position as internal auditor of the Company and the Group's companies, the internal auditor holds no other position within the Group.

5.5.3 The internal auditor's superior

The internal auditor's superior within the organisation is the Chairman of the Board of Directors.

5.5.4 Work plan

The internal auditor's work plan is an annual plan. The work plan for 2010 at Group level focuses mainly on the activity of the subsidiaries, and particularly on Menorah Insurance and the Group's other insurers as well as the finance group. The Menorah Insurance work plan is based on a risk study conducted by a professional entity and on the basis of consultations between the auditor and internal and external entities, including the external auditor. Given that the Company is a holding company, most of the audit resources were invested as described below in the subsidiaries, with the audit plan for the Company being residual in nature, taking into account its residual risks and that adequate controls and audit findings are present from previous years.
The work plan is submitted to the Chairman of the Board of Directors for review and then presented to the Audit Committee for approval. The plan includes an hourly component for examination or an ad hoc review at the auditor's discretion. There was no significant deviation from the approved work plan. The audit plan gives the internal auditor the discretion to make changes in the plan, taking ad-hoc requirements into consideration. Principal shareholders' transactions are submitted for discussion by and for the approval of the competent entities after they have been reviewed by the relevant professional entities. Other material transactions, if and insofar there are any, are examined as necessary, consistent with generally accepted audit regulations.

5.5.5 Overseas audit or audit of investee corporations

The Company's internal auditor is also the chief internal auditor of Menorah Mivtachim Insurance (a subsidiary of the Company) which is the Company's principal holding. Consequently, the internal auditor's audit activity focused on Menorah Mivtachim Insurance. The Group has 4 other financial institutions that are subject to an internal audit, as follows: Menorah Mivtachim Pension Ltd. (a second-tier subsidiary of the Company) and Menorah Mivtachim Provident Funds (a subsidiary of Menorah Mivtachim Finance) that are audited by a full-time, designated auditor who also outsources some of his audit work; Shomera (a second-tier subsidiary of the Company) which is audited by a designated external auditor who conducts an internal audit himself together with his employees. The 2010 audit plans for Menorah Mivtachim Pension, for the provident funds and for Shomera were prepared in conjunction with the Company's internal auditor, and the audit reports are routinely submitted to the Company's internal auditor for review. In addition, and from October 1, 2008, when Menorah Mivtachim Finance acquired the controlling interest in the Engineers Study Fund, the auditor was also appointed as the internal auditor for the fund and he conducts the audit together with his employees and with the help of outsourcing services.

The investee company, Menorah Mivtachim Real Estate Ltd., conducts an on-going audit based on a plan defined and approved by the Board of Directors of Menorah Real Estate.

5.5.6 Scope of the internal audit

The number of hours of audit activity required for the Corporation and investee corporations is determined in respect of the Group's financial institutions on the basis of risk studies and as per the instructions of the Superintendent of the Capital Market in this regard, and in respect of the Group's other financial institutions on the basis of risk studies or risk evaluations and as detailed below:

Company name	No. of audit hours	No. of outsourced audit hours
Menorah Mivtachim Holdings (incl. Menorah Mivtachim Insurance – as the Company's principal holding)	15,040	3,096
Menorah Mivtachim Finance, including the Engineers Study Fund	1,130	1,690
Menora Mivtachim Real Estate	180	---
Shomera	1,940	---
Menorah Mivtachim Pension and Menorah Mivtachim Gemel	8,300	2,100

Of the 33,476 hours of audit work for the Company, the chief auditor is directly responsible for 21,136 hours.

The scope of the internal auditor's work, at Group level, grew by 37% compared with the last reporting period due to an increase in the volume of activity by the Group's companies served by the internal auditor, and also deriving from the instructions issued by the Superintendent of the Capital Market Division at the Ministry of Finance in a circular concerning the internal audit system.

5.5.7 Conducting the audit

The audit is conducted in accordance with generally accepted professional standards in Israel and pursuant to the professional guidelines adopted and published by the Institute of Internal Auditors in Israel and pursuant to the relevant provisions of law for each of the Group's companies, as the case may be. The Board of Directors, through its Audit Committee, oversees the work of the Company's internal auditor.

5.5.8 Access to information

The internal auditor and the other auditors in the Group's audit system have free access to all sources of information, including to documents, the ordinary or computerised database and to financial data. The information in this section also applies to the Group's subsidiaries that have an internal auditor.

5.5.9 The internal auditor's report

The internal auditor's reports are submitted in writing, after draft versions of the audit are discussed with the audited entities. The reports are presented to the CEO and Chairman of the Board of Directors for review and they are subsequently discussed by the Audit Committee. In addition, follow-up reports of the implementation of the auditor's recommendations are presented to the Audit Committee.

During the Reporting Period, the Company's Audit Committee met 6 times: January 28, 2010, March 22, 2010, March 25, 2010, August 29, 2010, September 19, 2010, December 16, 2010. It should also be noted that numerous other audit reports, ad-hoc reports and follow-up reports were submitted on the investee corporations that were discussed by the relevant audit committees.

5.5.10 Board of Directors' assessment of the internal auditor's work

As noted above, most of the investees, and specifically the Group's financial institutions, conduct designated internal audit activity and the audit reports are discussed by the audit committees of those corporations. The Company's Audit Committee only discusses those subjects pertaining directly to the Company, and it receives reports on material and exceptional audit findings for investee companies. Consequently, the Board of Directors is of the opinion that the audit met its audit objectives for the reporting year.

5.5.11 Remuneration

The internal auditor is employed on a personal employment agreement as a full-time Company employee through the subsidiary Menorah Mivtachim Insurance Ltd., and receives a monthly salary and fixed bonus as well as the accepted social and fringe benefits. The Company's Board of Directors is of the opinion that the remuneration paid to the internal auditor is consistent with the scope of his work and position, and that it does not affect his professional judgment.

5.6 Disclosure concerning the fee paid to the external auditors

The Company's external auditors are Kost Forer Gabbay & Kasierer CPA, who have filled this position since 1999. The responsible partner is Ezra Gabbay CPA.[1]

[1] In March 2011, Yair Koppel, CPA, of the firm Kost Forer Gabbay & Kasierer CPA was appointed as the responsible partner, in force from the report for Q1 2011.

Fee in NIS thousands (excluding VAT):

	For 2010			For 2009		
	Audit and tax services *	**Other services**	**Total**	**Audit and tax services**	**Other services**	**Total**
The Company	220	-	220	220	-	220
Menorah Mivtachim Insurance Ltd.	2,705	411	3,116	1,797	240	2,037
Shomera Insurance Company Ltd.	530	-	530	312	25	337
Mivtachim Pension Funds Ltd. – a management company	450	-	450	395	140	535
Other companies	518	63	581	314	0	314
Total	4,423	474	4,897	3,038	405	3,443

Work hours:

	For 2010 Audit and tax services *	Other services	Total	For 2009 Audit and tax services	Other services	Total
The Company	920	-	920	960	-	960
Menorah Mivtachim Insurance Ltd.	11,969	1,471	13,440	6,963	1,462	8,425
Shomera Insurance Company Ltd.	2,560	-	2,560	1,305	52	1,357
Mivtachim Pension Funds Ltd. – a management company	1,800	-	1,800	1,380	400	1,780
Other companies	2,456	252	2,708	1,640	-	1,640
Total	19,705	1,723	21,428	12,248	1,914	14,162

* Including first-time performance of a SOX 404 audit.

** Fee for other services refers to actuarial advice, risk review and advice concerning automatic data processing (ADP) (excluding VAT).

The CPA's fee in respect of audit services is determined by the Company's management and approved by the Board of Directors, and this after negotiations based, in part, on the accepted price for auditing corporations whose activity necessitates expertise and an in-depth understanding of the relevant accounting and business environment, and with the approval of the Board of Directors.

5.7 Disclosure concerning the process for approving the Company's financial statements

5.7.1 The organs charged with control over the Corporation:

The committee for the review of the Company's financial statements, as it is defined in the Companies (Provisions and Conditions Concerning the Process of Approving the Financial Statements) Regulations, 5770-2010, is the Balance Sheet Committee appointed by the Company's Board of Directors. The Balance Sheet Committee discusses and makes recommendations to the Board of Directors on matters pertaining to the Company's financial statements, including assessments and estimates that are made in connection with the financial statements, the internal controls relating to financial reporting, the completeness and reasonability of the disclosure in the financial statements, the external auditor's opinion, the accounting policy adopted and the accounting treatment applied regarding the Corporation's significant matters. It should be noted that the Balance Sheet Committee is not the Company's Audit Committee.

<u>The Committee members</u>

The Balance Sheet Committee has 3 members who are all directors of the Company, as follows: Mr. Bar-Kochba Ben Gara (external director and Balance Sheet Committee), Orly Yarkoni, and Israel Tapuhi (external director). All the Committee members have financial and accounting skills and they are all capable of reading and understanding financial statements. Details of the directors' qualifications and experience, which form the basis for the Company regarding them as being capable of reading and understanding financial statements, appear in Chapter 6 of the Periodic Report (Report on Other Details). Prior to their appointment, all members of the Balance Sheet Committee signed statements in accordance with the Companies (Provisions and Conditions Concerning the Process of Approving the Financial Statements) Regulations, 5770-2010. It should be noted that these members of the board were also appointed as members of the Balance Sheet Committee of Menorah Mivtachim Insurance on which they also serve as directors. The Company's external auditors also attend meetings of the Balance Sheet Committee.

<u>Approving the financial statements</u>

The Company's financial statements were discussed at two meetings of the Balance Sheet Committee that took place on March 21, and March 22, 2011. All the Balance Sheet Committee members attended these meetings. In addition, the following senior officers and directors of the Group also attended the meetings:

All members of the Balance Sheet Committee attended the meeting held on March 21, 2011. The meeting was also attended by Mr. A. Kalman, CEO; Mr. S. Kompel, CFO; Mr. M. Rosen, CEO of Menorah Mivtachim Insurance; the external auditors; Avraham Levenglick, the Chief Actuary for Menorah Mivtachim Insurance; and Shmuel Schwartz, the internal auditor.

All members of the Balance Sheet Committee attended the meeting held on March 22, 2011. The meeting was also attended by Mr. A. Kalman, CEO; Mr. S. Kompel, CFO; Mr. M. Rosen, CEO of Menorah Mivtachim Insurance; the external auditors; Avraham Levenglick, the Chief Actuary for Menorah Mivtachim Insurance; Shmuel Schwartz, the internal auditor; and Shimon Ir-Shai, the Legal Advisor.

The draft version of the Company's Periodic Report for 2010, including the Board of Directors' Report, Description of the Corporation's Business, and Other Details about the Corporation, were submitted to the members of the Balance Sheet Committee and the Board of Directors in advance, several days before their approval.

With the help of a detailed presentation by the Company's senior officers, the Balance Sheet Committee examined the material issues in the financial reporting, which included a presentation and review of the estimates and evaluations made in connection with the financial statements; the internal audit procedures relating to the financial reporting; the completeness and reasonability of the disclosure in the financial statements; the accounting policy and treatment implemented with regard to significant matters, and the data in the Company's financial statements. In addition, information included in the financial statements, including information pertaining to the Company's financial and operating situation was presented and the actuarial declarations of the Group's insurers in the different insurance sectors.

These discussions also addressed the effectiveness of the Company's existing and anticipated internal control processes.

The committee members examined management's discretion as applied with respect to various issues, and after hearing the position of the Company's external auditor, the Committee members concluded that the Company has implemented a fair accounting policy and that it used reasonable estimates and assessments. After the second meeting, the Committee formulated its recommendations to the Board of Directors on the various subjects that were discussed and recommended that the Board of Directors approve the Periodic Report for 2010.

Taking into account that the Board of Directors received the draft report a few days before the meeting, and considering the nature of the Company's activity as a holding company, principally consolidating the financial statements for the Group's financial institutions, the Board of Directors determined that the reasonable period for submitting the Balance Sheet Committee's recommendation is one business day before the Board of Directors' meeting.

The Board meetings to approve the Periodic Report that took place on March 24, 2011 and March 30, 2011 reviewed the Company's on-going activity and the effect of this activity on its performance, emphasising material issues. The Board members discussed the Balance Sheet Committee's recommendations with the assistance of the Company's CFO and external auditors. The financial statements were approved at the meeting held on March 30, 2011.

5.8 The Board of Directors' considerations regarding payment made to senior officers and directors

As part of the Board of Directors' meeting to approve the financial statements, the Company's Board of Directors also discussed the remuneration policy for senior officers, including remuneration for the senior officeholders listed in Article 21 of the chapter “Other Details about the Corporation” (hereinafter: “**Article 21”**), and the connection between the compensation given to each of the aforementioned senior officers in 2010 and their contribution to the Group.

It should be noted that all the aforementioned senior officers served as senior executives of the subsidiary companies during 2010, and specifically in Menorah Mivtachim Insurance,[2] and their work was principally for these companies, so that the subsidiaries paid their salaries. The salaries of the said senior officers (excluding Mr. Kalman, Mr. Y. Rosen, and Mr. G. Kalderon) comprise a monthly salary (including an extra monthly salary each year) as well as generally accepted social and fringe benefits, severance pay conditions and a non-competition clause when the employment terminates, as well as a bonus paid according to the CEO's evaluation and recommendation, based, in part on their contribution to the Company, and approved by the Board of Directors.

In December 2010, the boards of directors of the Company and of Menorah Mivtachim Insurance held a joint meeting to discuss the remuneration policy for senior officers, in an effort to review and evaluate both the existing and the new remuneration policies (effective from 2011 onwards),[3] including a review of the individual remuneration conditions for the aforementioned senior officers During this meeting, the boards of directors were presented with the principles of the new compensation policy, a document listing the proposed changes compared with the

[2] Excluding Mr. J. Rosen who stepped down as the CEO of Menorah Mivtachim Pension at the end of 2010.

[3] For details about the new compensation policy effective from 2011, see Section 8.6.7 in the Description of the Corporation's Business.

existing compensation conditions and structure in 2010, a comparative study prepared by Professor Zviran and Compvision concerning the scope of the existing and future overall compensation, compared with accepted levels for senior officers in comparable and/or similar positions in companies of a similar size, and including companies that operate in the insurance and finance industries.

In view of the aforementioned, and further to the in-depth, comprehensive discussion that took place, as noted, in December 2010, the Board of Directors decided that no further individual discussion is necessary, except on the subject of the bonuses proposed in respect of 2010, and based on a comparative review of the overall conditions of remuneration (including the bonus) for 2010, and this using the up-to date paper prepared by Prof. Zviran.

Based on this examination, and the individual reasons detailed below, the Board of Directors is of the opinion that the remuneration paid to the senior officers, including the bonuses for 2010, considering the complexity of the work carried out by the senior officers and the responsibility that they entail, is consistent with accepted levels for managers in similar positions (particularly when taking into account the structure of the remuneration paid by the Group in 2010 that does not include share-based compensation), is fair and reasonable relative to their contribution to the Group.

Mr. Ari Kalman

Mr. Ari Kalman served as the Company's CEO for most of 2010,[4] and he has been CEO of Menorah Mivtachim Insurance for 9 years. For details of Mr. Kalman's employment, see the information under Article 21.

In estimating Mr. Kalman's overall terms of remuneration, the Board of Directors was presented with his terms of employment, including the value of the bonuses and the value of his share package that was approved in 2003; figures on bonuses in previous years, and as mentioned, a comparative study prepared by Prof. Zviran. In addition, the Board of Directors received information about various aspects of the Group's activity and development over the last 9 years during which time Mr. Kalman has been at the Group's helm.

In view of the review of the aforementioned information, and particularly in view of the comparison with the compensation paid to the CEOs and chairs of the boards of directors of similar companies, and taking into account that during the long-period of service of the CEO of Menorah Mivtachim Insurance its volume of activity and profit have increased and that Mr. Kalman has led various strategies that have significantly enhanced the Group's performance, the remuneration paid to

[4] Mr. Kalman was appointed Acting Chairman of the Board of Directors of Menorah Mivtachim Insurance and CEO of the Company close towards the end of 2010,

him is fair and reasonable relative to his contribution to the Group within the framework of his position during the said period, and particularly during 2010.

Mr. Jacob Rosen

In 2010, Mr. Jacob Rosen was the CEO of Menorah Mivtachim Pension (a second-tier subsidiary of the Company). For details of Mr. J. Rosen's employment, see the information under Article 21.

In estimating Mr. Rosen's terms of remuneration, the Board of Directors was presented with the main points of compensation as a management service provider, details of the bonuses paid to him in the past as well as the reasons given by the Board of Directors of Menorah Mivtachim Pension for approving the remuneration approved for 2010, including Menorah Mivtachim Pension's profits and achievements in 2010, and particularly the change in the company's activity, the promotion of synergy in the Group, the significant improvement in the volume of collection and the positive improvement in incoming and outgoing portability.

In view of the aforementioned data and reasons, the remuneration paid to Mr. Rosen is fair and reasonable with respect to his contribution to the Group within the framework of his position during the said period.

Mr. Menahem Harpaz

Mr. Harpaz is the Deputy CEO and director of elementary (non-life) insurance at Menorah Mivtachim Insurance, and Chairman of the Board of Directors of Shomera Insurance Company Ltd. (a second-tier subsidiary of the Company). For details of Mr. Harpaz' employment, see the information under Article 21.

In evaluating the terms of remuneration paid to Mr. Harpaz, including the value of the bonus that was approved in 2010; the Board of Directors was presented with the components of the remuneration, figures on bonuses in previous years, and the comparative study prepared by Prof. Zviran.

In view of the review of this information, the excellent business results of the non-life department in 2010 despite the severe competition in this branch, the fact that targets for market segment were met and at the same profitability was maintained, the improved service to agents and the high management standards that Mr. Harpaz has maintained over time, the remuneration paid to Mr. Harpaz is fair and reasonable with respect to his contribution to the Group within the framework of his position during the said period.

Mr. Yoni Tal

Mr. Tal is the Company's Chief Investment Manager and Deputy CEO and manager of the investment department at Menorah Mivtachim Insurance. For details of Mr. Tal's employment, see the information under Article 21.

In evaluating the terms of remuneration paid to Mr. Tal, including the value of the bonus that was approved in 2010; the Board of Directors was presented with the components of the compensation, figures on bonuses in previous years, and the comparative study prepared by Prof. Zviran.

In view of the review of the aforementioned information, and considering Mr. Tal's professional management, particularly the significant improvement in control and reporting, the excellent yields attained under his directorship, and the importance of keeping with the Company, Mr. Tal's compensation is fair and reasonable with respect to his contribution to the Group within the framework of his position during the said period.

Mr. Gil Kalderon

Mr. Kalderon has been the CEO of Menorah Mivtachim Underwriters & Management Ltd. (hereinafter: **"Menorah Underwriters"**) since November 2005. For the terms of Mr. Kalderon's employment, see the information under Article 21.

Mr. Kalderon was involved in the founding of Menorah Underwriters from its inception. As conventional in the underwriting branch, his employment agreement consists of a monthly salary plus a bonus as a percentage of the company's profits.

Given that the success of Menorah Underwriters depends significantly on the personal capability of its manager, the aforesaid method of compensation is an appropriate incentive for advancing its goals.

In evaluating the overall compensation paid to Mr. Kalderon, details of the remuneration paid to similar officeholders in the underwriting branch were presented. In light of the review of the information, and taking actual performance into account, the remuneration paid to Mr. Kalderon is fair and reasonable with respect to his contribution to the Group within the framework of his position as CEO of Menorah Underwriters.

Mr. Shai Kompel

Mr. Kompel is the Company's CFO and Deputy CEO and manager of the finance and comptrollership department at Menorah Mivtachim Insurance. For details of Mr. Kompel's employment, see the information under Article 21.

In evaluating the terms of remuneration paid to Mr. Kompel, including the value of the bonus that was approved in 2010; the Board of Directors was presented with the components of the compensation, figures on bonuses in previous years, and the comparative study prepared by Prof. Zviran.

In light of the review of the aforementioned information, and considering his professional capabilities as financial director, the heavy work load he must endure to implement financial regulations, and particularly the SOX controls, including the exceptional workload in dealing with the Commissioner's report, the remuneration paid to Mr. Kompel is fair and reasonable with respect to his contribution to the Group within the framework of his position during the said period.

5.9 Negligible transactions

On August 5, 2008, an amendment to the Securities (Periodic and Immediate Reports) Regulations, 5730-1970 (hereinafter: **"the Reporting Regulations"**) took effect. Within the context of the amendment, some of the reporting obligations, inter alia, that apply to public companies in connection with transactions with a controlling shareholder or with another person in which the controlling shareholder has a personal interest (hereinafter: **"controlling shareholder's transactions"**), were extended to include transactions that are not extraordinary transactions, as this term is defined in the Companies Law, but excluding transactions that were defined as negligible in the last financial statements. It should be noted that with respect to the duty of disclosure in the financial statements of the Group's insurance companies, the Control of Insurance Business (Reporting Details) Regulations, 5758-1998 are applicable, in respect of which the following test of negligibility is irrelevant.

On November 2008, the Company's Board of Directors set forth the following rules and tests for defining the negligibility threshold for controlling shareholder's transactions that will apply to the reporting obligations and to the disclosure obligations for the financial statements (excluding, as noted, with respect to the disclosure obligation in the financial statements of the Group's insurance companies):

A transaction between the Company and its consolidated and related companies, and a controlling shareholder or a transaction with another person in which the controlling shareholder has a personal interest, shall be construed as a negligible transaction if all the following conditions are met:

1. The transaction takes place during the normal course of business and is not an extraordinary transaction, as this term is referred to in the Companies Law, 5759-1999.
2. The impact of the transaction on the relevant ratio, specified below, is at a rate of less than one percent (1%), to be calculated on the basis of the Company's consolidated financial statements published prior to the transaction, provided that the effect or value of the transaction is no more than NIS 3 million;
    - 2.1 Asset ratio – the volume of assets that is the object of the transaction (acquired or sold assets) divided by the total assets;
    - 2.2 Liabilities ratio – the liabilities that are the object of the event divided by total liabilities, including insurance liabilities;
    - 2.3 Equity ratio – the increase or decrease in shareholders' equity divided by the shareholders' equity;

2.4 Premium ratio – the premiums that are the object of the event divided by the total annual premiums in the relevant operating segment (life assurance and long-term savings (including health), general insurance, financial services, etc.), calculated on the basis of the last 12 quarters for which reviewed or audited financial statements have been published.

2.5 Ratio of revenues from various services – the volume of revenues that are the object of the event, divided by total average annual revenues over the last three years, that are not from premiums, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements have been published;

2.6 Ratio of expenses in respect of various services – the volume of expenses that are the object of the event divided by the annual general and administrative expenses (before allocation to acquisition costs and indirect costs for claims settlement), calculated on the basis of the last 12 quarters for which reviewed or audited financial statements have been published.

2.7 Profit ratio – the profits or losses attributed to the event, divided by the average overall profit or loss for the period (including changes in capital reserves) for the last three years, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements have been published.

3. Without derogating from the need to consider which of the indices listed above is relevant for each event being examined for negligibility, the following indices shall be deemed relevant for the transactions listed below:

   3.1 Acquisition of an asset – asset ratio;

   3.2 Sale of an asset – profit ratio, asset ratio;

   3.3 Sale or acquisition of insurance or reinsurance – premium ratio;

   3.4 Transaction for the rendering or receipt of services – revenue ratio, expenses ratio, profit ratio (depending on the profit anticipated from the transaction), as the case may be.

4. The transaction is also negligible from the quality perspective, with respect to the Group's activity.

5. Separate transactions, that are interdependent, so that in practice they are part of the same agreement, shall be viewed as a single transaction

6. Disclosure instructions in connection with financial reporting by the Corporation

6.1 Report on critical accounting estimates

The Company's principal holdings are Menorah Mivtachim Insurance and Shomera Insurance that are insurers as defined in the Control of Financial Services

(Insurance) Law, 5741-1981. Menorah Mivtachim Insurance and Shomera Insurance calculate their insurance obligations pursuant to the accounting standards that apply to an insurer, inter alia, according to actuarial calculations and estimates (see Note 2(B) to the Financial Statements). Regarding additional critical accounting estimates, see Note 2to the Financial Statements.

6.2 Disclosure on the effectiveness of internal control over financial reporting and disclosure

In December 2009, Securities (Periodic and Immediate Reports) Regulations, (Third Amendment), 5770-2009 were published (**"ISOX Amendment"**). The regulations established an obligation to file a report concerning the effectiveness of the internal control over financial reporting and disclosure, effective from the financial statements at **December 31, 2010**. The purpose of the amendment is to improve the quality of financial reporting and disclosure by reporting corporations.

From the publication date of the ISOX Amendment, and as specified in the previous Board of Directors' Reports published by the Company, the Company worked and continuously takes action to implement the required procedure in accordance with the said amendment, with the help of external consultants hired for this purpose.

Given that the Company is a holding company most of whose operations take place through financial institutions that it controls, and in view of the fact that the provisions of SOX 404 apply to these entities by virtue of the Commissioner's directives, this project applies to the Company beyond the activity performed by the subsidiaries mainly with respect to the following: the consolidation and preparation of the financial statements at Group level; IT General Controls at Group level; Entity Level Controls, and the application of control processes on residual transactions (that are not within the framework of the financial institutions), all subject to the materiality test.

It should be clarified that whereas Menorah Insurance, a subsidiary of the Company, is a financial institution, governed by the instructions of the Commissioner of Insurance, the assessment of the effectiveness of the internal control over financial reporting with respect to this financial institution (and the Group's other financial institutions), including the management and board of directors' reports and the relevant CEO and CFO's statements, does not address life assurance and health insurance processes that are applied in the life assurance systems and pension fund processes (excluding the investment process), and this pursuant to the provisions of Financial Institutions Circular 2010-9-6 – "Management's responsibility for internal control over financial reporting –

Amendment". The processes relating to the financial institutions' activity are also addressed under Sections 302 and 404 of the SOX Law.

SOX procedures for financial institutions:

Section 302 of the SOX Law

Subsequent to the instructions issued by the Securities and Exchange Commission in the US, as part of the Sarbanes-Oxley (SOX) Law, the Commissioner of Insurance imposed on pension fund and provident fund management companies and on pension funds and provident funds (hereinafter: "**the Financial Institutions"**) an obligation to include declarations in their annual and quarterly financial statements, signed by the CEO and CFO of the financial institution concerning the reasonability of the financial data presented in the financial institution's financial statements, and stating that effective internal controls are in place, the purpose of which is to ensure that material information relating to the financial institution is brought to their attention.

The Company and the financial institutions that it controls, with the help of external advisors, complied with the process required under Section 302 of the SOX Law, which included a review of the work and internal control procedures.

At the end of the period covered in this report, the managements of the Group's financial institutions estimated the effectiveness of the controls and procedures with respect to their disclosure. Based on this assessment, the CEO and CFO of each financial institution concluded that at the end of this period, the controls and procedures regarding the disclosure are effective in order to record, process, summarise and report the information that must be disclosed in the annual report, in accordance with the provisions of the law and the reporting instructions set forth by the Commissioner of Insurance and at the date stipulated in these instructions.

During the Reporting Period ending at December 31, 2010, there were no changes in the internal controls of the above financial institutions over financial reporting that materially affected, or are likely to have a material influence on the internal controls of those institutions over financial reporting.

Section 404 of the SOX Law

Pursuant to the provisions of Financial Institutions Circular – "Management's responsibility for internal control over financial reporting" (hereinafter: **"Management's responsibility Circular"** or **"the Circular"**), management of the financial institutions must include in the financial statements (from the financial report for 2010), a declaration concerning its responsibility for the control over financial reporting. Accordingly, the first year in which insurance companies will include the CPA's opinion on this matter will be for the year ending December 31, 2011.

To implement the various stages detailed in the instructions in this circular, the Group entered into agreement with an external consulting firm that will assist it in the process. In addition, steering committees were formed headed by senior executives of the Group's financial institutions, as the case may be, and a special team was appointed to coordinate the project.

The financial institutions chose the COSO internal control model (Committee of Sponsoring Organisations of the Treadway Commission), which constitutes a familiar, defined framework for the purpose of evaluating the internal control.

It should be noted that pursuant to the Commissioner's directive, the assessment of the effectiveness of the internal control over financial reporting does not, in 2010, relate to life insurance and health insurance processes used by the life insurance systems, and to pension fund processes (excluding the investment process), all as specified in the aforementioned directives.

Within the context of the timetable defined for implementing the Management's responsibility Circular, the Group's financial institutions and the external auditors have, up to the publication date of this report, conducted an assessment regarding the effectiveness of the controls. Accordingly, no “material weaknesses”, as defined in the Circular, were found. Nevertheless, several deficiencies were found in Menorah Mivtachim Insurance pertaining to work processes, password procedures and automated controls. The Company is working to rectify these deficiencies, including by assimilating relevant compensating controls. These deficiencies were reported to the Company's Balance Sheet Committee and the Board of Directors and accordingly, a work plan to rectify them was prepared, including the allocation of resources and defining of a time schedule.

Concurrently, the Group's financial institutions continue to deploy for the implementation of the next stages included in the Management's responsibility Circular, pertaining to financial reports derived from the financial statements that are submitted to the Commissioner or are published for the general public, as well as reports for policyholders / insureds.

6.3 Disclosure on progress in deployment for implementing the Solvency II Directive

Menorah Mivtachim Insurance and Shomera (subsidiaries of the Company) continue to prepare for the implementation of the European standard, the Solvency II Directive. The Directive applies to insurance companies and is designed to regulate risk management and the calculation of capital requirement, providing a better reflection of the range of risks that an insurance company undertakes.

The standard is expected to take effect in January 2013, allowing the insurance companies to gradually prepare for its implementation over a two-year period. The Commissioner of Insurance decided to adopt the European standard and instructed the insurance companies to begin their deployment as long ago as 2008.

Menorah Mivtachim Insurance and Shomera have taken the following steps, as part of their deployment for implementing the Solvency II Directive:

1. The Board of Directors' committees appointed to supervise the process of implementing Solvency II, meet each quarter to discuss progress made on this project.
2. Completion of the gap analysis for existing computer systems and the computer requirements of the Solvency II Directive, with the help of an external consulting firm, during the course of 2010.
3. Completion of the first stage of planning and designing the computer system (risk management database, interfaces for the collection of data from operating systems).
4. Menorah Mivtachim Insurance and Shomera intend to complete the design and planning stage during 2011.
5. During the fourth quarter of 2010, Menorah Mivtachim Insurance and Shomera conducted Quantitative Impact Study 5 (QIS 5), during which the data and information required for calculating the capital, under the first pillar of Solvency II, was mapped.
6. In March 2011, Menorah Mivtachim Insurance and Shomera filled out the quality questionnaire regarding the QIS process.
7. Menorah Mivtachim Insurance and Shomera intend to begin implementing the plan to build a risk-management database in the second quarter of 2011.

7. Special disclosure for debenture holders

7.1 Details concerning the Corporation's liability certificates

Debentures (Series A)

On July 15, 2007, the Company raised NIS 550 million by way of a private issue of debentures (Series A) to institutional investors, registered in name, each with a par value of NIS 1 (hereinafter: **"Debentures (Series A")**. The Debentures (Series A) were registered for trade on the TASE in accordance with a shelf prospectus (that included the listing for trade of the debentures) from February 27, 2008, (hereinafter: (**"the Company's prospectus"**).

The Debentures (Series A) bear an annual interest rate of 4.28%, payable once a year, on July 14 in each of the years 2008 to 2019. The principal of the Debentures (Series A) will be repaid in nine, equal, annual instalments on July 14, in each of the years 2011 to 2019 (inclusive).

The Debentures (Series A) principal and the interest are linked to the CPI so that should it transpire, on the maturity date of any payment on account of the principal and/or interest, that the payment index has increased compared with the basic

index, the Company will increase payment of that particular principal and/or interest amount pro rata to the rate of increase in the payment index as against the basic index; if the payment index is lower than the basic index, payment of the principal and/or interest will not be reduced due to the decline in the aforementioned index, and the payment index will be the same as the basic index.
For this purpose, the payment index is the known index on the date of making any payment on account of the principal and/or the interest, and the basic index is the index published in respect of May 2007, i.e. the index published on June 15, 2007.

Series and date of issue	**Debentures (Series A) issued on July 15, 2007 and listed for trade under a prospectus from February 27, 2008**
Par value on issue date, in NIS thousands	550,000
Par value on December 31, 2010, in NIS thousands	550,000
Par value on December 31, 2010,estimated according to linkage conditions, in NIS thousands	625,736
Interest accrued up to December 31, 2010, in NIS thousands	12,474
Fair value as registered in the financial statements, in NIS thousands	680,460
Registration for trade and stock exchange value, in NIS thousands	680,460
Class of interest and interest rate	Fixed, 4.28%
Dates of the principal payments	Nine equal instalments, on July 14 in each of the years 2011-2019 (inclusive).
Dates of the interest payments	Once a year, on July 14 in each of the years 2008-2019 (inclusive).
Linkage base and conditions	Debenture principal and interest on the principal shall be linked to the CPI.
Corporation's right to perform early redemption or forced conversion	The Company has the right to perform early redemption if the TASE decides to delist the debentures due to the fact that the value of the public's holdings of the debentures is less than the amount stipulated in the TASE regulations concerning delisting.

There were no significant changes or events after the balance sheet date with respect to the liability certificates.

Debentures (Series B)

In July and September 2010, the Company raised NIS 250 million by way of a private issue of debentures (Series B) to institutional investors, registered in name, each with a par value of NIS 1 (hereinafter: **"Debentures (Series B"), pursuant to a prospectus**.

The Debentures (Series B) bear an annual interest rate of 4.5%, payable once a year, on June 30 in each of the years 2011 to 2022. The Debenture (Series B) principal will be repaid in five, equal, annual instalments on June 30, in each of the years 2018 to 2022 (inclusive).

The Debentures (Series B) were registered only on the TASE's TACT (Tel Aviv Continuous Trading) Institutional System, and are not listed for trade.

The Debentures (Series B) principal and the interest are linked to the CPI so that should it transpire, on the maturity date of any payment on account of the principal and/or interest, that the payment index has risen compared with the basic index, the Company will increase payment of that particular principal and/or interest amount pro rata to the rate of increase in the payment index as against the basic index; if the payment index is lower than the basic index, payment of the principal and/or interest will not be reduced due to the decline in the aforementioned index, and the payment index will be the same as the basic index.

For this purpose, the payment index is the known index on the date of making any payment on account of the principal and/or the interest, and the basic index is the index published in respect of May 2010, i.e. the index published on June 15, 2010.

Series and date of issue	Debenture (Series B) issued in July and September 2010
Par value on issue date, in NIS thousands	250,000
Par value on December 31, 2010, in NIS thousands	250,000
Par value on December 31, 2010,estimated according to linkage conditions, in NIS thousands	254,735
Interest accrued up to December 31, 2010, in NIS thousands	5,732
Fair value as registered in the financial statements, in NIS thousands	283,565
Registration for trade and stock exchange value, in NIS thousands	-
Class of interest and interest rate	Fixed, 4.5%
Dates of the principal payments	Five equal instalments, on June 30 in each of the years 2018-2022 (inclusive).
Dates of the interest payments	Once a year, on June 30 in each of the years 2011-2022 (inclusive).
Linkage base and conditions	Debenture principal and interest on the principal shall be linked to the CPI.
Corporation's right to perform early redemption or forced conversion	

7.2 The Trustee and Deed of Trust

The Trustee for the Debentures (Series A) is Aurora Fidelity Trust Company Ltd., a company limited by stock, engaged principally in trusts (hereinafter: **"Trustee for Series A"**). The Trustee's representatives for the Company's Debentures (Series A) are Ms. Iris Levy, CEO, and Meital Ben Yosef, CPA.

Following are the details of the agreement with the Trustee. Azrielli Centre 1, Tel Aviv 60721, tel.: 03-6005946, Fax. 03-6120675, email: ishlevin@aurorafidelity.com, meitalr@aurorafidelity.com .

The main points of the Deed of Trust signed by the Company and the Trustee for Series A on July 15, 2007, appear in the Company's prospectus, and the full text of the Deed of Trust is available for scrutiny at the Company's registered office, by prior arrangement, on any business day during normal working hours .

As far as the Company is aware, up to the date of this report, it is in compliance with all the instructions of the Deed of Trust, the conditions that constitute grounds for presenting the Debentures (Series A) for immediate report are not present, and the Company has not received any notice from the Trustee for Series A with respect to a failure to comply with the conditions of the Deed of Trust pertaining to presenting the Debentures (Series A) for immediate repayment. Moreover, no requests have been received from the Series A Trustee to convene a meeting of the holders of the Debentures (Series A) or to take any action in connection with the Debentures (Series A).

The Trustee for the Debentures (Series B) is Hermetic Trust (1975) Ltd., a company limited by stock, engaged principally in trusts (hereinafter: **"Trustee for Series B"**). The Trustee's representatives for the Debentures (Series B) of the Company are Dan Avnon, Joint CEO and/or Meirav Ofer Oren, Joint CEO.

Following are the details of the agreement with the Trustee. Hermetic House, Hayarkon St., 113, Tel Aviv, tel.: 03-5274867, fax: 03-5271451, email: hermetic@hermetic co.il

The full text of the Deed of Trust signed by the Company and the Trustee for Series B on June 30, 2010, is available for scrutiny at the Company's registered office, by prior arrangement, on any business day during ordinary work hours.

As far as the Company is aware, up to the date of this report, it is in compliance with all the instructions of the Deed of Trust, the conditions that constitute grounds for presenting the Debentures (Series B) for immediate repayment are not present, and the Company has not received any notice from the Trustee for Series B with respect to a failure to comply with the conditions of the Deed of Trust pertaining to presentation of the Debentures (Series B) for immediate repayment. Moreover, no requests have been received from the Series B Trustee to convene a meeting of the holders of the Debentures (Series B) or to take any action in connection with the Debentures (Series B).

7.3 Rating of the debentures

In July 2007, when the Debentures (Series A) were issued to the institutional investors, Midrug gave the Debentures (Series A) a rating of Aa2. For details of the rating report from July 2007, see Chapter 4 of the Company's prospectus.

In November 2008, Midrug rated the Debentures (Series A) Aa2, outlook negative.

For details of Midrug's report from November 2008, see the Company's Immediate Report from November 30, 2008.

In May 2010, Midrug announced that it would lower the rating for Series A liability notes issued by the Company to Aa3 outlook stable. For details of Midrug's report from May 2010, see the Company's Immediate Report from May 26, 2010.
In July 2010, when the Debentures (Series B) were issued to the institutional investors, Midrug rated the Debentures (Series B) Aa3, outlook stable. For details of Midrug's report from July 2010, see the Company's Immediate Report from July 1, 2010.

8. Events after the date of the balance sheet

8.1 Health sector

Effective from 1st January 2011 and due to a restructuring of the Group, the health insurance sector will be defined as a separate field of activity which will be comprised of various health insurance policies (both short term as well as long term), and will be reported as a separate sector in the financial statements of the Group effective from the first quarter of the year 2011. It should be pointed out that as of the year 2010, the information and the data contained in this periodic report reflects the activity of the Group as of the year 2010, as it was in practice, i.e. short term health insurance data is included in the general insurance activity sector, and long term health insurance data is included in the life assurance and long term savings sector.

8.2 Menorah Mivtachim Real Estate – Increasing credit facility

Further to previous owner loans to Menorah Real Estate, a subsidiary of the Company, in the total sum of US$ 60 million, to be used for investing in various real estate enterprises, investment funds in real estate and overseas projects for developing solar energy ("**real estate investments**"), the board of directors of the Company approved, in February 2011, an increase in the investment framework of Menorah Mivtachim Real Estate, by up to a further € 14 million, for ongoing, existing and new real estate investment development (see also note no. 39 (B) to the financial statements).

8.3 Purchase of an asset via a subsidiary

On 24.03.2011 the board of directors of Menorah Mivtachim Insurance ("the purchaser") approved completing negotiations with B.G.A. Investments (1961) Ltd. and its subsidiary B.G.A. Alpha Ltd. ("the vendor") for the purchase of all (100%) of the shares forming part of the issued and paid-up share capital of the Israel Industrial Development Bank Ltd. ("the bank") which is owned by the vendor, and authorising the management to sign the purchase agreement in accordance with the framework of the transaction which they were shown. The estimated payment amount for the bank shares is comprised of two main components: (A) The sum of approx. NIS 125 million and (B) The amount of cash in the bank less liabilities on the date on which the transaction is completed, estimated at this stage, to be approx. NIS 226 million.

Furthermore, the purchaser will be entitled to a reduction in the payment if, after the agreed period which will be determined in the sale agreement, the bank will not collect all or part of the loans contained in the credit portfolio of the bank, subject to various conditions which will be determined in the purchase agreement. It should be pointed out that if the agreement is signed, the Group is intending to amalgamate the bank into Menorah Mivtachim Insurance. It should also be pointed out that the agreement will be conditional upon various preconditions, *inter-alia*, receipt of regulatory certificates in accordance with legal provisions as well as obtaining a ruling from the tax authorities, *inter-alia*, in connection with the bank merger as aforementioned as well as obtaining approval from a competent court for the merger. On 29th March 2011 and after completion of the negotiations the parties signed the agreement which is subject to various preconditions as aforementioned. For further details regarding the transaction as formulated in the agreement which was signed see the immediate report of the Company dated 29.03.11.

8.4 Purchasing a further D&O umbrella policy

In March 2011 the audit committee and the board of directors of the Company approved the purchase of a further umbrella policy for the Company and its subsidiaries, with an additional limit of liability of US$ 30 million for the period 22.02.2011 to 21.02.2012, at an annual premium of US$ 50,000 (above and hereinafter – "**the additional umbrella policy**"), including for the controlling shareholder and his associates. This cover is in addition to the existing cover which was renewed in August 2011, with a limit of liability of US$ 15 million at an annual premium of US$ 46,620 (hereinafter: "**the primary policy**") with the addition of joint cover in a first umbrella policy for all division of the Group with a limit of liability of US$ 30 million at a total annual premium of US$ 100,455 (hereinafter: "**the umbrella policy**"), and all in accordance with the policy wording as agreed upon by the management of the Company.

8.5 Earthquake in Japan

In March 2011 a powerful earthquake occurred in Japan which was accompanied by a tsunami which caused widespread destruction across the country. The intensity of the earthquake resulted in the collapse of several nuclear power stations and caused a considerable amount of environmental damage due to widespread nuclear leaks. The catastrophe resulted in sharp declines to share prices in global stock markets in general and in the Japanese stock market in particular and the injection of yen equivalent to hundreds of millions of US dollars by the Japanese central bank in an attempt to pacify the financial markets in Japan. The said occurrence is liable to have an impact on catastrophe cover provided by the global reinsurance market.

8.6 Increased competition in the pension savings market plan

In November 2010, the Commissioner published a plan for increased competition in the pension savings market in order to reduce the differences between the various pension savings products, to increase the transparency of the pension savings market and all of the players therein, to improve the quality of the products offered and their prices and to create a basis for a uniform comparison between the products (hereinafter: "**the increased competition plan**"). The central changes in accordance with the plan are – a change in the mechanism of collecting management fees in the provident funds and applying a uniform model of capping management fees in pension products; enabling management companies of provident funds to sell supplementary insurance covers as well as various directives relating to increasing transparency in management fee arrangements with the customer; addressing the relationship between the distributor and the customer and between the institutional entity and the distributors.

Pursuant to the aforementioned and in order to implement the plan, the Commissioner published, in March 2011, several draft amendments to various laws and regulations and draft circulars, relating, *inter-alia*, to enabling the customer to choose the license holding who will advise him on the pension savings and conferring authority on the Commissioner of Capital Markets to determine directives regarding bank pension consultants entering into agreements with employers; applying a uniform distribution commission model to all pension saving products; applying a uniform model of capping management fees in pension savings products; increasing the transparency insofar as the rate of management fees charged in pension savings products is concerned and prohibiting increasing the management fees which are agreed with the customer for a period of two years. Due to the fact that this involves a preliminary wording of regulations and drafts as aforementioned, which has been published to obtain remarks, there is no certainty that the wording of the regulations and the drafts which are approved will be identical to the wording which has been published as of the said date. Accordingly, the Company is unable to estimate at this stage the impact of the regulations and drafts as aforementioned on its activities. For further details see clause 3.1.2.1 (W) of the Description of the Business of the Corporation section.

9. Overseas enterprise

On 24th March 2011 the board of directors of the Company approved entering into negotiations with Direct Insurance Financial Investments Ltd. (hereinafter: "**Direct Insurance Investments**") regarding joining an enterprise to established a direct insurance company in Brazil (hereinafter: "**the entrepreneur** or "**the joint company**"). The anticipated scope of investment in the enterprise is approx. 400 million Brazilian real (approx. NIS 850 million) whilst the Company has been offered a holding of approx. 15% of the capital of the joint company. It should be pointed out that to the best knowledge of the Company; a further investor in the enterprise is an investment wing of the World Bank. The Company is planning to consider the transaction and depending on the results of the negotiations, to decide whether to enter into a binding agreement for the purpose of this activity. For further details see the immediate report that the Company published on 24.03.11.

The board of directors wishes to thank the company management, its managers and staff for their work and contribution.

Menahem Gurevitch	**Ari Kalman**
Chairman of the Board of Directors	**General Manager**

Tel Aviv, 30th March 2011

Annual report regarding the effectiveness of the internal control on the financial reporting and on disclosure <u>according to Regulation 9b(a)</u>

The Management, supervised by the Board of Directors of Menorah Mivtachim Holdings Ltd. (hereunder – "the Corporation"), is in charge of setting and executing a proper internal control over the financial reporting and disclosure in the Corporation..

In this connection, the members of management are:

1. Ari Kalman, General Manager;

2. Other management members:

   Shai Kompel, Financial Manager

   Yoni Tal, Chief Investment Manager.

The internal control over the financial reporting and disclosure includes controls and procedures that exist in the Corporation, that were planned by the CEO and the highest Senior Officer in the area of finances or under their supervision, or by whoever performs these roles in reality, under the supervision of the Corporation's Board of Directors, aimed at providing a reasonable level of confidence as to the reliability of the financial reporting and the preparation of reports pursuant to the Law provisions, and make sure that information that the Corporation is required to disclose in the reports it publishes pursuant to the Law is collected, processed, summarized and reported on time and in the outline set forth by the Law.

The internal control includes, among others, controls and procedures planned for making sure that information that the Corporation is required to disclose, as set forth above, is collected and submitted to the Corporation management, including to the CEO and the highest Senior Officer in the area of finances or to whoever performs these roles in reality, in order to allow making decisions at the appropriate time, regarding the disclosure requirements.

Due to its structural limits, internal control over the financial reporting and disclosure is not aimed at providing complete confidence that a mispresentation or omission of information in the reports shall be prevented or found out.

Management, under the Board of Directors supervision, performed an examination and evaluation of the internal control over the financial reporting and disclosure in the Corporation and its effectiveness. Based on this evaluation, the Board of Directors and Management of the Corporation came to the conclusion that the internal control over the financial reporting and the disclosure in the Corporation as at December 31, 2010, is effective.

Menorah Mivtachim Insurance Ltd, a subsidiary of the Corporation, is an institutional entity, on which the directives of the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance are applicable in respect of the evaluation of the effectiveness of the internal control over the financial reporting.

In relation to the said subsidiary, the Management, under the supervision of the Board of Directors, carried out an examination and evaluation of the internal control over the financial reporting and its effectiveness, based on the provisions of the Institutional Entities Circular 2010-9-6 "Management's responsibility for thes internal control over financial reporting – correction", pursuant to which the said examination and evaluation of the internal control over the financial reporting and its effectiveness do not relate in the year 2010 to life assurance processes and health insurance processes that are operated in the life assurance systems, as well as the pension funds procedures (except for the investment procedures), as detailed in the above Circular.

Based on this evaluation, the Corporation's Board of Directors and management concluded that the internal control over the financial reporting and disclosure in the Corporation as of December 31st, 2010 is effective.

Manager's Statement

General Manager's Statement

I, Ari Kalman, certify that:

(1) I have reviewed the periodic report of Menorah Mivtachim Holdings Ltd. (hereunder – "the Corporation") for the year 2010 (hereunder – "the Reports");

(2) Based on my understanding, the financial statements do not include any incorrect presentations of material facts or lack any presentations of essential material facts in order that the presentations that were provided, in light of the circumstances in which those presentations were furnished, will not be misleading for the period covered by the financial statements.

(3) Based on my understanding, the financial statements and other financial information present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods presented in the Reports.

(4) I disclosed to the Corporation's accountant, the Board of Directors and the Control Committee of the Corporation's Board of Directors, based on my most updated evaluation of the internal control over the financial reporting and disclosure:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, which are reasonably likely to adversely affect the ability of the Corporation to collect, process, summarize or report about financial information in a way that might impose doubts as to the reliability of the financial reporting and the preparation of financial statements pursuant to the Law, and -

(b) Any fraud, whether material or immaterial, that involves the General Manager or anyone directly reporting to him or other employees with a significant position in the internal control over financial reporting and disclosure;

.

(5) I, alone or together with others in the Corporation:

(a) Designed controls and procedures, or caused such controls and procedures to be designed under my supervision, to ensure that material information relevant to the Corporation, including its consolidated subsidiaries as per their definition in the Securities Regulations (Preparation of Annual Financial Statements) - 1993, is brought to my attention by others in the Corporation and in the consolidated companies, particularly in the period in which this Report is being prepared; and -

(b) Set forth controls and procedures, or caused such controls and procedures to be designed under my supervision, to reasonably ensure that the financial reporting is reliable and that the Financial Statements are prepared pursuant to the provisions of the Law, including pursuant to the generally accepted accounting principles;

(c) Evaluated the effectiveness of the internal control over the financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and management as to the effectiveness of internal control as set forth, as at the financial statements date.

The above does not derogate from my responsibility or the responsibility of any other person, as per any law.

Tel-Aviv, March 30, 2011

Ari Kalman, General Manager

Manager's Statement

Statement of the most senior officeholder in the finance discipline

I, Shai Kompel, hereby certify that:

(1) 1I have reviewed the financial statements and other financial information included in the financial statements of Menorah Mivtachim Holdings Ltd. (hereunder – “the Corporation”) for the year 2010 (hereunder – “the Reports”);

(2) Based on my knowledge, the financial statements and other financial information included in the reports do not contain any untrue statement of a material fact nor omits to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the covered period.

(3) Based on my understanding, the financial statements and other financial information present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods presented in the Reports.

(4) I disclosed to the Corporation’s accountant, the Board of Directors and the Control Committee of the Corporation’s Board of Directors, based on my most updated evaluation of the internal control over the financial reporting and disclosure:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and to the other financial information included in the Reports, which are reasonably likely to adversely affect the ability of the Corporation to collect, process, summarize or report about financial information in a way that might impose doubts as to the reliability of the financial reporting and the preparation of financial statements pursuant to the Law, and -

(b) Any fraud, whether material or immaterial, that involves the General Manager or anyone directly reporting to him or other employees with a significant position in the internal c ontrol over financial reporting and disclosure;

(5) I, alone or together with others in the Corporation:

(a) Designed controls and procedures, or caused such controls and procedures to be designed under my supervision, to ensure that material information relevant to the Corporation, including its consolidated subsidiaries as per their definition in the Securities Regulations (Preparation of Annual Financial Statements) - 1993, insofar as it relates to the financial statements and to the other financial information included in the Reports, is brought to my attention by others in the Corporation and in the consolidated companies, particularly in the period in which this Report is being prepared; and -

(b) Set forth controls and procedures, or caused such controls and procedures to be designed under my supervision, to reasonably ensure that the financial reporting is reliable and that the Financial Statements are prepared pursuant to the provisions of the Law, including pursuant to the generally accepted accounting principles;

(c) Evaluated the effectiveness of the internal control over the financial reporting and disclosure, insofar as it relates to the financial statements and the other financial information included in the financial statements as at the date of the financial statements; my conclusions in respect of my evaluation as aforementioned were presented to the BoD and Management and are included in this report,

The above does not derogate from my responsibility or the responsibility of any other person, as per any law.

Tel-Aviv, March 30, 2011

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Shai Kompel, Financial Manager

Translated from the Hebrew original

MENORAH MIVTACHIM HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

MENORAH MIVTACHIM HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

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Independent Auditors' Report
to the Shareholders of
Menorah Mivtachim Holdings Ltd.

Review of the components of internal control over financial reporting

Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of MENORAH MIVTACHIM HOLDINGS LTD. and its subsidiaries (hereunder collectively – "the Company") as at December 31, 2010. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of internal control over financial reporting included in the accompanying periodic report for the said date. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were prescribed in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" (hereunder – "Auditing Standard 104"). These components are entity-level controls, including financial statements closing and preparation process controls and information technology general controls (hereunder - "the audited control components"). These components do not include the said components relating to the insurance subsidiary as detailed below.

We conducted our audit in accordance with Auditing Standard 104. The Standard requires that we plan and perform the audit to identify the control components that are auditable in accordance with the provisions of the Regulations and to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the control components that are auditable in accordance with the provisions of the Regulations, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. According to the Regulations, our audit only addressed the audited control components, as opposed to internal control over the corporation's overall significant processes relating to financial reporting. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

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

The provisions of Institutional Entities Circular 2010-9-6 "Management's Responsibility for Internal Control over Financial Reporting" prescribe that the first year that insurance companies should include an Auditor's Opinion will be for the reporting period ending as at December 31, 2011. Accordingly, our abovementioned opinion does not include the evaluation of the effectiveness of the components of internal control over financial reporting in relation to Menorah Mivtachim Insurance Ltd. (hereunder - "Menorah Insurance") which was consolidated in the consolidated financial statements of the Company as of December 31, 2010 and whose assets net of the liabilities attributed to it, totaled NIS 2,048,846 thousand net, as at December 31, 2010, and the profit from this company amounted to NIS 225,402 thousand, for the period beginning as at January 1, 2010 and ended as at December 31, 2010.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting with respect to the audited control components as at December 31, 2010. Our above opinion does not include the valuation of effectiveness of the internal control components over the financial reporting for Menorah Insurance which was consolidated in the Company’s consolidated financial statements as mentioned above.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 and our report dated March 30, 2011 expressed an unqualified opinion of those financial statements. We also drew attention to Note 37(a) to the consolidated financial statements regarding the exposure to class actions and the approval of claims as class actions.

Tel-Aviv,	**KOST FORER GABBAY & KASIERER**
March 30, 2011	A Member of Ernst & Young Global

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AUDITORS' REPORT

To the Shareholders of

MENORAH MIVTACHIM HOLDINGS LTD.

We have audited the accompanying consolidated balance sheets of Menorah Mivtachim Holdings Ltd. and its subsidiaries (hereunder - the Group) as of December 31, 2010 and 2009 and the related consolidated statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years then ended, the last of which has ended as at December 31, 2010. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of yield guaranteeing provident funds, whose assets that are included in the consolidation constitute about 1.43% as at December 31, 2009, , and whose income that is included in consolidation constitutes about 0.47% and about 1.62% of the total consolidated income for the years ended as at December 31, 2009 and 2008, respectively. In addition, we did not audit the financial statements of a certain subsidiaries and a company in a joint venture whose assets that are included in the consolidated financial statements are insignificant to the total consolidated assets as at December 31, 2010 and 2009, and whose income is included in the consolidated financial statements for the years then ended are insignificant. Also, we did not audit the financial statements of companies, accounted for at equity, whose investment (excess of losses over investment) in which amounted to NIS (3,828) thousand and NIS 2,409 thousand as at December 31, 2010 and 2009, respectively, and the Company's share of their earnings (losses) amounted to NIS (3,701) thousand, NIS (5,439) thousand and NIS 14,984 thousand for the years ended December 31, 2010, 2009 and 2008, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies and the yield guaranteeing provident funds, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position as at December 31, 2010and 2009, and the consolidated results of operations, changes in equity and consolidated cash flows for each of the three years then ended the last of which ended as at December 31, 2010., in conformity with International Financial Reporting Standards ("IFRS") and in accordance with the disclosure requirements as prescribed by the Regulator of the Insurance according to the Supervision of Financial Services (Insurance) Law, 1981.

Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010 insofar as these Regulations apply to insurance companies.

Without qualifying our aforementioned opinion, we draw attention to Note 37(a) to the financial statements regarding exposure to class actions and the approval of claims as class actions.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2010, and our report dated March 30, 2011 expressed an unqualified opinion on the effective existence of those components. Our aforementioned opinion does not include the evaluation of the effectiveness of the components of the internal control over financial reporting of Menorah Mivtachim Insurance Ltd. who was consolidated in the Company's consolidated financial statements as at December 31, 2010.

Tel-Aviv,
March 30, 2011

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

		As at December 31		
		2010	2009	
	Note	NIS in thousands		
Intangible assets	5	1,079,071	1,047,593	
Deferred tax assets	21	556	484	
Deferred acquisition costs	6	883,497	812,536	
Fixed assets	7	198,968	184,068	
Investments in affiliates	8	25,221	27,424	*)
Investment property	9	173,409	127,196	
Reinsurance assets	16	1,337,341	1,045,732	
Current tax assets	21	98,769	172,952	
Debtors and receivables	10	108,358	116,270	
Outstanding premiums	11	525,075	527,698	
Financial investments for yield dependent contracts	12	11,805,612	9,941,600	
Other financial investments:	13			
Quoted debt assets		4,455,757	3,762,098	
Unquoted debt assets		9,166,145	8,866,223	
Shares		293,436	264,778	
Others		498,223	367,953	*)
Total other financial investments		14,413,561	13,261,052	
Cash and cash equivalents for yield dependent contracts	14a	67,575	105,295	
Other cash and cash equivalents	14b	435,991	530,440	
Total assets		31,153,004	27,900,340	
Total assets for yield dependent contracts	12	11,974,019	10,169,178	

*) Reclassified – see Note 2(bb).

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CAPITAL AND LIABILITIES

	Note	As at December 31 2010	As at December 31 2009
		NIS in thousands	
CAPITAL	15		
Share capital		99,429	99,429
Share premium		332,985	332,985
Capital reserves		192,506	171,451
Surplus		1,627,719	1,346,103
Total capital attributed to the Company's shareholders		2,252,639	1,949,968
Non-controlling interest		1,093	682
Total capital		2,253,732	1,950,650
LIABILITIES:			
Liabilities in respect of insurance contracts and non-yield dependent investment contracts	16,18,19	13,805,715	12,925,047
Liabilities in respect of insurance contracts and yield dependent investment contracts	17,19	11,908,196	10,238,194
Liabilities in respect of deferred taxes	21	157,870	156,057
Liability in respect of employee benefits, net	22	118,622	103,074
Liabilities in respect of current taxes	21	32,988	18,602
Excess of losses over investments in investees	8	3,974	1,033
Creditors and payables	23	1,151,767	994,309
Financial liabilities	24	1,720,140	1,513,374
Total liabilities		28,899,272	25,949,690
Total capital and liabilities		31,153,004	27,900,340

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

March 30, 2011			
Date of approval of the financial statements	Menahem Gurevitch Chairman of the Board	Ari Kalman General Manager	Shai Kompel Chief Financial Officer

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	Note	Year ended December 31 2010	2009	2008
		NIS in thousands (except for net earnings (loss) per share data)		
Gross premiums earned		4,270,262	4,069,594	3,895,779
Premiums earned by reinsurers		904,818	731,721	603,552
Premiums earned on retention	25	3,365,444	3,337,873	3,292,227
Investment income (loss), net and finance income	26	2,309,812	4,112,369	(1,478,369)
Income from management fees	27	643,793	457,703	398,151
Income from commissions	28	230,131	178,421	135,474
Total income		6,549,180	8,086,366	2,347,483
Payments and change in liabilities in respect of gross insurance contracts and investment contracts		5,165,290	6,460,993	1,665,232
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts		(679,749)	(499,509)	(446,224)
Payments and change in liabilities in respect of insurance contracts and investment contracts on retention	29	4,485,541	5,961,484	1,219,008
Commissions, marketing and other acquisition expenses	30	914,837	868,805	840,779
Administrative and general expenses	31	561,499	488,557	398,300
Depreciation of intangible assets	5	30,835	31,873	61,375
Finance expenses	33	121,874	140,076	143,972
Total expenses		6,114,586	7,490,795	2,663,434
Share in affiliates profits (losses), net	8	121	(1,808)	16,370
Profit (loss) before taxes on income		434,715	593,763	(299,581)
Taxes on income (tax benefit)	21	152,768	190,793	(67,451)
Net income (loss) for the year		281,947	402,970	(232,130)
Attributed to:				
Company's shareholders		281,616	402,798	(231,784)
Non-controlling interest		331	172	(346)
Net income (loss) for the year		281,947	402,970	(232,130)
Earnings per share:				
Net earnings (loss) per share attributed to Company's shareholders (in NIS)	34	4.45	6.37	(3.73)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Net income (loss) for the year	281,947	402,970	(232,130)
Other comprehensive income (loss):			
Adjustment resulting from the translation of the financial statements of activities abroad	(2,032)	594	114
Net change in the fair value of financial assets classified as available for sale allocated to capital reserves	147,405	473,704	(482,097)
Net profits and losses from the realization of financial assets classified as available for sale transferred to the statement of profit and loss	(130,749)	(82,727)	78,262
Loss from impairment of financial assets classified as available for sale transferred to the statement of profit and loss	11,922	21,770	139,866
Tax benefit (taxes on income) relating to components of other comprehensive income (loss)	(7,437)	(143,764)	93,028
Other comprehensive income (loss) for the year, net	19,109	269,577	(170,827)
Total comprehensive income (loss)	301,056	672,547	(402,957)
Attributed to:			
Company shareholders	300,725	672,375	(400,546)
Non-controlling interest	331	172	(2,411)
	301,056	672,547	(402,957)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve for share based payment transaction	Capital reserve in respect of available for-sale assets	Adjustments resulting from the translation of financial statements of activities abroad	Other capital reserves	Retained earnings	Total	Minority interest	Total equity
	NIS in thousands									
Balance as at January 1, 2010	99,429	332,985	35,812	121,090	856	13,693	1,346,103	1,949,968	682	1,950,650
Net profit	-	-	-	-	-	-	281,616	281,616	331	281,947
Adjustments resulting from the translation of financial statements of activities abroad	-	-	-	-	(2,032)	-	-	(2,032)	-	(2,032)
Net change in the fair value of financial assets classified as available for sale allocated to capital reserves	-	-	-	147,405	-	-	-	147,405	-	147,405
Net profits and losses from the realization of financial assets classified as available for sale transferred to the statement of profit and loss	-	-	-	(130,749)	-	-	-	(130,749)	-	(130,749)
Loss from impairment of financial assets classified as available for sale transferred to the statement of profit and loss	-	-	-	11,922	-	-	-	11,922	-	11,922
Tax benefit (taxes on income) relating to components of other comprehensive income	-	-	-	(8,041)	604	-	-	(7,437)	-	(7,437)
Total other comprehensive income (loss)	-	-	-	20,537	(1,428)	-	-	19,109	-	19,109
Total comprehensive income (loss)	-	-	-	20,537	(1,428)	-	281,616	300,725	331	301,056
Issue of shares to non controlling interest	-	-	-	-	-	-	-	-	80	80
Cost of share based payment	-	-	1,946	-	-	-	-	1,946	-	1,946
Balance as at December 31, 2010	99,429	332,985	37,758	141,627	(572)	13,693	1,627,719	2,252,639	1,093	2,253,732

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve for share based payment transaction	Capital reserve in respect of available for-sale assets	Adjustments resulting from the translation of financial statements of activities abroad	Other capital reserves	Retained earnings	Total	Minority interest	Total equity
	NIS in thousands									
Balance as at January 1, 2009	99,429	332,985	29,724	(147,893)	262	13,693	943,305	1,271,505	510	1,272,015
Net profit	-	-	-	-	-	-	402,798	402,798	172	402,970
Adjustments resulting from the translation of financial statements of activities abroad	-	-	-	-	594	-	-	594	-	594
Net change in the fair value of financial assets classified as available for sale allocated to capital reserves	-	-	-	473,704	-	-	-	473,704	-	473,704
Net profits and losses from the realization of financial assets classified as available for sale transferred to the statement of profit and loss	-	-	-	(82,727)	-	-	-	(82,727)	-	(82,727)
Loss from impairment of financial assets classified as available for sale transferred to the statement of profit and loss	-	-	-	21,770	-	-	-	21,770	-	21,770
Taxes on income relating to components of other comprehensive income	-	-	-	(143,764)	-	-	-	(143,764)	-	(143,764)
Total other comprehensive income	-	-	-	268,983	594	-	-	269,577	-	269,577
Total comprehensive income	-	-	-	268,983	594	-	402,798	672,375	172	672,547
Cost of share based payment	-	-	6,088	-	-	-	-	6,088	-	6,088
Balance as at December 31, 2009	99,429	332,985	35,812	121,090	856	13,693	1,346,103	1,949,968	682	1,950,650

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve for share based payment transaction	Capital reserve in respect of available for-sale assets	Adjustments resulting from the translation of financial statements of activities abroad	Other capital reserves	Retained earnings	Total	Minority interest	Total equity
	NIS in thousands									
Balance as at January 1, 2008	97,732	292,474	29,167	20,983	148	13,693	1,175,089	1,629,286	42,203	1,671,489
Loss	-	-	-	-	-	-	(231,784)	(231,784)	(346)	(232,130)
Adjustments resulting from the translation of financial statements of activities abroad	-	-	-	-	114	-	-	114	-	114
Net change in the fair value of financial assets classified as available for sale allocated to capital reserves	-	-	-	(476,983)	-	-	-	(476,983)	(5,114)	(482,097)
Net profits and losses from the realization of financial assets classified as available for sale transferred to the statement of profit and loss	-	-	-	78,508	-	-	-	78,508	(246)	78,262
Loss from impairment of financial assets classified as available for sale transferred to the statement of profit and loss	-	-	-	137,428	-	-	-	137,428	2,438	139,866
Tax benefit relating to components of other comprehensive income	-	-	-	92,171	-	-	-	92,171	857	93,028
Total other comprehensive income (loss)	-	-	-	(168,876)	114	-	-	(168,762)	(2,065)	(170,827)
Total comprehensive income (loss)	-	-	-	(168,876)	114	-	(231,784)	(400,546)	(2,411)	(402,957)
Issue of shares – see Note 15(f)(2)	1,697	40,511	-	-	-	-	-	42,208	-	42,208
Acquisition of non-controlling interest – see Note 15(f)(2)	-	-	-	-	-	-	-	-	(39,841)	(39,841)
Issue of capital to non-controlling shareholders'	-	-	-	-	-	-	-	-	480	480
Cost of share based payment	-	-	557	-	-	-	-	557	79	636
Balance as at December 31, 2008	99,429	332,985	29,724	(147,893)	262	13,693	943,305	1,271,505	510	1,272,015

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31		
		2010	2009	2008
	Schedule	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES	(a)	8,335	(114,946) *)	364,850
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment in affiliates		-	-	(6)
Cash derecognized due to acquisition of subsidiaries consolidated for the first time	(d)	-	-	(21,910)
Cash added due to the acquisition of yield guarantying provident fund tracks consolidated for the first time	(e)	-	-	48,855
Investment in fixed assets		(51,474)	(24,983)	(36,768)
Investment in intangible assets		(115,660)	(62,935)	(62,779)
Investment (realization of investment) in financial investments by the Group companies which are not insurance companies, net		(87,417)	13,876	(72,687)
Grant of loans to investees		(61,647)	(21,738) *)	(60,993)
Dividend received from investee		2,412	-	14,824
Proceeds from sale of fixed assets		5,033	2,753	1,909
Proceeds from realization of intangible assets		-	-	4,773
Net cash used in investment activities		(308,753)	(93,027)	(184,782)
CASH FLOWS FROM FINANCE ACTIVITIES				
Receipt of financial liabilities		254,782	-	255,692
Settlement of financial liabilities		(84,994)	(155,621)	(91,696)
Issue of capital to non-controlling interest shareholders		80	-	-
Net cash provided by (used in) finance activities		169,868	(155,621)	163,996
Effect of exchange rate fluctuations on the balances of cash and cash equivalents		(1,619)	2,344	7,328
Increase (decrease) in cash and cash equivalents		(132,169)	(361,250)	351,392
Balance of cash and cash equivalents as at the beginning of the year	(b)	635,735	996,985	645,593
Balance of cash and cash equivalents as at the end of the year	(c)	503,566	635,735	996,985

*) Reclassified – see Note 2(bb)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
(a) CASH FLOWS FROM CURRENT ACTIVITIES			
Net income (loss) for the year	281,947	402,970	(232,130)
Adjustments to the profit and loss items:			
Company's share in affiliates' losses (profits), net	(121)	1,808	(16,370)
Net losses (profits) from financial investments for yield dependent insurance contracts and investment contracts	(1,185,969)	(2,941,116)	2,196,221
Net losses (profits) from other financial investments:			
Quoted debt assets	(346,031)	(322,207)	316,258
Unquoted debt assets	(622,471)	(695,222)	(888,540)
Shares	(43,228)	(56,127)	105,387
Others	(47,446)	(55,743)	(30,522)
	(1,059,176)	(1,129,299)	(497,417)
Finance expenses in respect of financial liabilities	107,128	126,653	158,136
Loss (profit) from realization of:			
Fixed assets	(427)	(195)	74
Intangible assets	-	-	79
Increase in investment property value	(20,548)	(16,091)	(5,969)
Impairment in value of intangible assets	-	-	32,409
Depreciation and amortization of:			
Fixed assets	28,848	27,458	27,245
Intangible assets	84,182	70,227	62,034
C/forward	(2,046,083)	(3,860,555)	1,956,442

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
B/forward	(2,046,083)	(3,860,555)	1,956,442
(a) CASH FLOWS FROM CURRENT ACTIVITIES (Cont.)			
Change in liabilities in respect of yield dependent insurance contracts and investment contracts	1,670,002	3,130,668	(1,525,475)
Change in liabilities in respect of non-yield dependent insurance contracts and investment contracts	880,668	900,009	647,086
Share based payment transactions	1,926	2,630	3,473
Change in reinsurance assets	(291,609)	(218,979)	(57,088)
Change in deferred acquisition costs	(70,961)	(10,713)	(21,490)
Taxes on income (tax benefit)	152,768	190,793	(67,451)
Changes in other balance sheet items:			
Financial investments for yield dependent insurance contracts and investment contracts:			
Net acquisitions of financial investments	(1,145,082)	(325,621)	(821,676)
Financial investments and other investment property:			
Acquisition of investment property	(22,545)	(3,845)	(597)
Net acquisitions of financial investments	(577,964)	(1,339,798)	(237,497)
Outstanding premiums	2,623	12,489	(21,085)
Debtors and receivables	4,498	(17,338)	(17,171)
Creditors and payables	167,011	140,144	41,906
Liabilities due to employee benefits, net	15,548	16,463	12,934
Total adjustments required to present cash flows from current activities	(1,259,200)	(1,383,653)	(107,689)
Cash paid and received during the year for:			
Interest paid	(79,974)	(84,761)	(115,042)
Interest received	1,011,562	964,144	826,862
Taxes paid	(140,980)	(177,850)	(130,562)
Taxes received	67,010	65,242	5,806
Dividend received	127,970	98,962	117,605
	985,588	865,737	704,669
Total cash flows from current activities	8,335	(114,946)	364,850

*) Reclassified – see Note 2(bb).

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
(b) CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE YEAR			
Cash and cash equivalents for yield dependent contracts	105,295	425,016	321,259
Other cash and cash equivalents	530,440	571,969	324,334
Balance of cash and cash equivalents as at the beginning of the year	635,735	996,985	645,593
(c) CASH AND CASH EQUIVALENTS AS AT THE END OF THE YEAR			
Cash and cash equivalents for yield dependent contracts	67,575	105,295	425,016
Other cash and cash equivalents	435,991	530,440	571,969
Balance of cash and cash equivalents as at the end of the year	503,566	635,735	996,985
(d) CASH DERECOGNIZED DUE TO THE ACQUISITION OF AN INITIALLY CONSOLIDATED SUBSIDIARIES			
Intangible assets	-	-	(24,932)
Creditors and payables	-	-	1,699
Debtors and receivables	-	-	(28)
Non-controlling interest	-	-	480
Excess of cost of acquisition over equity	-	-	871
	-	-	(21,910)
(e) CASH ADDED DUE TO THE ACQUISITION OF YIELD GUARANTEEING PROVIDENT FUNDS CONSOLIDATED FOR THE FIRST TIME			
Goodwill created upon acquisition	-	-	209
Intangible assets	-	-	(33,209)
Debtors and receivables	-	-	(269)
Quoted debt assets	-	-	(110,175)
Unquoted debt assets	-	-	(3,631,385)
Creditors and payables	-	-	20,999
Liabilities in respect of non-yield dependent investment contracts	-	-	3,802,685
	-	-	48,855
(f) SIGNIFICANT NON-CASH ACTIVITIES			
Exchange of quoted debt assets into shares in the framework of settlement of debts	28,812	-	-
Acquisition of non-controlling interest share in return for share issue	-	-	39,841

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

NOTE 1:- GENERAL

a. General description of the Group and its activities

Menorah Mivtachim Holdings Ltd. (hereunder - the Company) is a publicly held company whose shares are listed for trade on the Tel Aviv Jaffa Stock Exchange. The Company's principal shareholders are Najaden Establishment and Palamas Establishment (foreign corporations) held in trust for Mr. Menahem Gurevitch, and hold about 61.86% of the Company shares. The Company operates through companies under its control, in all the principal insurance branches, including life assurance and long term savings (life assurance, health insurance, pension and provident) and general insurance. In addition, the Company deals, through companies it controls, in the capital market and finance field, including management of mutual funds, management of investment portfolios and underwriting. The Company also has investments in real estate abroad through a company under its control.

The Company is domiciled in Israel, was incorporated in Israel and its formal address is on 115 Allenby St., Tel-Aviv-Jaffa.

b. Business combinations

1) In March 2008, the subsidiary – Menorah Mivtachim Provident Ltd. (hereunder – Mivtachim Provident) acquired the entire rights and liabilities of the provident fund "Yeter" Credit Union Provident Fund.

2) In September 2008, the subsidiary – Menorah Mivtachim Finance Ltd. (hereunder – Menorah Finance) acquired 60% of the voting rights of Menorah Mivtachim and the Association of Engineers Provident Fund Management Company Ltd. (hereunder – Menorah Engineers), which is a company that manages an educational fund.

c. Definitions

In these financial statements:

The Company	-	Menorah Mivtachim Holdings Ltd.
The Group	-	the Company and its investees
Subsidiaries	-	companies that are controlled by the Company (as defined in IAS 27 (2008)) and whose accounts are consolidated with those of the Company.
Company under joint control	-	company held by the Company and an additional entity, that have a contractual agreement for joint control and their financial statements are proportionally consolidated with the consolidated financial statements.
Affiliates	-	companies in which the Company has a significant influence and they are not subsidiaries and the Company's investment in them is included in the Company's consolidated financial statements on an equity value basis.
Investees	-	subsidiaries, jointly controlled subsidiary and affiliates

NOTE 1:- GENERAL (Cont.)

c. Definitions (Cont.)

In these financial statements: (Cont.)

Related parties	-	as defined in IAS 24.
Interested parties and controlling shareholder	-	as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
The Regulator	-	The Regulator of the Insurance.
The Supervision Law	-	The Supervision of Financial Services (Insurance) Law, 1981.
Capital Regulations	-	Supervision of Insurance Business (Minimum Solvency Margin Required from an Insurer-) Regulations, 1998, as amended.
Ways of Investment Regulations	-	Supervision of Insurance Business (Ways of Investment of Capital and Reserves of an Insurer and Management of Its Liabilities), Regulations, 2001, as amended.
Details of Account Regulations	-	Supervision of Insurance Business Regulations (Details of Accounts) 1998, as amended.
Insurance contracts	-	Contracts in which one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by consenting to compensate or indemnify the policyholder if a pre-defined uncertain future event (the insurance case) adversely affects the policyholder.
Investment contracts	-	Policies which are not insurance contracts including deposits in yield guaranteeing provident funds.
Yield dependent contracts	-	Insurance contracts and investment contracts in life assurance and long-term savings in respect of which the liabilities are linked to the return on the investment portfolio (investment profit sharing policies), or derived from such contracts.
Assets for yield dependent contracts	-	The total assets outstanding against liabilities arising from yield dependent contracts.
Liabilities in respect of insurance contracts	-	Insurance reserves and outstanding claims in life assurance and long-term savings and in general insurance.
Reinsurance assets	-	the reinsurers share in the insurance reserves and in outstanding claims.

NOTE 1:- GENERAL (Cont.)

c. Definitions (Cont.)

In these financial statements: (Cont.)

Premiums	-	Premiums including fees.
Earned premiums	-	Premiums relating to the reported period.
Israeli CPI	-	The Consumer Price Index published by the Central Bureau of Statistics in Israel.
Dollar	-	U.S. Dollar

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements

1. Measurement basis

The consolidated financial statements have been prepared on a cost basis, except for investment property, liabilities in respect of share based payment, derivative financial instruments, financial instruments at fair value through profit and loss and financial instruments classified as available for sale, which are measured in accordance with the fair value and excluding deferred tax assets, liabilities in respect of deferred taxes, liabilities for employee benefits and investments which are measured according to the equity value method.

The value of non-monetary assets and equity items created until December 31, 2003 was adjusted for the changes in the Israeli CPI until that date since the Israeli economy was considered until that time as a hyperinflationary economy.

2. Basis of preparation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

a. International Financial Reporting Standards (IFRS).
b. International Accounting Standards (IAS).
c. Interpretations issued by the IFRIC and by the SIC.

Furthermore, the financial statements have been prepared in conformity with the directives of the Securities Regulations (Annual Financial Statements), 2010, as well as disclosure requirements as prescribed by the Supervision Law, the regulations enacted hereunder and the Regulator's directives.

3. Consistent accounting policies and initial adoption of IFRS

The accounting policies adopted in the financial statements are consistent with those of all periods presented.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of presentation of the financial statements (Cont.)

4. Consistent accounting policies and initial adoption of IFRS

The accounting policies adopted in the financial statements are consistent with those of all periods presented.

5. Changes in accounting policies in view of the adoption of new standards

IFRS 3 - Business Combinations and IAS 27 (Revised) - Consolidated and Separate Financial Statements

According to the new Standards:

- The definition of a business was broadened so that it contains also activities and assets that are not managed as a business as long as the seller is capable of operating them as a business.

- For each business combination, an acquirer can choose to measure non-controlling interests, and consequently the goodwill, either at full fair value or at the proportionate share of the fair value of the net identifiable assets, net, on the acquisition date.

- Contingent consideration in a business combination is measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to provisional amounts in the measurement period, are not recognized as goodwill adjustments. If the contingent consideration is classified as a financial derivative within the scope of IAS 39, it will be measured at fair value and the changes in fair value will be recognized in profit or loss.

- Direct acquisition costs attributed to a business combination are recognized in profit or loss as incurred rather than as part of the acquisition cost.

- Subsequent recognition of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date is recorded in profit or loss and not as an adjustment to goodwill.

- A subsidiary's losses, even if resulting in a capital deficiency in the subsidiary, will be allocated between the parent company and non-controlling interests, even if the non-controlling interests have not guaranteed or have no contractual obligation for supporting the subsidiary or for investing further amounts.

- A transaction, whether sale or purchase, with non-controlling interests, is accounted for as an equity transaction. Accordingly, the acquisition of non-controlling interests by the Group is recognized as an increase or decrease in equity (capital reserve for transactions with non-controlling interests/retained earnings) and is calculated as the difference between the consideration paid by the Group and the proportionate amount of the non-controlling interests acquired and derecognized on the acquisition date. Upon the disposal of an interest in a subsidiary that does not result in a loss of control, an increase or decrease is recognized in equity (capital reserve for transactions with non-controlling interests/retained earnings) for the amount of the difference between the consideration received by the Group and the balance in the financial statements of the non-controlling interests in the subsidiary which has been added to the Company's equity (as for non-controlling interests share of other comprehensive income, the Company re-attributes the cumulative amounts recognized in other comprehensive income between the owners of the Company and the non-controlling interests).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of presentation of the financial statements (Cont.)

4. Changes in accounting policies in view of the adoption of new standards (Cont.)

IFRS 3 - Business Combinations and IAS 27 (Revised) - Consolidated and Separate Financial Statements (Cont.)

- Identifiable assets and liabilities on the acquisition date are classified and designated on the basis of the contractual terms, economic conditions and other pertinent conditions as they exist at the acquisition date, except for classifications of leases and insurance contracts.

- In a business combination achieved in stages, the acquirer re-measures its previously held equity interest in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss, if any, including reclassification of amounts included in other comprehensive income. Upon the loss of control of a subsidiary, any retained interest is revalued to fair value with the resulting difference included in the gain or loss from the sale and this fair value represents the cost basis for the purpose of subsequent accounting.

- Cash flows from transactions with non-controlling interests (with no change in control status) are classified in the statement of cash flows as financing activities (and are no longer classified under cash flows as investing activities).

The Standards are adopted prospectively from January 1, 2010. The initial application of the Standards have no significant affect on financial statements.

IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations

a) According to the amendment to IFRS 5, when the parent company decides to sell part of its interest in a subsidiary so that after the sale the parent company retains a non-controlling interest, such as rights conferring significant influence, all the assets and liabilities attributed to the subsidiary are classified as held for sale and the relevant provisions of IFRS 5 are applicable, including presentation as discontinued operations.

b) Another amendment specifies the disclosures required in respect of non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. Pursuant to the amendment, only the disclosures required in IFRS 5 are provided. Disclosures in other IFRSs apply to such assets only if they require specific disclosures in respect of those non-current assets or disposal groups.

The amendments are adopted prospectively from January 1, 2010. The initial application of the Standards have no significant affect on financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of presentation of the financial statements (Cont.)

4. Changes in accounting policies in view of the adoption of new standards (Cont.)

IAS 7 - Statement of Cash Flows

According to the amendment to IAS 7, only cash flows that are recognized as an asset may be classified as cash flows from investing activities. The amendment was applied retrospectively commencing from January 1, 2010. The initial application of the amendment has no significant affect on financial statements.

IAS 17 - Leases

Pursuant to the amendment to IAS 17, the specific criterion for classification of land as an operating or a finance lease was removed. Consequently, there is no longer a requirement to classify a lease of land as an operating lease in all situations in which title does not pass at the end of the lease, but rather the classification of a lease of land should be evaluated by reference to the general guidance in IAS 17, which addresses the classification of a lease as finance or operating, as of the date the original agreement with the Israel Lands Administration (the Administration) was signed taking into account that land normally has an indefinite economic life. Accordingly, a lease of land from the Administration should be evaluated by comparing the present value of the amount reported as prepaid operating lease expense and the fair value of the land and if the said amount substantially reflects the fair value, the lease should be classified as a finance lease.

The amendment is adopted commencing from January 1, 2010. The initial application of the amendment has no significant affect on financial statements, since the group classified the rights in the land at an operating lease from the Administration as investment property.

IAS 36 - Impairment of Assets

The amendment to IAS 36 clarifies the required accounting unit to which goodwill will be allocated for the purpose of testing the impairment of goodwill. According to the amendment, the highest possible level for allocating goodwill recognized in a business combination is an operating segment as defined in IFRS 8, Segments of Activity, before aggregation for reporting purposes.

The amendment has been applied prospectively commencing from January 1, 2010. The initial application of the amendment has no significant affect on financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Basis of presentation of the financial statements (Cont.)

4. Changes in accounting policies in view of the adoption of new standards (Cont.)

IAS 39 - Financial Instruments: Recognition and Measurement

In accordance with the amendment to IAS 39, only forward contracts signed between a buyer and a seller regarding the sale or purchase of a controlled entity in the context of a future business combination are not within the scope of IAS 39 provided the forward contract period does not exceed the normal period required for obtaining any required approvals to complete the transaction. The amendment has been applied prospectively starting from January 1, 2010 to all unexpired contracts. The initial application of the amendment has no significant affect on financial statements.

IFRIC 17 - Distributions of Non-cash Assets to Owners

IFRIC 17 (hereunder - the Interpretation) provides guidance on the accounting treatment of the distribution of non-cash assets to owners.

According to the Interpretation, the liability for dividend distribution is recognized when it is appropriately authorized by the entity. The liability is measured at the fair value of the asset to be distributed and charged directly to equity under retained earnings. At the each reporting period, until the derecognition of the asset, the liability is re-measured at the fair value of the asset and the changes in fair value are recognized in retained earnings. At the date of derecognition of the asset, a gain or loss is recognized in profit or loss for the difference between the amount of the liability and the balance of the asset in the financial statements as of the date of derecognition. Furthermore, the scope of IFRS 5 was expanded to include non-cash asset distributions to owners.

The Interpretation has been applied prospectively starting from January 1, 2010. The initial application of the Interpretation has no significant affect on financial statements.

Early adoption of Amendment to IAS 1

The Group has adopted the amendment to IAS 1 commencing from these financial statements. According to the amendment, the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. The Group has elected to present the said changes in the framework of the statement of changes in shareholders' equity. The amendment has been applied retrospectively to comparative data.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

1. Classification of insurance contracts and investment contracts

Insurance contracts are contracts in which the insurer assumes a significant insurance risk from another party. Management is examining for each contract with a policyholder or with a group of policyholders with a joint disposition, whether they involve taking a significant insurance risk in order to be classified as an insurance contract.

2. Classification and designation of financial investments

The Group has made the following judgments in classifying and designating the financial investments into the following groups:

- financial assets at fair value through profit or loss.
- held-to-maturity investments.
- loans and receivables.
- available-for-sale financial assets.

See also g below.

3. Classification and designation of financial liabilities

The Group's has exercised judgments in classifying and designating the financial liabilities according to the amortized cost method, see g(6) below.

Estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the adoption of the accounting policy and the reported amounts of assets, liabilities, income and expenses. The basis of the estimates and assumptions is reviewed regularly. The changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group to which a material adjustment will change the carrying amounts of assets and liabilities in the consolidated financial statements for the next reporting year are discussed below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (Cont.)

Estimates and assumptions (Cont.)

1. Impairment of goodwill

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the expected future cash flows from the continuing use of the cash-generating unit and also to choose a suitable discount rate for those cash flows. See additional information is provided in Note 5(b) below.

2. Determination of fair value of unquoted financial instruments

The fair value of unquoted debentures, loans and deposits is calculated according to the discounted cash flow model and interest discount rates are determined by a company that provides interest quotes with respect to the various risk ratings. There is uncertainty involving the estimated future cash flows and discount rate. See additional information in paragraph g below.

The fair value of investment funds is determined based on Net Asset Value (N.A.V.) based on the financial statements of the funds. The fair of unquoted shares is determined according to the valuation of an expert.

3. Impairment of financial investments

If there is objective evidence of an impairment loss in respect of loans and receivables presented at amortized cost or of available-for-sale financial assets, the loss is carried to the statement of profit and loss, see n(1) below.

The Group's management should determine if there is such objective evidence.

4. The fair value of investment property

Investment property is presented at fair value at the reporting date. Changes in fair value of investment property are recognized in the statement of profit and loss. Fair value is determined by independent valuation specialists based on economic valuations that involve valuation techniques and assumptions as to estimates of expected future cash flows from the property and estimate of the suitable discount rate for these cash flows. Fair value is sometimes measured with reference to recent real estate transactions with similar characteristics and location to the valued asset. Further details are given in i below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (Cont.)

Estimates and assumptions (Cont.)

5. Establishing the recoverability of deferred acquisition costs

Acquisition costs of life assurance, health insurance and pension policies are deferred and amortized over the policy period, but not more than 15 years in life assurance and pension and 6 years in health insurance. The recoverability of the deferred acquisition costs is tested annually using assumptions regarding cancelation, mortality and morbidity rates as well as other variables as stated in f(1)(e) below. If these assumptions are not realized, there may be a need to accelerate the amortization process or even eliminate the deferred acquisition costs.

6. Liabilities in respect of insurance contracts

Liabilities in respect of insurance contracts are based on actuarial valuation techniques and assumptions as detailed in Note 35(4)(b) below, regarding life assurance and health insurance and in Note 35(4)(c) below, regarding general insurance.

The different actuarial valuations and assumptions are made based on past experience and mostly rely on the fact that the pattern of past behavior and claims represents the future. The variation of risk factors, the incidence of events or their severity and changes in the legal status may all have a material effect on the amount of the liability in respect of insurance contracts. As for the sensitivity analyses of insurance risks in life and health insurances, see Note 35(4)(b)(5) below.

7. Legal claims

The Group is facing various pending legal claims, class actions and motions for approval of class actions. In estimating the chances of the legal claims filed against the Group, the Group relied on the opinion of its legal counsel. The estimates are based on their best professional judgment, taking into account the stage of proceedings and historical legal experience in the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates. See more information in Note 37(a) below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (Cont.)

Estimates and assumptions (Cont.)

8. Pensions and other post-employment benefits

The liability in respect of defined benefit plans after the completion of employment is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in paragraph p and Note 22 below.

9. Deferred tax assets

Deferred tax assets are recognized for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. Further information is provided in paragraph u and Note 21 below.

10. Determination of the fair value of share based payment transactions

The fair value of share-based payment transactions is determined using an option-pricing model. The model's assumptions consist of the share price, realization price, expected fluctuations, anticipated life expectancy, expected dividend and risk-free interest rate.

c. Functional and foreign currencies

1. Functional and presentation currencies

The financial statements are presented in New Israeli Shekels ("NIS"), which is the Group’s functional currency.

The functional currency is the currency that best reflects the economic environment in which the Group operates and conducts its transactions. The functional currency is determined for each Group company separately, including affiliates that are reported according to the equity value method and this currency is used to measure its financial position and operating results.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Functional and foreign currencies (Cont.)

1. Functional and presentation currencies (Cont.)

When a Group entity's functional currency differs from the Company's functional currency, that entity represents a foreign operation whose financial statements are translated so that they can be included in the consolidated financial statements as follows:

a) Assets and liabilities for each reported date (including comparative figures) are translated at the closing rate on the relevant reporting date.

b) Income and expenses for each period reported in the statement of profit and loss (including comparative figures) are translated at average exchange rates for the presented periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates on the date of the transactions.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing on the date of incurrence.

d) Retained earnings (loss) are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions (such as dividends) during the period are translated as described in b) and c) above.

e) All resulting translation differences are recognized as other comprehensive income (loss) under a separate component of capital reserve in equity "adjustments due to currency translations of financial statements of foreign activities".

Upon the full or partial realization of a foreign operation, the relevant portion of other comprehensive income (loss) is recognized in profit or loss. Commencing from January 1, 2010, upon the realization of part of a foreign activity, which is a subsidiary, while losing control, the cumulative gain (loss) recognized in the other comprehensive income is transferred to the statement of profit or loss, whereas upon the realization of part of a foreign activity, which is a subsidiary, while maintaining control in the subsidiary, a proportionate part of the accumulated amount that was recognized in the other comprehensive income, is re-attributed to non-controlling interests.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Functional and foreign currencies (Cont.)

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reported date into the functional currency at the exchange rate at that date. Exchange rate differences are carried to the income statement, except exchange differences in respect of available-for-sale financial assets that are not debt instruments, which are carried to a capital reserve until their realization.

All types of reinsurance transactions are translated from the functional currency in accordance with the agreements signed with reinsurers'.

3. Index-linked monetary items

Monetary assets and liabilities linked to the changes in the Israeli CPI are adjusted at the relevant index at each reporting date according to the terms of the agreement. Linkage differences arising from the adjustment, as above, are recognized in the statement of profit and loss.

d. Current reporting format

The consolidated statements of the financial position, which mainly comprise the assets and liabilities of an insurance subsidiary, were presented at the order of liquidity with no distinction between current and non-current. This presentation, which provides a more reliable and relevant information, is in accordance with IAS 1, "Presentation of Financial Statements".

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Consolidated financial statements

Due to the first-time adoption of IFRS 3 (Revised) and IAS 27 (Revised), the Group has changed its accounting policy for business combinations and transactions with non-controlling interests. For more information, see paragraph a(4) above.

The consolidated financial statements include the accounts of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity under control. The effects of potential voting rights that are exercisable at the reported sheet date are considered when assessing whether an entity has control.

When examining control, the risks that the Group companies bear, by guaranteeing the yields of the members rights in provident funds, were also taken into account.

The consolidation of the financial statements commences on the date on which control is obtained until the date that such control ceases.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Minority interests represent the minority shareholders' proportionate interest in the comprehensive income or losses of the subsidiaries. Minority interests are reported in the framework of the Company’s shareholders’ equity, in a separate amount.

Commencing from January 1, 2010, the acquisition of non-controlling interests by the Group is recorded against an increase in equity and calculated as the difference between the consideration paid by the Group and the proportionate amount of non-controlling interests acquired and derecognized at the date of acquisition (when non-controlling interests also include a share of other comprehensive income, the Company re-attributes the cumulative amounts recognized in other comprehensive income between the owners of the Company and the non-controlling interests). When this difference is negative, a decrease in equity is recognized for the amount of this difference. Upon the realization of a subsidiary that does not result in a loss of control, an increase or a decrease in equity is recognized for the amount of the difference between the consideration received by the Group and the carrying amount of the non-controlling interests in the subsidiary, which has been added to the Company's equity, taking into account also the realization of goodwill in respect of the subsidiary, if any, and any translation differences from foreign operations which have been recognized in other comprehensive income, based on the relative decrease in the holding in the subsidiary.

Up to December 31, 2009, the acquisition of the non-controlling interests by the Group is recorded against goodwill that is calculated as a difference between the proceeds paid and the amount of the acquired portion of the non-controlling interests that was derecognized at the time of acquisition. When this difference is negative, the profit that was recognized is in the amount of this difference.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Consolidated financial statements (Cont.)

Commencing from January 1, 2010, losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position. Up to December 31, 2009, such losses were entirely attributed to the shareholders of the Company unless the holders of non-controlling interests were obligated and able to make additional investments.

The consolidated financial statements comprise the financial statements of a jointly controlled company, where the shareholders have a contractual arrangement that establishes joint control and which is consolidated with the Company's financial statements using the proportionate consolidation method. The Company combines in its consolidated financial statements its share of the assets, liabilities, income and expenses of the jointly controlled entity with similar items in its financial statements. Significant intragroup balances and transactions and gains or losses resulting from transactions between the Group and the jointly controlled entity are eliminated to the extent of the holding in the jointly controlled entity.

In 2007, Menorah Insurance established Menorah Mivtachim Capital Raising Ltd. ("Menorah Capital Raising"), a special purpose entity ("SPE") for purposes of raising resources in Israel for Menorah Insurance through public and private offerings of debentures and liability certificates. Menorah Insurance also guaranteed the debts of Menorah Capital Raising and all of funds raised by Menorah Capital Raising are transferred to Menorah Insurance. Pursuant to IFRS, the SPE's financial statements are consolidated when the substance of the relationship between the Group and the SPE and the risks and benefits from the SPE indicate that the SPE is controlled by the Group. The SPE controlled by the Group was created with arrangements that impose limits on the decision making powers of the SPE management and the Group has the right to obtain all the benefits of the activities and net assets of the SPE.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The accounting policy in the financial statements of the subsidiaries was applied consistently and uniformly with the policy applied in the financial statements of the Company.

f. Insurance contracts and asset management contracts

IFRS 4 which deals with insurance contracts allows the insurer to continue with the accounting policies that were utilized before the transition date to IFRS regarding insurance contracts that were issued (including related acquisition costs and related intangible assets) as well as reinsurance contracts acquired. Below is a summary of the accounting principles relating to insurance contracts:

1. Life assurance and long-term savings

a) Revenue recognition - see paragraph s below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Insurance contracts and asset management contracts (Cont.)

1. Life assurance and long-term savings (Cont.)

b) Liabilities in respect of life assurance business

Liabilities in respect of life assurance business are computed according to the Regulator's directives (regulations and circulars), accounting principles and generally accepted actuarial methods. The liabilities are computed according to the relevant coverage data, such as: the age of the policyholder, number of years of coverage, type of insurance, amount of insurance, etc.

Liabilities in respect of health insurance contracts included in the life assurance and long-term savings segment include, if necessary, a provision for covering future expected losses calculated based on an actuarial valuation (premium deficiency).

Liabilities in respect of life assurance contracts and health insurance are determined on the basis of actuarial assessments, carried out by Menorah Insurance's Life Assurance and health insurance appointed actuary (Dr. Avraham Lowenglik F.IL.AA, who is an officer in Menorah Insurance) (the actuary appointed last year in life assurance - Ms. Regina Chaikin F.IL.AA). The reinsurers' share in liabilities for life assurance and health insurance contracts is determined according to the conditions of the relevant contracts.

c) Liabilities in respect of life assurance business linked to the index and the investments linked to the index that are utilized to cover these liabilities are included in the financial statements according to the latest published index prior to the reporting date, including liabilities in respect of life assurance contracts regarding policies that, according to their terms, are semi-annually linked.

d) The Regulator's directives regarding liabilities for payment of annuities

In circulars published by the Regulator regarding the calculation of liabilities for payment of annuities in life assurance policies, he determined updated directives for the calculation of the provisions as a result of the rate of increase in life expectancy. The instructions require monitoring the sufficiency of the reserves with respect to insurance policies which allow receipt of an annuity and their supplementation in an appropriate manner.

Accordingly, Menorah Insurance made an immediate supplementation of liabilities, when necessary, with respect to policies in which an annuity is being paid, when the policyholder has reached retirement age or when a group of policies is not profitable. With respect to other policies, which are expected to be profitable, there is a supplementation of the liabilities over the policy's term, parallel to the anticipated income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Insurance contracts and asset management contracts (Cont.)

1. Life assurance and long-term savings (Cont.)

e) Deferred acquisition costs

(1) Deferred acquisition costs of life assurance policies (hereunder - the DAC) sold from January 1, 1999 include commissions for agents and acquisition supervisors as well as administrative and general expenses relating to the acquisition of new policies. The DAC is amortized in equal annual rates over the policy's term, but not over more than 15 years. The DAC in respect of canceled policies are written-off at the time of cancelation.

Deferred acquisition costs in life assurance in respect of policies that were issued up to December 31, 1998 are computed by the appointed actuary based on the "Zillmer deduction" method, format a certain percentage of the premium or of the amount at risk according to the various insurance programs. The Zillmer deduction was used in "Adif" type policies at 10% per annum and in "traditional" policies over the policy period.

Deferred acquisition costs in health insurance include commissions to agents and acquisition supervisors and general and administrative expenses in connection with the issuance of new policies. The DAC in health insurance is calculated on policies sold starting from 2005 and is amortized in equal annual rates over the policy period but not longer than six years. In canceled policies, the DAC is eliminated with the cancelation.

Deferred acquisition costs in respect of asset management contracts (pension funds) include commissions to agents and acquisition supervisors in connection with the creation of new contractual rights. The DAC in respect of pension business is amortized over 15 years representing the estimated period for benefiting from management fees including potential cancelations. When the contractual rights are canceled, the respective DAC is eliminated.

(2) Pursuant to the Regulator’s instructions, Menorah Insurance’s appointed actuary examines the recoverability of the DAC in life and health insurance, during each reported period. The examination is performed in order to verify that the liabilities in respect of insurance contracts net of the DAC in respect of the policies sold since 1999 are sufficient, and that the policies are expected to produce future income that will cover the amortization of the DAC and the insurance liabilities, the operating expenses and the commissions relating to those policies.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Insurance contracts and asset management contracts (Cont.)

1. Life assurance and long-term savings (Cont.)

e) Deferred acquisition costs (Cont.)

(2) (Cont.)

The assumptions that are utilized for this examination include assumptions regarding cancelations, operating expenses, rate of return on assets, mortality and morbidity rates, that are determined by Menorah Insurance's appointed actuary every year, based on a review of past experience and relevant up-to-date research studies.

As for the recoverability of the pension business related DAC, the expected management fees are examined in relation to the DAC that is amortized over the estimated period of revenues.

f) Liability Adequacy Test in respect of life assurance contracts

The appointed actuary verifies that the amount of the reserve net of deferred acquisition costs is sufficient to cover the expected cash flows in respect of claims, commissions and expenses net of premiums and investment income. The cash flows are examined after offsetting expected cancelations and are discounted at a risk-free real interest rate for the existing policies under reasonable assumptions. The examination is made separately for the individual policies and for collective policies. In the case of individual policies, the examination is made at the product level, whereas in the case of collective policies, the examination is performed on the level of the individual collective. The calculation is performed gross and on retention.

The assumptions used in the abovementioned examinations include assumptions regarding cancelations, operating expenses, rate of return on assets, mortality and morbidity rates, and they are determined by the chief actuary after consulting with Menorah Insurance's chief actuary, every year based on examinations, past experience and other relevant research studies. Regarding collective policies, the examination is made based on the claims' history of the individual collective and subject to the statistical reliability of this experience.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Insurance contracts and asset management contracts (Cont.)

1. Life assurance and long-term savings (Cont.)

g) Outstanding claims

Outstanding claims are computed on an individual case basis, according to the estimation of Menorah Insurance's experts, on the basis of notifications regarding insurance events and sums insured and in light of the anticipated run-offs determined by the chief actuary. The reinsurers' share in the outstanding claims is calculated according to the agreements signed with them.

The provisions for annuity payments and the provisions for ongoing claims in payment for disability insurance, the direct and indirect expenses deriving from them, as well as the provisions for incurred but not yet reported claims (IBNR) were calculated by the appointed actuary and were included under liabilities for insurance and investment contracts.

h) Investment contracts

Receipts in respect of investment contracts are not included in the item of earned premiums, but are directly allocated to liabilities for insurance and investment contracts. Surrenders and maturities of these contracts are not allocated to the statement of profit and loss, but are deducted directly from the liabilities for insurance and investment contracts.

Investment income, management fees collected from policyholders, payments and change in liabilities in respect of insurance contracts for the policyholders' share in investment income, commissions to agents, and general and administrative expenses are allocated to the statement of profit and loss, in respect of these contracts.

i) Provision for profit sharing of policyholders in group insurance

The provision is included under the item "creditors and payables". In addition, the change in the provision is reported under the earned premiums item in the statement of profit and loss..

2. General insurance

a) As for revenue recognition, see paragraph s below.

b) The item of payments and change in liabilities in respect of gross and retained insurance contracts includes, among others, settlement and direct handling costs of claims paid, indirect expenses for settlement of outstanding claims that occurred during the reported period, as well as an adjustment of the provision for outstanding claims (which includes a provision for claims direct and indirect handling costs) reported in previous years.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Insurance contracts and asset management contracts (Cont.)

2. General insurance (Cont.)

c) Liabilities for insurance contracts and deferred acquisition costs

The insurance reserves and the outstanding claims, included in the item liabilities in respect of insurance contracts, and the reinsurers' share in the reserve and in outstanding claims, included in the item reinsurance assets, and deferred acquisition costs in general insurance, were computed in accordance with the Supervision of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984, as amended (hereunder - reserve calculation regulations), the Regulator's directives and generally accepted actuarial methods for computing outstanding claims which are applied according to the appointed actuaries' discretion.

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows

1) Provision for unearned premium reserve reflects the insurance fees relating to the insurance period after the reporting date.

2) Provision for premium deficiency is recorded in the event that the unearned premium reserve (net of deferred acquisition costs) does not cover the anticipated costs in respect of insurance contracts.

3) Outstanding claims that are computed according to the methods detailed below:

3.1 Outstanding claims and the reinsurers' share therein are included based on an actuarial valuation, except for the branches detailed in Section 3.2 below. Indirect expenses for the settlement of claims are included according to an actuarial valuation. The actuarial calculation for Menorah Insurance was made by the appointed actuary in charge of general insurance, Dr. Avraham Lowenglik (F.IL.AA) who is an officeholder of Menorah Insurance (last year - Mr. Amir Peled (F.IL.AA)) and in respect of the insurance liabilities (excerpt for motor act) of Shomera Insurance by Mr. Nir Harmati, an employee of Shomera Insurance. The actuarial calculation in the motor act branch in Shomera Insurance is performed by Dr. Avraham Lowenglik.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Insurance contracts and asset management contracts: (Cont.)

2. General insurance (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows (Cont.)

3) Outstanding claims that are computed according to the methods detailed below: (Cont.)

3.2 In the insurance branches which constitute 4% of the outstanding claims on retention, where the actuary determined that an actuarial model cannot be applied due to lack of statistical significance, the known outstanding claims were calculated on the basis of individual valuations per claim according to an opinion obtained from attorneys, experts of the subsidiaries and external experts handling the claims. The valuations include an adequate provision for settling the claim and handling fees that have not yet been paid at balance sheet date.

3.3 Excess of revenues over expenses

Regarding all businesses with long tail claims (branches in which the time required for issuing a notice of damage and/or determining damage and its compensation, is long and can be a number of years), such as motor act, liabilities, aircraft and seacraft branches, the excess of revenues over expenses is calculated on a tri-annual cumulative basis, in the sales law guarantee branch on a five-year cumulative basis (hereunder - the excess). In Shomera, the third party liability and employers' liability branches are calculated on a five-year cumulative basis.

The excess is calculated according to the regulations for calculating reserves and the Regulator's directives, on the basis of income from premiums, net of the acquisition and claims expenses, with the addition of investment income which is calculated according to the rate of 3% per annum, in real terms (regardless of the actual yield from the investments) net of the reinsurers' share, for each insurance branch and the underwriting year. The excess accumulated until its release, from the year of the beginning of the insurance, net of the provision for unearned premium less deferred acquisition costs and net of outstanding claims calculated as aforementioned (hereunder - the fund), is included under liabilities for insurance contracts and non-yield dependant investment contracts. The deficiency, if any, is imputed as an expense in the statement of profit and loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Insurance contracts and asset management contracts: (Cont.)

2. General insurance (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows (Cont.)

3) Outstanding claims that are computed according to the methods detailed below: (Cont.)

3.4 Claims recoveries and salvage are taken into account on the same basis of calculation as the actuarial valuations of the outstanding claims. In non-statistical branches, the claims recoveries are taken into consideration when assessing the risk inherent in the claims on an individual basis.

3.5 In the Group's opinion, the outstanding claims are sufficient, considering the fact that the outstanding claims are mainly calculated on an actuarial basis and include sufficient provisions for the IBNR, if necessary.

e) Deferred acquisition costs in general insurance include agents' commissions and administrative and general expenses related to the acquisition of polices, in respect of the unearned insurance premiums. The acquisition costs are calculated at the lower of the actual costs or standard rates, set by the Supervision Regulations, calculated as a percentage of unearned premiums separately for each branch.

f) Business received from the Israeli pool for motor vehicle property insurance of the Association of Insurance Companies in Israel (hereunder - the Pool), from other insurance companies (including co-insurance and business from abroad) and from underwriting agencies, is reported according to the reports received up to the reporting date with the addition of the relevant provisions, based on the insurance subsidiaries’ rate of participation in them.

g. Financial instruments

1. Non-derivative financial instruments

Non-derivative financial instruments include financial assets and financial liabilities. Financial assets include financial investments (quoted debt assets, unquoted debt assets, shares and others) and other financial assets such as: outstanding premiums, other debtors and cash and cash equivalents. In addition, financial instruments include financial liabilities such as loans and credit received and suppliers' credit and other creditors.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial instruments: (Cont.)

1. Non-derivative financial instruments: (Cont.)

Non-derivative financial instruments are recognized initially at fair value, whereas instruments that are not measured at fair value through profit and loss are measured with the addition of all the attributable direct transaction costs. Subsequent to the initial recognition, the non-derivative financial instruments are measured as described below. A financial instrument is recognized as an asset or liability upon acceptance of the contractual terms of the instrument by the Group (transaction date).

Cash and cash equivalents

Cash includes cash balances for immediate withdrawal and deposits on demand. Cash equivalents include highly liquid short-term investments that are readily convertible into known amounts of cash and are exposed to insignificant risk of changes in value and are not restricted.

Held-to-maturity investments

When the Group has an explicit intention and ability to hold debt instruments to maturity, the debt instruments are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method (taking into account transaction costs), less impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified into the following groups: financial assets measured at fair value through profit and loss; held-to-maturity investments; loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except exchange differences that relate to monetary debt instruments that are carried to profit and loss under the item investment income (losses), net and finance income, are recognized as other comprehensive income (loss) in capital reserve in respect of available for sale financial assets. When the investment is disposed of or in case of impairment, the cumulative other comprehensive income or loss previously recorded in other comprehensive income (loss), is recognized in the statement of profit and loss.

Interest income on investments in debt instruments is recognized in the statement of profit and loss using the effective interest method. Dividends earned on investments are recognized in the statement of profit and loss when the right of payment has been established.

Financial assets measured at fair value through profit and loss

A financial asset is classified as measured at fair value through profit and loss if it is held for trading or if it was designated upon initial recognition as at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial instruments (Cont.)

1. Non-derivative financial instruments: (Cont.)

Financial assets measured at fair value through profit and loss (Cont.)

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term and if they form part of a portfolio of identified financial instruments that are managed together to earn short-term profits. Gains or losses on investments held for trading are recognized in profit and loss when incurred.

Financial instruments are designated as measured at fair value through profit and loss if the Group manages this type of investments and makes buying and selling decisions based on their fair value in keeping with the Company's documentation of risk management or investment strategy. Upon initial recognition, attributable transaction costs are carried to profit and loss as incurred. These financial instruments are measured at fair value and the changes therein are carried to profit and loss.

Loans and debtors

Loans and debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and debtors are measured at amortized cost using the effective interest method taking into account transaction costs and less any allowance for impairment. Gains and losses are recognized in the statement of profit and loss when the loans and debtors are derecognized or impaired, as well as through the systematic amortization process.

2. Derivative financial instruments

Derivative financial instruments are recognized initially at fair value; attributable transaction costs are allocated to profit and loss as incurred. Subsequent to initial recognition, the financial derivatives are measured at fair value and the changes in fair value are allocated to the statement of profit and loss.

3. CPI-linked assets and liabilities not measured at fair value

The value of CPI linked assets and liabilities, that are not measured at fair value, is revaluated during each period according to the actual increase in the CPI.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial instruments (Cont.)

4. Designation of financial assets

The Group has made decisions to designate the financial assets as follows:

a) Assets included in the investment portfolios of investment profit sharing policies

Most of these financial assets, that include quoted and unquoted financial assets, were designated to the group of fair value through profit and loss, based on the following reasons: these are managed portfolios, separate and identifiable whose presentation at fair value significantly reduces an accounting mismatch in measurement of financial assets and liabilities at various measurement bases. In addition, the asset management is conducted at fair value, and the portfolio performance is measured at fair value according to a documented risk management strategy, and the information regarding the financial instruments is reported to the management (the relevant investment committee) internally on the basis of fair value.

Part of the unquoted debt assets, included in the investment portfolios of policies participating in investment income, which were acquired in the year 2009, were classified as loans and debtors, while using the effective interest method, when possible according to the temporary order published by the Regulator.

Investment portfolios of policies participating in investment income include an investment in a partnership which holds real estate property abroad, in which the insurance subsidiary has significant influence as defined by IAS 28. This investment is measured at its fair value and is reported as a financial investment.

b) Quoted assets that are not included in investment portfolios held against profit sharing policies (Nostro)

1) Unquoted assets that do not include embedded derivatives or do not constitute derivatives

Unquoted debt assets that include designated debentures (Hetz life linked bonds), other unquoted debentures commercial certificates, bank deposits and loans were classified as loans and receivables. Unquoted shares were classified as available-for-sale financial assets.

2) Quoted assets that do not include embedded derivatives or do not constitute derivatives

Quoted debt assets and shares were classified to the group of available-for-sale financial assets, except for government short term loans which were designated to the group of fair value through profit and loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial instruments (Cont.)

4. Designation of financial assets (Cont.)

The Group has made decisions to designate the financial assets as follows:

b) Quoted assets that are not included in investment portfolios held against profit sharing policies (Nostro) (Cont.)

3) Derivatives and financial instruments that include embedded derivatives that should be separated

These assets, both quoted and not, were classified to the group of fair value through profit and loss.

c) Financial instruments held by non-insurance subsidiaries

All of the quoted financial assets of the Company and non-insurance subsidiaries, were classified to the group of fair value through profit and loss.

5. Determination of fair value

The fair value of the investments traded actively in organized financial markets is determined by the market prices on the reported date. For investments that do not have an active market, the fair value is determined by using evaluation methods. These methods are based on recent transactions under market conditions, reference to the present market value of another similar instrument, capitalization of cash flows or other evaluation methods. The fair value of unquoted debentures, loans and deposits is calculated using a model that is based on the capitalization of cash flows and the interest rates for capitalization are determined by a company that issues interest quotations for the different risk ratings.

6. Financial liabilities measured at amortized cost

Liability certificates, debentures and credit bearing interest are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Gains and losses are recognized in the statement of profit and loss when the financial liability is derecognized as well as through the systematic amortization process.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial instruments (Cont.)

7. Derecognition of financial instruments

Financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

8. Gains (losses) from net investments and financial income and expenses

Gains (losses) from net investments and financial income include interest income in respect of invested amounts (including available-for-sale financial assets), revenues from dividends, gains (losses) from sale of available-for-sale financial assets and losses carried to profit and loss due to permanent impairments, changes in the fair value of financial assets measured at fair value through profit and loss, gains (losses) from exchange rate differences and gains (losses) from sale of investments and are calculated as the difference between the net proceeds from the sale and the original cost or the amortized cost and recognized upon the sale event. Interest income is recognized on a cumulative basis using the effective interest method. Revenues from dividends are recognized when the Company establishes the right to receive payment.

Financial expenses include interest expenses in respect of financial liabilities and interest on deposits of reinsurers.

Gains and losses from exchange rate differences and changes in fair value of financial investments are reported in net amounts.

9. Regarding impairment of financial assets, see paragraph n 1 below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Fixed assets

1. Recognition and measurement

Items of fixed assets are stated at cost with the addition of direct acquisition costs less accumulated depreciation and less accumulated impairment losses.

Cost of purchased software that forms an integral part of the operation of the relevant hardware is capitalized as part of the cost of the hardware.

2. Subsequent costs

The cost of replacing part of an item of fixed assets is recognized as part of that item's carrying amount if it is probable that economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Costs of day-to-day servicing expenses are recognized in the statement of profit and loss when incurred.

3. Depreciation

Depreciation is allocated to the statement of profit and loss using the straight-line method over the useful life of each item of fixed assets.

The depreciation rates used in the current period and in the comparative periods are as follows:

Buildings (except for land component)	4%
Leasehold improvements	Over the term of the lease, including the option
Motor vehicles	15%
Computers and peripheral equipment	25% - 33%
Furniture and equipment	6% - 15%

The estimates of the depreciation method, useful life and residual value are reexamined at least at each reported year end and the changes are treated as a change in estimate prospectively.

The amortization of assets is discontinued either on the date the asset is classified as held fro sale, or on the date the asset is derecognized, at the earlier of the two. An asset is derecognized from the financial statements on the date of its sale or when no more economic benefits are expected from the utilization of the asset. Profit or loss from derecognition of the asset (which is calculated as the difference between the net consideration from the derecognition and the amortized cost in the financial statements) is included in the statement of profit and loss when the asset is derecognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Investment property

An investment property is property (land or a building or part of a building or both) held (by the owner or under a finance lease) to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

Real estate rights leased by the Group under an operating lease are classified and accounted for as investment property.

Investment property is measured initially at cost, including transaction costs. In subsequent periods, investment property is measured at fair value with the changes in fair value carried to the statement of profit and loss.

The transfer of a property from fixed assets to investment property is made when there is a change in designation, evidenced by end of owner occupation, or an operating lease agreement with a third party.

The transfer of a property from investment property to fixed assets is made when there is a change in designation, evidenced by the commencement of owner occupation.

The cost of the property transferred from investment property to fixed assets or to inventories is the fair value at the date of transfer.

The difference between the fair value and the cost of a property transferred from fixed assets to investment property is treated as a revaluation according to IAS 16, whereby profit is recognized in a revaluation reserve, whereas the loss is allocated to the statement of profit and loss.

In order to determine the fair value of investment property, the Group utilizes valuations by independent outside appraisers who are real estate valuation experts with the relevant know-how and experience.

j. Leases

The tests for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the principles below as set out in IAS 17.

1. Finance leases

Finance leases transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are measured at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The liability for lease payments is presented at its present value and the lease payments are apportioned between finance charges and a reduction of the lease liability using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Leases (Cont.)

2. Operating leases

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in the statement of profit and loss on a straight-line basis over the lease term.

k. Investments in affiliates

Affiliates are companies in which the Group has significant influence over the financial and operating policies without having control.

Investment in affiliates is presented on the equity basis. According to the equity method, investments in affiliates is reported in the statement of financial position at cost plus post acquisition changes in the Group's share in the net assets, including other comprehensive income (loss) of affiliates. The equity method is applied until the loss of significant influence or classification of the investment in an affiliate as an investment held for sale.

Investment in a company in which the Group has significant influence and was performed in the investment portfolios of profit participating policies, was treated as a financial investment and measured at its fair value (also see paragraph g(4)(a) above).

From January 1, 2010, in the event of acquisition of an affiliate which was achieved in stages, when the former investment in the acquiree was accounted for pursuant to the provisions of IAS 39, the Group applies the principles of IFRS 3 (Revised) regarding business combinations achieved in stages. Consequently, equity interests in the acquiree that had been held by the Group prior to achieving significant influence are measured at fair value on the acquisition date and are included in the acquisition consideration while recognizing gain or loss resulting from the fair value measurement.

The Group's share of the operating results of the affiliate presented in the statement of comprehensive income as "Group's share of earnings (losses) of companies accounted for at equity" and other comprehensive income (loss) of the affiliate attributable to the Group is presented in other comprehensive income in the relevant item in equity. Profits and losses resulting from transactions between the Group and the affiliate are eliminated to the extent of the interest in the affiliate.

The financial statements of the Company and of affiliates are prepared as of the same dates and periods. The accounting policies applied in the preparation of the financial statements of affiliates conform with the policies applied in the preparation of the financial statements of the Group.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Business combinations and goodwill

Business combinations that occurred prior January 1, 2007

In the framework of the transition to reporting under IFRS, the Group chose to restate under IFRS only business combinations occurring subsequent to the transition to IFRS on January 1, 2007. Acquisitions occurring prior to January 1, 2007 reflect the goodwill recognized by the Group under Israeli GAAP, as were customary prior to the transition to IFRS. Regarding these acquisitions, the accounting classification and treatment were not adjusted to IFRS in accordance with a mitigation that was granted under IFRS 1.

Business combinations that occurred subsequent to January 1, 2007

Business combinations are treated using the acquisition method in accordance with IFRS 3. According to this method, assets and liabilities of the acquired company are identified at their fair value at the time of acquisition.

The acquisition cost is the aggregate fair value of the provided assets, liabilities taken and the capital rights issued to the buyer, on the acquisition date.

In respect of business combinations that occurred from January 1, 2010, non-controlling interests are measured at fair value on the acquisition date or at the proportionate share of the non-controlling interests in the acquiree's net identifiable assets. In respect of business combinations that occurred through December 31, 2009, the non-controlling interests were measured, on the date of acquisition, at their proportionate share of the fair value of the acquiree's net identifiable assets. As for business combinations that occurred on or after January 1, 2010, the direct costs relating to the acquisition are recognized immediately as an expense in the statement of profit and loss. As for business combinations that occurred up to December 31, 2009, these costs were recognized as part of the acquisition cost.

Goodwill acquired in a business combination is initially measured as the difference between the cost of the acquisition and the Group's share in the net fair value of the identifiable assets, the identifiable liabilities and the contingent liabilities of the acquired business. After initial recognition, goodwill is measured at cost net of any accumulated impairment losses. Goodwill is not systematically amortized. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units. As for testing the impairment of goodwill, see n(5) below.

m. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost with the addition of costs directly attributable to the acquisition. Intangible assets acquired in a business combination are included at the fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Intangible assets (Cont.)

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired (see also n'5 below). The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for as prospective change in accounting estimate and on that date the impairment of the asset is tested and it is amortized systematically over its useful economic life.

Intangible assets with a finite useful life are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as prospective changes in accounting estimates. The amortization charge on intangible assets with finite useful lives is recognized in the statement of profit and loss.

1. Software development costs

Software development costs are only capitalized when the development costs can be measured reliably; the technical and economic feasibility of the software can be demonstrated, there is future financial reward from the development of the product and the Group has the intention and sufficient resources to complete the development and use the software. The capitalized costs include the cost of materials, direct salaries and overheads that are directly attributable to preparation of the asset for its intended use. Other software development costs are allocated to profit and loss as incurred.

Capitalized software development costs are measured at cost less accumulated amortization and impairment losses.

2. Software

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it, is classified as fixed assets. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

3. Subsequent costs

Subsequent costs are recognized as an intangible asset only when they increase the future economic benefit to be derived from the asset in respect of which they incurred. All other costs, including costs relating to goodwill or brand names developed internally, are allocated to the statement of profit and loss as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Intangible assets (Cont.)

4. Amortization

Amortization is allocated to the statement of profit and loss on a straight-line basis over the estimated useful life of the intangible assets, except for goodwill, from the date in which the assets are available for use.

The estimated useful life for the current period and for comparative periods is as follows:

a) Excess of cost created in the acquisition of Shomera are amortized as follows: excess of cost attributed to a purchased insurance portfolio is amortized over a period of five years, excess of cost attributed to agent relations of an insurance subsidiary is amortized over a period of 10 years and excess of cost attributed to trade name is amortized over a period of six years.

b) Excess of cost created in the acquisition of Mivtachim Pension and attributed to customer portfolio is amortized over a period of 20 years.

c) Initial difference created as a result of the acquisition of provident funds and mutual funds management rights that are allocated to the customers' portfolios, are amortized over the period of 5 to 10 years (see Note 5 below).

d) Software is amortized on a straight-line basis over 4-8 years.

The estimates of the amortization method and useful life are retested at least at the end of each reported year.

n. Impairment and provisions for doubtful debts

The Group assesses at each reporting date whether the following financial asset or group of financial assets is impaired as follows:

1. Financial investments

a) Assets carried at amortized cost

There is objective evidence of impairment of debt instruments, loans and debtors measured at amortized cost when one or more events had a negative impact on the estimated future cash flows that will be derived from the asset after the date of recognition. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Impairment and provisions for doubtful debts (Cont.)

1. Financial investments (Cont.)

a) Assets carried at amortized cost (Cont.)

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss carried to the statement of profit and loss is measured as the difference between the asset's balance in the books and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The asset’s balance is reduced by recording a provision that is recognized in the statement of profit and loss.

In subsequent periods, the impairment loss is cancelled when the reversal of the asset's value can be objectively attributed to the event that occurred after the loss was recognized. This cancellation is recognized in profit and loss up to the sum of the recognized loss.

b) Available-for-sale assets

For equity instruments classified as available-for-sale financial assets, the objective evidence includes a significant or prolonged decline in the fair value of the asset below its cost and examination of changes in the technological, market, economic or legal environment in which the issuer of the asset operates. The examination of a significant or prolonged impairment depends on the circumstances at each reporting date. The examination considers historical volatility in fair value and the existence of a decline in fair value of 20% or more, or if the duration of the decline in fair value is above one year, providing that the impairment is of more than 10%. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost (less any previous impairment losses) and the fair value is removed from equity and recognized as an impairment loss in the statement of profit and loss. In subsequent periods, the reversal of impairment loss is not carried to profit and loss but recognized in equity as other comprehensive income (loss).

For debt instruments classified as available-for-sale financial assets, objective evidence of impairment may arise as a result of one or more events that have a negative impact on the estimated future cash flows of the asset since the date of investment. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost (less principal payments, amortizations using the effective interest method and previous impairment losses) and the fair value is removed from equity and recognized as an impairment loss in the statement of profit and loss. In a subsequent period, the amount of the impairment loss is reversed if the increase in fair value can be related objectively to an event occurring after the impairment was recognized. This reversal is recognized in profit and loss up to the amount of the recognized loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Impairment and provisions for doubtful debts (Cont.)

2. Reinsurance

a) The reinsurers' liabilities towards the insurance subsidiaries do not release it from its liabilities towards policyholders insured under the insurance policies.

A reinsurer who does not fulfill his obligations under the reinsurance treaties may cause the insurance subsidiaries losses.

b) The insurance subsidiaries set-up a provision for doubtful debts in respect of reinsurers' debts whose collection is doubtful on the basis of individual risk estimates and based on the size of the debts.

In addition, in determining the reinsurers' share in the insurance liabilities, the insurance subsidiaries take into consideration, among others, the probability of collection from the reinsurers. When the reinsurers' share is calculated on an actuarial basis, the share of reinsurers in difficulty is calculated according to the actuary's recommendations, which takes all the risk factors into consideration. Furthermore, when the insurance subsidiaries make the provisions, they take into consideration, among others, the willingness of the parties to engage in cut-off agreements (termination of agreements by a final settlement of the debts) in order to reduce the exposure.

3. Outstanding premiums

The allowance for doubtful debts in respect of outstanding premiums is computed according to the age of the debt.

4. Non-financial assets

The Group evaluates the need to record an impairment of non-financial assets (other than deferred acquisition costs, investment properties, assets from employee benefits and deferred tax assets) whenever events or changes in circumstances indicate that the balance of the assets in the books is not recoverable. If the balance of non-financial assets in the books exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of the net selling price and value in use.

In measuring value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of profit and loss under amortization of intangible assets.

The following criteria are applied in assessing impairment of the following specific assets:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Impairment and provisions for doubtful debts (Cont.)

5. Goodwill

In order to examine impairment, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the combination.

The Group reviews goodwill for impairment at the end of each year or more frequently if events or changes in circumstances indicate that there is impairment.

Impairment is recognized for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill belongs. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the balance in the books of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss attributed to goodwill is recognized first. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

6. Affiliates

After application of the equity method of accounting, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the investment in the affiliates. The Group determines at each reporting date whether there is any objective evidence that the investment in an affiliate is impaired. If this is the case, the Group calculates the amount of loss as the difference between the recoverable amount of the investment in the affiliate and its carrying amount. The recoverable amount is either the fair value or the value in use – at the higher of the two, and is calculated based on the value estimate of the net cash flows that the affiliate generates. The amount of the loss is recognized in the statement of profit and loss in the Group's share of profits of affiliates, net.

o. Share capital

Costs relating directly to the issuance of shares are reported as a deduction from equity.

p. Liabilities in respect of employee benefits

1. Short-term benefits

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and the employer's social security contributions are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Liabilities in respect of employee benefits (Cont.)

2. Post-employment benefits

The Group has several post-employment benefit plans. The plans are usually financed by contributions in insurance companies and pension funds (hereunder - the plan assets).

a. Defined contribution plans

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions in the defined contribution plan in respect of severance pay or compensation are recognized as an expense when contributed simultaneously with receiving the employee's services and no additional provision is required in the financial statements.

b. Defined benefit plan

The Group's obligation referring to a defined benefit plan in respect of post-retirement benefits is calculated for each plan separately by estimating the future amount of the benefit payable to the employee in return for their services in the current period and in past periods. This benefit is presented at present value net of the fair value of the plan's assets. The discount rate is determined based on the return on the date of reporting Government bonds with similar currency and maturity dates as the Company's obligation. The calculations are performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses are recognized in the statement of profit and loss in the period in which they occur. The compensation component in the policies issued by the consolidated insurance company does not constitute plan assets and is offset from the liabilities in respect of the insurance contracts.

3. Other long term employee benefits

The Group's net obligation in respect of other long-term employee benefits that do not relate to benefit plans after the completion of employment is in respect of the future benefit amount due to employees for services rendered in current and prior periods. This amount of benefits is discounted to its present value and the fair value of the assets relating to this obligation is deducted from said amount. The discount rate is determined by reference to the yields on the reporting date on Government bonds whose currency and maturity dates is consistent with the terms of the Group's obligation. The calculation is done using the projected unit credit method. Actuarial gains and losses are recognized in the statement of profit and loss in the period in which they occur.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Share-based payment transactions

The cost of a plan for the allocation of shares granted to the CEO of the Company (formerly CEO of Menorah Insurance) was measured at fair value on the date of grant of the equity instruments.

The cost of the allocation plan is allocated to profit and loss together with a corresponding increase in equity, during the period which the service conditions are satisfied, ending on the date on which the Company’s CEO becomes fully entitled to the award (hereunder - the vesting period). The cumulative expense recognized for the allocation plan at each reporting date until the vesting date reflects the extent to which the vesting period has expired and Menorah Insurance’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit and loss represents the movement in cumulative expense recognized at the beginning and end of that reported period.

Cash-settled transactions

Cash-settled transaction cost is measured at fair value on the date of grant using a standard pricing model, see additional details in Note 32 below. The fair value is recognized as an expense over the vesting period and simultaneously a liability is recognized. The liability is remeasured at each reporting period at fair value until its settlement, and changes in fair value are allocated to the statement of profit and loss.

r. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for legal claims is recognized if the Group has a present obligation (legal or constructive) as a result of a past event; it is more likely than not that the Group's economic resources will be required in order to settle the obligation; and the obligation can be estimated reliably. When the effect of the time value is material, the provision is measured at its present value. When examining the necessity of recognition of provisions and quantifying them, the Group's management is assisted by its legal advisors.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Revenue recognition (Cont.)

1. Premiums

a) Premiums in the lines of life and health insurance, including savings premiums but excluding receipts in respect of investment contracts are recorded as revenues when due.

Cancellations are recorded upon receipt of notice from the policyholder or initiated by Menorah Insurance due to arrears in payments, subject to legal provisions. Policyholders' participation in profits in risk policies is deducted from the premiums.

b) General insurance premiums are accounted for as income based on monthly new business reports. Insurance premiums usually refer to an insurance period of one year. Gross income from premiums and changes in unearned premium are accounted for under gross earned premiums.

Since in the motor act line of insurance, the insurance comes into effect only after payment of the insurance premium, the premium is accounted for on the date of payment.

Comprehensive residential premiums for apartments that are used to secure mortgages are recognized as revenue when due (on a monthly basis).

Premiums from policies that will be in force after the reporting date are reported as prepaid income.

Monthly new business reports, primarily in the motor casco and comprehensive residential insurance lines include an automatic renewal of all policies whose renewal date has arrived.

Income included in the financial statements is after cancellation notices received from policyholders and after the deduction of cancellations and provisions due to the non-payment of premiums, subject to legal provisions and net of the policyholders' participation in profits, based on the agreements that are in force.

2. Management fees

a) Management fees in respect of participating insurance contracts:

Management fees are calculated in accordance with the Regulator's directives on the basis of the return and the accumulated savings of policyholders in the profit-sharing portfolio.

Management fees include the following components:

For policies sold from January 1, 2004 - fixed management fees only.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Revenue recognition (Cont.)

2. Management fees (Cont.)

a) Management fees in respect of participating insurance contracts: (Cont.)

For policies sold up to December 31, 2003 - fixed and variable management fees.

The fixed management fees are calculated at fixed rates from the accumulated savings and are recorded on an accrual basis.

Variable management fees are calculated as a percentage of the annual return, in real terms (from January 1 and up to December 31) after deducting the fixed management fees. Only positive variable management fees can be collected, after deducting negative amounts accrued in previous years.

During the year, the variable management fees are reported on an accumulated basis in accordance with the real monthly yield, as long as the yield is positive. During the months that the real return is negative, the variable management fees are reduced to the amount of the cumulative variable management fees calculated from the beginning of the year. If during the year there was no decrease in management fees in respect of negative yield, it will be deducted from the positive yield in the subsequent year for the calculation of the variable management fees.

b) Management fees from pension funds, provident funds, mutual funds and portfolio management:

Revenues from the management of pension funds are recognized on the basis of the balances of the assets managed and on the basis of members' contributions. Income from management of provident funds, mutual funds and management of portfolios is recognized on the basis of the balances of the managed assets.

3. Commissions:

Revenues from general insurance commissions in consolidated insurance agencies are recognized when incurred.

Revenues from life assurance commissions in consolidated insurance agencies are recognized on the basis of entitlement dates for payment of the commissions, according to the agreements with the insurance companies, less provisions for commission refunds due to anticipated cancellations of insurance policies.

Revenues from reinsurers commission are allocated at the time of entitlement to receive them, in accordance with the agreements with the reinsurers.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Revenue recognition (Cont.)

4. Other income:

Income from counseling and income from distribution is reported on an accumulative basis, based on the date the service was granted or the activity was carried out.

Income from underwriting and management commissions, that are subject to an actual issue, is credited to the statement of profit and loss only after the issue of the securities or when the liabilities of the issuers and the buyers had incurred, at the earlier of the two, and concurrently, there is an allocation of the expenses involved in these transactions.

t. Administrative and general expenses

Administrative and general expenses are classified to indirect expenses for settlement of claims, that are included under payments and change in liabilities in respect of the insurance and investment contracts, to expenses relating to acquisitions included under commissions, marketing, and other acquisition expenses and to the balance of other administrative and general expenses that are included under this item. The classification is made according to the Group's internal models that are based on direct expenses that were allocated and indirect expenses that were loaded.

u. Taxes on income

Taxes on income comprise current and deferred taxes. The income tax expense is allocated to the statement of profit and loss unless the tax results from a transaction or an event that are directly recognized in equity. In such cases, the income tax expense is carried to equity.

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the resporting date as well as adjustments required in connection with the tax liability in respect of previous years.

Deferred taxes are recognized based on the balance sheet approach in relation to temporary differences between the carrying amount of assets and liabilities for financial reporting and their value for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are realized, based on tax laws that have been enacted or substantively enacted by the reporting date. The Group offsets deferred tax assets and liabilities if there is there is a legal enforceable right that permits offsetting a current tax asset and liability and they relate to the same taxable income taxed by the same tax authority and in respect of the same assessed company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Taxes on income (Cont.)

Deferred tax assets are recognized in the books when future taxable income can be expected against which he temporary differences may be utilized. The deferred tax assets are examined at each reporting date and if the respective tax benefits are not expected to be realized, they are amortized.

Taxes that would apply in the event of the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as the sale of the investments in investees is not expected in the foreseeable future.

Deferred tax in respect of intercompany transactions in the consolidated statement is recorded at the tax rate applicable to the purchasing company.

v. Earnings (loss) per share

The Company presents basic earnings (loss) per share data with respect to its Ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to the shareholders of the Company by the weighted average number of shares outstanding during the period.

w. Transactions with controlling shareholder

Assets and liabilities for which a transaction was carried out with a controlling shareholder are measured at fair value on the transaction date. Since the transaction is of an equity nature, the Group carries the difference between the fair value and the consideration from the transaction to equity.

x. Segment reporting

A segment is a component that can be distinguished by the Group, which is engaged in supplying products or services that may be linked (business segment) or in supplying products or services in a pre-defined economic environment (geographical segment) and which is exposed to different risks and rewards than those of the other segments. The Group's segment reporting format is based on business segments and was determined according to management's approach, namely according to the internal reporting format of the decision makers in the Group. As for segment financial reporting, see Note 3 below.

y. Presentation of statement of comprehensive income

The Company has elected to present comprehensive income using two statements: a statement of profit and loss and a statement of comprehensive income under which all the items recognized in other comprehensive income are presented, excluding net income which is brought forward from the statement of profit and loss, all the details recognized in other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Disclosure of the new IFRS Accounting Standards in the period prior to their adoption

IFRS 3 - Business Combinations (Revised)

The amendments to IFRS 3 (Revised) deal with the following issues:

1) Measurement of non-controlling interests

The amendment prescribes the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at their proportionate share in the identifiable net assets of the acquired entity. According to the amendment, this possibility is only available for types of non-controlling interests that grant their holders an ownership right and the right to receive a proportionate share (Pro Rata) of the net assets of the acquired company in the event of liquidation (usually shares). On the other hand, for other types of non-controlling interests (such as options that are capital instruments of the acquired company) no such choice is available, and they should be measured at their fair value on the acquisition date, unless another measurement basis is required by IFRS such as IFRS 2.

2) Share-based payment awards in a business combination

The amendment specifies the accounting treatment in a business combination relating to the exchange of share-based payment transactions of the acquired company (whether it is obligated or chooses to exchange them) with the share-based payment transactions of the acquiring company. Accordingly, the acquiring company should attribute a certain amount in respect of the proceeds of the transaction on the date of the acquisition, as well as a certain amount as an expense in the period after the acquisition date. However, if as a result of the business combination the award expires and it is replaced by a new award, the value of the new award pursuant to IFRS 2, will be recognized as an expense in the period after the date of acquisition and will not be included in the proceeds from the acquisition. In addition, if the share-based payments awards are not exchanged, then if the instruments have vested they form part of the non-controlling interests and are measured in accordance with the provisions of IFRS 2, whereas if the instruments have not vested, they are measured at the value that would have been used had they been granted on the date of acquisition, and this amount will be allocated between the non-controlling interests and the post-acquisition expense.

3) Transition provisions for accounting for contingent consideration in a business combination that occurred prior to the adoption of IFRS 3 (Revised)

According to the amendment, the amendments to IFRS 7, IAS 32 and IAS 39 which prescribe that contingent consideration in a business combination is within the scope of these Standards, do not apply to contingent consideration generated from business combinations whose acquisition date preceded the date of adoption of IFRS 3 (Revised).

The amendments are valid beginning from the financial statements for the periods beginning January 1, 2011.
The amendments will be adopted prospectively from the date in which IFRS 3 (Revised) will be initially adopted. Early adoption is possible.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Disclosure of the new IFRS Accounting Standards in the period prior to their adoption (Cont.)

IFRS 7 - Financial Instruments: Disclosure

The amendments to IFRS 7 deal with the following issues:

1) Clarification of the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures about the nature and extent of risks arising from financial instruments. The Standard also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The amendment should be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011. Earlier application is permitted.

2) New and extensive disclosure requirements regarding disposal of financial assets and disclosure requirements in the event of unusual transfers prior to the reporting period. The objective of the amendment is to assist users of financial statements to estimate the exposures to risks in respect of transfers of financial assets and the affect of these risks on the Company's financial position. The amendment will increase the transparency of reporting transfer transactions, particularly securitization of financial assets. The amendment should be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted.

The relevant disclosures will be included in the Group's financial statements.

IFRS 9 - Financial Instruments

1) In November 2009, IFRS 9, "Financial Instruments", (Phase 1) of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Disclosure of the new IFRS Accounting Standards in the period prior to their adoption (Cont.)

IFRS 9 - Financial Instruments

1) (Cont.)

Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard is effective commencing from January 1, 2013. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively, except as specified in the Standard.

2) In October 2010, amendments to IFRS 9 regarding derecognition and financial liabilities were published. According to those amendments, the provisions of IAS 39 will continue to apply in respect of derecognition and in respect of financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss). That is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Disclosure of the new IFRS Accounting Standards in the period prior to their adoption (Cont.)

IFRS 9 - Financial Instruments

2) (Cont.)

In addition, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

The amendments are effective commencing from January 1, 2013. Earlier application is permitted provided that the Company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the assets stage). Initial application of the amendments should be prospectively and the comparative figures should be restated, subject to the reliefs stated in the amendments.

The Group is evaluating the possible impact of the Standard but at this stage it is unable to estimate its affect, if any, on the financial statements.

IAS 12 - Income Taxes

The amendment to IAS 12 applies to investment property measured at fair value. According to the amendment, the deferred tax asset/liability in respect of such property should be measured based on the assumption that the carrying amount of the property will be recovered in full through sale (and not through use). However, if the investment property is depreciable and is held within the Company's business model with the objective of recovering substantially all of the underlying economic benefits through use and not sale, the Company has the option not to act according to the aforementioned realization option, and in this case the Company should apply the "regular" provisions of IAS 12 (namely, deferred taxes will be measured based on the expected recovery of the property as determined by the Company's management - through sale or use). The amendment supersedes the provisions of SIC 12 that require the separation of the land component and the building component of investment property measured at fair value in order to calculate the deferred tax.

The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2012. Earlier application is permitted.

The Group believes that the amendment is not expected to have a material effect on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Disclosure of the new IFRS Accounting Standards in the period prior to their adoption (Cont.)

IAS 24 - Related Party Disclosure

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of such relationships and to eliminate inconsistencies in its application. The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2011. Earlier application is permitted.

The relevant disclosures will be included in the Company's financial statements beginning from the year 2011.

aa. Details of the changes in the Israeli CPI and the representative exchange rates of the U.S. dollar:

	Consumer Price Index		
	Index in respect of	Known index	Exchange rate of U.S. $
	%	%	%
Year ended December 31, 2010	2.7	2.3	(6.0)
Year ended December 31, 2009	3.9	3.8	(0.7)
Year ended December 31, 2008	3.8	4.5	(1.1)

bb. Change in classification

The Company has reclassified its investment in a partnership in which it has significant influence, from the item other financial investments to the item to investment in an affiliate.

In addition, the financial statements included reclassifications in the items commission, marketing expenses and other acquisition expenses and general and administrative expenses, at insignificant amounts.

These reclassifications had no affect on the equity, the net income and the comprehensive income.

NOTE 3:- OPERATING SEGMENTS

The Group operates in the following segments of activity:

1. The segment of life assurance and long term savings

The segment of life assurance and long term savings includes the lines of life assurance and health, pension and provident funds and it focuses mainly on long term savings (in the framework of various types of insurance policies, pension and provident funds including educational fund), as well as insurance coverages for various risks such as: death, disability, disability income insurance, etc.

In accordance with the Regulator's directives, life assurance, pension and provident are reported under the segment of life assurance and long-term savings.

2. General insurance segment

The general insurance segment includes the liability and property branches. Pursuant to the Regulator of Insurance's directives, the general insurance segment is detailed according to the lines of motor act, motor casco, other property branches, other liability branches.

- The motor act insurance line of insurance

The motor act insurance line of business focuses on coverages that their acquisition by the owner of the vehicle or the driver is compulsory by law and it provides a coverage for bodily injuries (to the driver of the vehicle, the passengers in the vehicle or to the pedestrians), as a result of the use of the motor vehicle.

- The motor casco line of insurance

The motor casco line of business focuses on the property damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

- Property and other branches

The remainder of property branches that are not motor act or liability related and other insurance lines of business and health lines that provide short-term coverage (personal accidents, travel abroad and foreign workers).

- Other liability branches

The liability branches are intended for the coverage of the policyholders' liabilities for any damage that he will cause to a third party. These lines of business include: third party liability, employers' liability, professional liability and product warranty and other branches that are calculated according to the excess of income over expenses method, such as sea craft, aircraft and the Sale Law guarantee.

Due to changes in the organizational structure of Menorah Insurance, as of January 1, 2011 the health branch is defined as an operating segment, contains the various health insurance policies, both short-term, which were included in the general insurance segment and long term, which were included in the life assurance and long-term savings segment.

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2010				
	Life assurance and long-term savings	General insurance	Not attributed to operating segments	Adjustments and offsets	Total
	NIS in thousands				
Gross premiums earned	2,001,514	2,267,504	-	1,244	4,270,262
Premiums earned by reinsurers	208,305	696,513	-	-	904,818
Premiums earned on retention	1,793,209	1,570,991	-	1,244	3,365,444
Net investment income and finance income	1,906,976	236,342	180,049	(13,555)	2,309,812
Income from management fees	556,953	-	89,543	(2,703)	643,793
Income from commissions	44,553	166,970	33,905	(15,297)	230,131
Total income	4,301,691	1,974,303	303,497	(30,311)	6,549,180
Payments and change in liabilities in respect of gross insurance and investment contracts	3,434,324	1,730,966	-	-	5,165,290
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	(170,127)	(509,622)	-	-	(679,749)
Payments and change in liabilities in respect of insurance and investment contracts on retention	3,264,197	1,221,344	-	-	4,485,541
Commissions, marketing expenses and other acquisition expenses	390,507	494,049	45,578	(15,297)	914,837
General and administrative expenses	404,952	91,146	78,515	(13,114)	561,499
Amortization of intangible assets	17,831	4,486	8,518	-	30,835
Finance expenses	6,840	5,346	111,588	(1,900)	121,874
Total expenses	4,084,327	1,816,371	244,199	(30,311)	6,114,586
Share in affiliates profits (losses), net	5,160	-	(5,039)	-	121
Income before taxes on income	222,524	157,932	54,259	-	434,715
Other comprehensive income (loss) before taxes on income	20,482	7,785	(1,721)	-	26,546
Total comprehensive income before taxes on income	243,006	165,717	52,538	-	461,261

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2009				
	Life assurance and long-term savings	General insurance	Not attributed to operating segments	Adjustments and offsets	Total
	NIS in thousands				
Gross premiums earned	1,827,732	2,243,198	-	(1,336)	4,069,594
Premiums earned by reinsurers	203,249	528,472	-	-	731,721
Premiums earned on retention	1,624,483	1,714,726	-	(1,336)	3,337,873
Net investment income and finance income	3,670,145	290,980	163,279	(12,035)	4,112,369
Income from management fees	391,949	-	71,467	(5,713)	457,703
Income from commissions	41,535	119,505	30,720	(13,339)	178,421
Total income	5,728,112	2,125,211	265,466	(32,423)	8,086,366
Payments and change in liabilities in respect of gross insurance and investment contracts	4,796,058	1,664,935	-	-	6,460,993
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	(152,741)	(346,768)	-	-	(499,509)
Payments and change in liabilities in respect of insurance and investment contracts on retention	4,643,317	1,318,167	-	-	5,961,484
Commissions, marketing expenses and other acquisition expenses	361,470	487,397	33,277	(13,339)	868,805
General and administrative expenses	359,048	94,783	52,838	(18,112)	488,557
Amortization of intangible assets	16,545	4,546	10,782	-	31,873
Finance expenses	6,995	5,439	128,614	(972)	140,076
Total expenses	5,387,375	1,910,332	225,511	(32,423)	7,490,795
Share in affiliates' losses, net	-	-	(1,808)	-	(1,808)
Income before taxes on income	340,737	214,879	38,147	-	593,763
Other comprehensive income before taxes on income	74,150	176,702	162,489	-	413,341
Total comprehensive income before taxes on income	414,887	391,581	200,636	-	1,007,104

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2008				
	Life assurance and long-term savings	General insurance	Not attributed to operating segments	Adjustments and offsets	Total
	NIS in thousands				
Gross premiums earned	1,783,022	2,114,016	-	(1,259)	3,895,779
Premiums earned by reinsurers	199,285	404,267	-	-	603,552
Premiums earned on retention	1,583,737	1,709,749	-	(1,259)	3,292,227
Net investment income (losses) and finance income	(1,478,152)	118,011	(111,393)	(6,835)	(1,478,369)
Income from management fees	339,478	-	60,286	(1,613)	398,151
Income from commissions	61,609	59,170	26,638	(11,943)	135,474
Total income	506,672	1,886,930	(24,469)	(21,650)	2,347,483
Payments and change in liabilities in respect of gross insurance and investment contracts	20,609	1,644,623	-	-	1,665,232
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	(192,439)	(253,785)	-	-	(446,224)
Payments and change in liabilities in respect of insurance and investment contracts on retention	(171,830)	1,390,838	-	-	1,219,008
Commissions, marketing expenses and other acquisition expenses	350,989	469,013	32,986	(12,209)	840,779
General and administrative expenses	287,693	67,178	51,077	(7,648)	398,300
Amortization of intangible assets	16,164	4,613	40,598	-	61,375
Finance expenses	10,312	2,744	132,709	(1,793)	143,972
Total expenses	493,328	1,934,386	257,370	(21,650)	2,663,434
Share in affiliates profits	-	-	16,370	-	16,370
Income (loss) before taxes on income	13,344	(47,456)	(265,469)	-	(299,581)
Other comprehensive loss before taxes on income	(48,600)	(112,001)	(103,254)	-	(263,855)
Total comprehensive loss before taxes on income	(35,256)	(159,457)	(368,723)	-	(563,436)

NOTE 3:- OPERATING SEGMENTS (Cont.)

	December 31, 2010				
	Life assurance and long-term savings	General insurance	Not attributed to operating segments	Adjustments and offsets	Total
	NIS in thousands				
Assets:					
Intangible assets	785,165	92,531	201,375	-	1,079,071
Deferred acquisition costs	689,907	193,590	-	-	883,497
Investments in affiliates	21,935	-	3,286	-	25,221
Financial investments for yield dependent contracts	11,805,612	-	-	-	11,805,612
Other financial investments	9,300,106	3,464,769	1,648,686	-	14,413,561
Reinsurance assets	365,009	972,332	-	-	1,337,341
Outstanding premiums	107,748	417,327	-	-	525,075
Other assets	323,220	202,735	594,669	(36,998)	1,083,626
Total assets	23,398,702	5,343,284	2,448,016	(36,998)	31,153,004
Total assets for yield dependent contracts	11,974,019	-	-	-	11,974,019
Liabilities:					
Liabilities for non-yield dependent insurance contracts and investment contracts	9,473,864	4,332,706	-	(855)	13,805,715
Liabilities for yield dependent insurance contracts and investment contracts	11,909,695	-	-	(1,499)	11,908,196
Excess of losses over investments in affiliates	-	-	3,974	-	3,974
Other liabilities	572,468	680,650	1,962,913	(34,644)	3,181,387
Total liabilities	21,956,027	5,013,356	1,966,887	(36,998)	28,899,272

NOTE 3:- OPERATING SEGMENTS (Cont.)

	December 31, 2009				
	Life assurance and long-term savings	General insurance	Not attributed to operating segments	Adjustments and offsets	Total
	NIS in thousands				
Assets:					
Intangible assets	774,084	84,499	189,010	-	1,047,593
Deferred acquisition costs	632,256	180,280	-	-	812,536
Investments in affiliates	20,582	-	6,842	-	27,424
Financial investments for yield dependent contracts	9,941,600	-	-	-	9,941,600
Other financial investments	8,899,331	2,980,128	1,381,593	-	13,261,052
Reinsurance assets	327,323	718,409	-	-	1,045,732
Outstanding premiums	117,932	409,766	-	-	527,698
Other assets	323,801	463,618	474,753	(25,467)	1,236,705
Total assets	21,036,909	4,836,700	2,052,198	(25,467)	27,900,340
Total assets for yield dependent contracts	10,169,178	-	-	-	10,169,178
Liabilities:					
Liabilities for non-yield dependent insurance contracts and investment contracts	8,950,707	3,975,121	-	(781)	12,925,047
Liabilities for yield dependent insurance contracts and investment contracts	10,240,863	-	-	(2,669)	10,238,194
Excess of losses over investments in affiliates	-	-	1,033	-	1,033
Other liabilities	471,536	598,381	1,737,516	(22,017)	2,785,416
Total liabilities	19,663,106	4,573,502	1,738,549	(25,467)	25,949,690

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Additional information regarding the general insurance segment

	Year ended December 31, 2010				
	Motor act	Motor casco	Property and other branches *)	Other liability branches **)	Total
	NIS in thousands				
Gross premiums	602,065	902,069	535,583	239,570	2,279,287
Reinsurance premiums	112,036	233,497	297,232	113,859	756,624
Premiums on retention	490,029	668,572	238,351	125,711	1,522,663
Change in unearned premium balance, on retention	48,647	(5,915)	(664)	6,260	48,328
Earned premium on retention	538,676	662,657	237,687	131,971	1,570,991
Net investment income and finance income	152,771	24,706	9,405	49,460	236,342
Income from commission	12,058	58,110	79,413	17,389	166,970
Total income	703,505	745,473	326,505	198,820	1,974,303
Payments and change in liabilities for gross insurance contracts	605,126	638,300	292,700	194,840	1,730,966
Reinsurers share in payments and in change in liabilities for insurance contracts	(70,334)	(160,923)	(183,301)	(95,064)	(509,622)
Payments and change in liabilities for insurance contracts on retention	534,792	477,377	109,399	99,776	1,221,344
Commission, marketing expenses and other acquisition expenses	57,064	227,107	154,965	54,913	494,049
Administrative and general expenses	28,663	30,331	24,044	8,108	91,146
Amortization of intangible assets	2,243	2,243	-	-	4,486
Finance expenses	1,524	1,467	2,029	326	5,346
Total expenses	624,286	738,525	290,437	163,123	1,816,371
Income before taxes on income	79,219	6,948	36,068	35,697	157,932
Other comprehensive income before taxes on income	5,245	881	275	1,384	7,785
Total comprehensive income before taxes on income	84,464	7,829	36,343	37,081	165,717
Liabilities in respect of gross insurance contracts as at December 31, 2010	2,365,254	578,640	404,339	984,473	4,332,706

*) Property and other branches mainly include the results of loss of property, business premises and residential insurance lines of business, whose activities constitute 77% of the total premiums in these lines.

**) Other liability branches mainly include the results of employers' liability, third party and professional liability insurance branches whose activities constitute 83% of the total premiums in these lines of business.

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Additional information regarding the general insurance segment (Cont.)

	Year ended December 31, 2009				
	Motor act	Motor casco	Property and other branches *)	Other liability branches **)	Total
	NIS in thousands				
Gross premiums	621,979	877,843	532,088	245,908	2,277,818
Reinsurance premiums	21,011	202,417	291,473	109,550	624,451
Premiums on retention	600,968	675,426	240,615	136,358	1,653,367
Change in unearned premium balance, on retention	(20,103)	47,316	12,539	21,607	61,359
Earned premium on retention	580,865	722,742	253,154	157,965	1,714,726
Net investment income and finance income	177,447	37,196	14,492	61,845	290,980
Income from commission	-	28,659	77,144	13,702	119,505
Total income	758,312	788,597	344,790	233,512	2,125,211
Payments and change in liabilities for gross insurance contracts	615,264	607,760	258,604	183,307	1,664,935
Reinsurers share in payments and in change in liabilities for insurance contracts	(25,819)	(118,770)	(141,187)	(60,992)	(346,768)
Payments and change in liabilities for insurance contracts on retention	589,445	488,990	117,417	122,315	1,318,167
Commission, marketing expenses and other acquisition expenses	60,652	220,022	151,340	55,383	487,397
Administrative and general expenses	30,002	35,605	22,311	6,865	94,783
Amortization of intangible assets	2,273	2,273	-	-	4,546
Finance expenses	1,125	1,699	2,243	372	5,439
Total expenses	683,497	748,589	293,311	184,935	1,910,332
Income before taxes on income	74,815	40,008	51,479	48,577	214,879
Other comprehensive income before taxes on income	112,975	24,812	7,833	31,082	176,702
Total comprehensive income before taxes on income	187,790	64,820	59,312	79,659	391,581
Liabilities in respect of gross insurance contracts as of December 31, 2009	2,178,784	551,567	347,375	897,395	3,975,121

*) Property and other branches mainly include the results of loss of property, business premises and comprehensive residential insurance branches whose activities constitute 78% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability, third party and professional liability insurance branches whose activities constitute 85% of the total premiums in these branches.

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Additional information regarding the general insurance segment (Cont.)

	Year ended December 31, 2008				
	Motor act	Motor casco	Property and other branches (*)	Other liability branches (*)	Total
	NIS in thousands				
Gross premiums	557,301	836,971	519,217	243,834	2,157,323
Reinsurance premiums	17,789	62,187	244,801	79,122	403,899
Premiums on retention	539,512	774,784	274,416	164,712	1,753,424
Change in unearned premium balance, on retention	(11,901)	(27,203)	3,190	(7,761)	(43,675)
Earned premium on retention	527,611	747,581	277,606	156,951	1,709,749
Net investment income and finance income	62,661	18,682	8,572	28,096	118,011
Income from commission	-	2,823	53,888	2,459	59,170
Total income	590,272	769,086	340,066	187,506	1,886,930
Payments and change in liabilities for gross insurance contracts	566,335	605,606	301,126	171,556	1,644,623
Reinsurers share in payments and in change in liabilities for insurance contracts	(12,695)	(59,501)	(130,026)	(51,563)	(253,785)
Payments and change in liabilities for insurance contracts on retention	553,640	546,105	171,100	119,993	1,390,838
Commission, marketing expenses and other acquisition expenses	58,747	200,962	153,309	55,995	469,013
Administrative and general expenses	22,875	19,205	11,125	13,973	67,178
Amortization of intangible assets	2,307	2,306	-	-	4,613
Finance expenses	209	794	1,732	9	2,744
Total expenses	637,778	769,372	337,266	189,970	1,934,386
Income (loss) before taxes on income	(47,506)	(286)	2,800	(2,464)	(47,456)
Other comprehensive loss before taxes on income	(66,987)	(19,206)	(6,374)	(19,434)	(112,001)
Total comprehensive loss before taxes on income	(114,493)	(19,492)	(3,574)	(21,898)	(159,457)
Liabilities in respect of gross insurance contracts as of January 1, 2008	1,927,671	526,999	346,055	808,994	3,609,719

*) Property and other branches mainly include the results of loss of property, business premises and comprehensive residential insurance branches whose activities constitute 77% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability, third party and professional liability insurance branches whose activities constitute 86% of the total premiums in these branches.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Additional information regarding the life assurance and long-term savings segment

	Year ended December 31, 2010			
	Provident	Pension	Life assurance	Total
	NIS in thousands			
Gross premiums earned	-	-	2,001,514	2,001,514
Premiums earned by reinsurers	-	-	208,305	208,305
Premiums earned on retention	-	-	1,793,209	1,793,209
Investment income, net and finance income	332,794	10,712	1,563,470	1,906,976
Income from management fees	76,259	279,447	201,247	556,953
Income from commission	-	330	44,223	44,553
Total income	409,053	290,489	3,602,149	4,301,691
Payments and change in gross liabilities for insurance and investment contracts	292,537	-	3,141,787	3,434,324
Reinsurers' share in payments and in change in liabilities for insurance contracts	-	-	(170,127)	(170,127)
Payments and change in liabilities for insurance and investment contracts on retention	292,537	-	2,971,660	3,264,197
Commissions, marketing expenses and other acquisition expenses	9,986	55,596	324,925	390,507
Administrative and general expenses	43,375	129,078	232,499	404,952
Amortization of intangible assets	8,031	9,800	-	17,831
Finance expenses	2,529	-	4,311	6,840
Total expenses	356,458	194,474	3,533,395	4,084,327
Share in profits of affiliate	-	-	5,160	5,160
Income before taxes on income	52,595	96,015	73,914	222,524
Other comprehensive income before taxes on income	-	-	20,482	20,482
Total comprehensive income before taxes on income	52,595	96,015	94,396	243,006

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Additional information regarding the life assurance and long-term savings segment (Cont.)

	Year ended December 31, 2009			
	Provident	Pension	Life assurance	Total
	NIS in thousands			
Gross premiums earned	-	-	1,827,732	1,827,732
Premiums earned by reinsurers	-	-	203,249	203,249
Premiums earned on retention	-	-	1,624,483	1,624,483
Investment income, net and finance income	389,611	18,046	3,262,488	3,670,145
Income from management fees	63,302	246,964	81,683	391,949
Income from commission	-	236	41,299	41,535
Total income	452,913	265,246	5,009,953	5,728,112
Payments and change in gross liabilities for insurance and investment contracts	347,296	-	4,448,762	4,796,058
Reinsurers' share in payments and in change in liabilities for insurance contracts	-	-	(152,741)	(152,741)
Payments and change in liabilities for insurance and investment contracts on retention	347,296	-	4,296,021	4,643,317
Commissions, marketing expenses and other acquisition expenses	7,591	48,661	305,218	361,470
Administrative and general expenses	39,155	114,913	204,980	359,048
Amortization of intangible assets	6,745	9,800	-	16,545
Finance expenses	1,710	-	5,285	6,995
Total expenses	402,497	173,374	4,811,504	5,387,375
Income before taxes on income	50,416	91,872	198,449	340,737
Other comprehensive income before taxes on income	-	-	74,150	74,150
Total comprehensive income before taxes on income	50,416	91,872	272,599	414,887

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Additional information regarding the life assurance and long-term savings segment: (Cont.)

	Year ended December 31, 2008			
	Provident	Pension	Life assurance	Total
	NIS in thousands			
Gross premiums earned	-	-	1,783,022	1,783,022
Premiums earned by reinsurers	-	-	199,285	199,285
Premiums earned on retention	-	-	1,583,737	1,583,737
Investment income (loss), net and finance income	262,767	2,907	(1,743,826)	(1,478,152)
Income from management fees	49,442	226,562	63,474	339,478
Income from commission	-	36	61,573	61,609
Total income	312,209	229,505	(35,042)	506,672
Payments and change in gross liabilities for insurance and investment contracts	304,574	-	(283,965)	20,609
Reinsurers' share in payments and in change in liabilities for insurance contracts	-	-	(192,439)	(192,439)
Payments and change in liabilities for insurance and investment contracts on retention	304,574	-	(476,404)	(171,830)
Commissions, marketing expenses and other acquisition expenses	6,436	42,327	302,226	350,989
Administrative and general expenses	27,049	98,672	161,972	287,693
Amortization of intangible assets	6,364	9,800	-	16,164
Finance expenses	3,114	-	7,198	10,312
Total expenses	347,537	150,799	(5,008)	493,328
Income (loss) before taxes on income	(35,328)	78,706	(30,034)	13,344
Other comprehensive loss before taxes on income	-	-	(48,600)	(48,600)
Total comprehensive income (loss) before taxes on income	(35,328)	78,706	(78,634)	(35,256)

NOTE 4:- BUSINESS COMBINATIONS

a. On March 2, 2008 Mivtachim Gemel acquired all the rights and liabilities of the provident fund "Yeter" Credit Union Provident Fund. The consolidated financial statements include the results of activities of the yield guaranteeing provident fund tracks beginning from the date of their acquisition. Mivtachim Gemel received an independent external valuation of the allocation of the cost of acquisition.

b. On September 25, 2008 Menorah Finance acquired 60% of the voting rights and profits of Menorah Mivtachim and the Association of Engineers Provident Funds Management Ltd. (hereunder – Menorah Engineers) (formerly: Engineers Educational Fund) which is an educational fund management company.

The consolidated financial statements include the financial position of Menorah Engineers beginning from the date of acquisition. Menorah Finance received an independent external valuation of the cost of acquisition.

c. The remaining identifiable assets and liabilities of the yield guaranteeing provident funds tracks and of Menorah Engineers as at the acquisition date is as follows:

	Financial statement balance	
	Yield guaranteeing provident fund tracks	Educational fund for engineers
	NIS in thousands	
Cash and cash equivalents	81,855	2,871
Quoted debt assets	110,175	-
Unquoted debt assets	3,631,385	-
Debtors and receivables	269	28
Intangible assets and goodwill (Note 5)	33,000	24,061
	3,856,684	26,960
Creditors and payables	20,999	1,699
Non-controlling interest	-	480
Liability to members of yield guaranteeing provident fund tracks	3,802,685	-
	3,823,684	2,179
Acquisition cost		
Cash paid	33,000	24,061
Shares issued at fair value	-	720
Total	33,000	24,781
Cash provided by the acquisition (used in the acquisition)		
Cash and cash equivalents in the acquired company as at the date of acquisition	81,855	2,871
Cash paid	(33,000)	(24,781)
Net cash	48,855	(21,910)

NOTE 5:- INTANGIBLE ASSETS

a. Composition and movement

	Goodwill	Insurance portfolios	Customer portfolios and agent relations	Brand name and commercial names	Computer software	Other	Total
	NIS in thousands						
Cost							
Balance as at January 1, 2009	643,720	19,267	350,030	11,849	298,494	677	1,324,037
Additions *)	-	-	-	-	62,935	-	62,935
Balance as at January 1, 2009	643,720	19,267	350,030	11,849	361,429	677	1,386,972
Additions *)	-	-	-	-	115,660	-	115,660
Balance as at December 31, 2010	643,720	19,267	350,030	11,849	477,089	677	1,502,632
Accumulated amortization and losses from impairment							
Balance as at January 1, 2009	52,826	5,802	77,365	2,077	130,854	228	269,152
Amortization recognized during the year	-	3,236	27,149	1,980	37,795	67	70,227
Amortization balance as at December 31, 2009	52,826	9,038	104,514	4,057	168,649	295	339,379
Amortization recognized during the year	-	3,189	25,889	1,954	53,089	61	84,182
Balance as at December 31, 2010	52,826	12,227	130,403	6,011	221,738	356	423,561
Net book value							
As at December 31, 2010	590,894	7,040	219,627	5,838	255,351	321	1,079,071
As at December 31, 2009	590,894	10,229	245,516	7,792	192,780	382	1,047,593

*) Additions in respect of computer software include additions for internal development: in 2010, an amount of NIS 94,889 thousand and in 2009, an amount of NIS 45,974 thousand.

NOTE 5:- INTANGIBLE ASSETS (Cont.)

b. Impairment of goodwill

In order to examine the impairment of goodwill, the goodwill was allocated to the following cash generating units:

1. The pension area is included in the life assurance and long-term savings segment.
2. General insurance
3. Mutual funds are not related to any segment of activity.
4. Provident is included in the life assurance and long-term savings segment.

Hereunder is the balance in the financial statements of the goodwill that was allocated to each of the following segments:

		December 31	
		2010	2009
		NIS in thousands	
Cash generating unit:			
Pension area	(1)	384,929	384,929
General insurance segment	(2)	26,549	26,549
Mutual funds activities	(3)	155,501	155,501
Provident funds management	(4)	14,244	14,244
		581,223	581,223

In order to examine the impairment of goodwill, the value of the smallest cash-generating unit within the segment to which goodwill was allocated must be compared to its recoverable amount. If the recoverable amount of the unit is higher than its value in the financial statements, the unit and the goodwill allocated to it will be considered unimpaired. If the value in the financial statements of the unit exceeds its recoverable amount, the Company recognizes an impairment loss.

1) The recoverable amount of the pension unit which forms part of the life assurance and long-term savings segment is determined based on the embedded value calculation principles. On the basis of this calculation the Group estimates that there is no need to write down the goodwill in respect of Mivtachim Pension.

2) The recoverable amount of Shomera as a cash-generating unit forming part of the general insurance segment is determined based on the value in use calculated at the estimated future discounted cash flows for 10 years.

   The assumptions used for the calculation of the recoverability are highly conservative with respect to the Shomera Insurance's business.

   The main assumptions used in the calculation of the value in use are:

   The capitalization interest rate - 10%.
   The rate of return on investments - 2% in real terms (assumption of annual inflation of 3%).

   The rate of revenue growth - 0%.

   The general and administrative rate of expenses out of insurance fees - 10%.

   The percentage of claims - 75%.

NOTE 5:- INTANGIBLE ASSETS (Cont.)

b. Impairment of goodwill (Cont.)

2) (Cont.)

Since the anticipated cash flows estimate is significantly higher than value of the asset in the financial statements and given the underlying conservative assumptions, the Group estimates that any reasonable change in the key assumptions used to calculate value in use will not cause the value in the financial statements to be lower than the recoverable amount.

-

3) The recoverable amount of the mutual fund activities in Menorah Mivtachim Mutual Funds Ltd. which forms a cash generating entity is determined on the basis of the value in use which is calculated according to the evaluation of the future cash flows. The examination of the recoverable amount was performed by an external valuator. From the results of the examination of the recoverable amount, it turns out that as at the reporting date there is no need to perform an impairment, since an impairment of NIS 28,244 thousand was performed in the year 2008 In order to set-up the goodwill to the recoverable amount.

The main assumptions used for examining the value in use:

The capitalization interest rate after tax – 10.6%.
The anticipated annual long term growth – 3.5%.

4) The recoverable amount of the provident funds of Mivtachim Gemel as a cash generating unit that forms part of the long term savings segment, is determined on the basis of the value in use which is calculated according to the valuation of the future cash flows. The examination of the recoverability was performed by an external appraiser.

Since the anticipated cash flows estimate is significantly higher than the asset's value in the financial statements, there is no need to amortize the goodwill.

The main assumptions used as the basis for examining the value in use:

The capitalization interest rate after tax – 9.6%.
The anticipated annual growth – 1%.

NOTE 6:- DEFERRED ACQUISITION COSTS

a. Composition:

	December 31	
	2010	2009
	NIS in thousands	
Life assurance and long-term savings	689,907	632,256
General insurance	193,590	180,280
	883,497	812,536

NOTE 6:- DEFERRED ACQUISITION COSTS (Cont.)

b. The movement in deferred acquisition costs in life assurance and long-term savings

	Life assurance and long-term savings
	NIS in thousands
Balance as at January 1, 2009	626,167
Movement during 2009:	
Additions:	
Acquisition commissions	111,733
Other acquisition expenses	58,832
Total additions	170,565
Amortizations:	
Current amortization	(70,198)
Amortization due to cancelations	(94,278)
	(164,476)
Balance at December 31, 2009	632,256
Movement during 2010:	
Additions:	
Acquisition commissions	135,952
Other acquisition expenses	78,259
Total additions	214,211
Amortizations:	
Current amortization	(72,120)
Amortization due to cancelations	(84,440)
	(156,560)
Balance at December 31, 2010	689,907

NOTE 7:- FIXED ASSETS, NET

Composition and movement:

Year 2010

	Land *) and office buildings	Computers and peripheral equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Balance as at January 1, 2010	159,841	169,626	36,755	42,828	19,080	428,130
Additions during the year	4,335	20,985	13,469	6,507	6,178	51,474
Transfer to investment property	(6,697)	-	-	-	-	(6,697)
Disposals during the year	-	-	(11,575)	(53)	-	(11,628)
Balance as at December 31, 2010	157,479	190,611	38,649	49,282	25,258	461,279
Accumulated depreciation						
Balance as at January 1, 2010	46,534	148,789	12,822	28,842	7,075	244,062
Additions during the year	5,643	13,986	5,710	2,237	1,272	28,848
Transfer to investment property	(3,577)	-	-	-	-	(3,577)
Disposals during the year	-	-	(6,974)	(48)	-	(7,022)
Balance as at December 31, 2010	48,600	162,775	11,558	31,031	8,347	262,311
Balance of depreciated cost as at December 31, 2010	108,879	27,836	27,091	18,251	16,911	198,968

NOTE 7:- FIXED ASSETS, NET (Cont.)

Composition and movement: (Cont.)

Year 2009

	Land *) and office buildings	Computers and peripheral equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Balance as at January 1, 2009	157,427	164,047	33,193	40,243	13,813	408,723
Additions during the year	2,414	5,579	9,138	2,585	5,267	24,983
Disposals during the year	-	-	(5,576)	-	-	(5,576)
Balance as at December 31, 2009	159,841	169,626	36,755	42,828	19,080	428,130
Accumulated depreciation						
Balance as at January 1, 2009	42,056	133,797	10,728	26,736	6,305	219,622
Additions during the year	4,478	14,992	5,112	2,106	770	27,458
Disposals during the year	-	-	(3,018)	-	-	(3,018)
Balance as at December 31, 2009	46,534	148,789	12,822	28,842	7,075	244,062
Balance of depreciated cost as at December 31, 2009	113,307	20,837	23,933	13,986	12,005	184,068

(*) The land is wholly owned by the Group.

NOTE 8:- INVESTMENT IN INVESTEES

Affiliates

a. Composition of investment in affiliates treated according to the equity value method

	December 31	
	2010	2009
	NIS in thousands	
Cost of shares	23	23
Long term loan	19,788	20,582
Company's share in the profits accumulated since the date of acquisition, net	2,619	4,910
Adjustments resulting from the translation of financial statements of activities abroad	(1,183)	876
	21,247	26,391

Investments (excess of losses over investments) in affiliates reported in the statement of financial position, as follows:

	December 31	
	2010	2009
	NIS in thousands	
Asset	25,221	27,424
Liability	(3,974)	(1,033)
	21,247	26,391

The Group extended loans to affiliates amounting to NIS 230,908 as at the reporting date (as at December 31, 2009 in the amount of NIS 181,733), reported under the item financial investments as unquoted debt assets. For additional details see Note 36 a below.

b. A summary of the financial data from the financial statements of affiliates treated according to the equity value method, in accordance with the percent of ownership held by the Group:

	December 31	
	2010	2009
	NIS in thousands	
The Group's share in the Company's net assets are included in accordance with the holding rate therein:		
Assets	285,443	237,732
Liabilities	(264,196)	(211,341)
Net assets	21,247	26,391

	Year ended as at December 31		
	2010	2009	2009
	NIS in thousands		
The Group's share in the results of activities of affiliates in accordance with the holding rate therein:			
Income	14,825	8,044	28,391
Net income (loss) for the period	121	(1,808)	16,370

NOTE 8:- INVESTMENT IN INVESTEES (Cont.)

Affiliates (Cont.)

c. Details of holding rates and additional information

		In the issued capital, in profits and in the voting rights December 31	
		2010	2009
	Comment	Percentage	
Affiliates of a subsidiary – Menorah Mivtachim Real Estate LTD. (hereunder – Menorah Real Estate)			
Belltrend Menora Enterprises LTD.	1)	50	50
Yatelsis Development LTD.	2)	60	60
Yatelsis River Development LTD.	3)	60	60
MXR Development LTD.	4)	50	50
Solangia LTD.	5)	42	-
Bruseco Holding LTD.	5)	42	-
Pellariway Holdings LTD.	5)	42	-
An affiliate of the subsidiary – Menorah Mivtachim Insurance Ltd.:			
Surrey Street Limited Partnership	6)	28.1	28.1

The minority shareholders in Yatelsis River and Yatelsis Development, and the shareholders that hold 50% of Belltrend and MXR shares, have controlling interests in significant decisions regarding the companies' activities such as: veto rights for engagements with new projects, appointment of managers and the determining their employment terms, approval of the current budget, etc. In light of the circumstances described above, Menorah Real Estate was prevented from the actual implementation of control in Yatelsis River and in Yatelsis Development and the joint control in Belltrend and in MXR. Therefore, the investment in the abovementioned companies was reported in the financial statements of Menorah Real Estate according to the equity value method.

NOTE 8:- INVESTMENT IN INVESTEES (Cont.)

Affiliates (Cont.)

c. Details of holding rates and additional information (Cont.)

1) Belltrend Menora Enterprises LTD. (hereunder - Belltrend) was incorporated in Cyprus in the year 2005. Belltrend, together with other investors, own yielding real estate in Bonn and Cologne, Germany.

During the year 2009 lessee of the asset in Bonen entered into receivership proceedings, and consequently she left the property. As at the reporting date there was no alternative lessee for the property. Belltrend's investment in the said asset was fully amortized in the year 2009.

In the reporting year, a trustee on behalf of the lender, from whom Belltrend took non-recourse loans for financing the acquisition of the asset in Cologne, requested a valuation of the acquired asset, according to which the asset is significantly lower than the value of the asset in the books and constitutes a breach of financial stipulation. The balance of the Group’s maximum exposure, regarding its abovementioned investment, is about NIS 10 million.

2) Yatelsis Development LTD. (hereunder – Yatelsis) was incorporated in Cyprus in the year 2007. In October 2007 Yatelsis acquired, together with other investors, real estate in St. Petersburg, Russia on the area of about 35,000 square meters for industrial use, warehouses and office premises. During the reporting year Yatelsis dealt with the planning of an apartment building project of about 100 thousand square meters.

3) In June 2008 Yatelsis River Development LTD (hereunder – Yatelsis River) acquired shares in a Russian company who owns real estate of about 43 dunam in St. Petersburg, Russia, in equal parts with a company that was incorporated and traded in Poland. The transaction amounts to about € 48 million. The direct investment of Menorah Real Estate is about € 11.5 million. The parties intend to initiate a project for the development of the acquired land which is located in the center of St. Petersburg and to build office buildings on the area of about 100 thousand square meters, on this cite. The construction project is expected to be financed by “construction accompanying” loans from foreign banks.

4) MXR Development LTD. (hereunder – MXR) was incorporated in Cyprus in the year 2007, in order to grant management services for assets acquired by Yatelsis, and Yatelsis River as mentioned in paragraph 2 and 3 above and it is also engaged in entrepreneurship activities.

NOTE 8:- INVESTMENT IN INVESTEES (Cont.)

Affiliates (Cont.)

c. Details of holding rates and additional information (Cont.)

5) In May 2010 Menorah Real Estate signed an agreement for the acquisition of 42% of the shares of Solangia Ltd. (hereunder - Solangia) , Bruseco Holding LTD and Pellariway Holdings LTD, Cyprus companies, operating in the establishment of solar projects in Europe. In accordance with the investment agreement, an initial framework of owners' loans in the amount of about € 20 million, of which € 11 million will be provided by Menorah Real Estate, will be provided for the expansion of Solangia's activities, which concentrates the main activities. Up to the reporting date, Menorah Real Estate provided Solangia with owners loans in the amount of about € 8.2 million. After the reporting period Solangia received additional loans in the amount of about € 1.4 million.

6) In December 2009 Menorah Insurance, together with New Mivtachim Pension Fund, managed by a sub-subsidiary Menorah Mivtachim Pension Ltd., through designated companies abroad, acquired 48% of the rights in a partnership that owns an office building in the UK, which is leased for the period of 20 years, to Aviva Central Services UK Ltd. Menorah Insurance holds 28.1% in the partnership, of which 20.15% through the investment portfolios of policies participating in investment income. The investment which was performed through the investment portfolio of the policies participating in investment income, is treated as a financial investment and is measured according to its fair value.

7) In the reporting year the Company received a dividend from affiliates in the amount of NIS 2,412 thousand.

NOTE 8:- INVESTMENT IN INVESTEES (Cont.)

Subsidiaries

d. Details regarding the corporate subsidiaries

	December 31, 2010					
				Amount of investment		
Companies consolidated by the Company	Shares that provide voting rights	Shares that provide profit rights	Country of incorporation	In shares	In loans	In capital notes
	Holding rate			NIS in thousands		
Menorah Mivtachim Insurance Ltd.	100.00%	100.00%	Israel	2,058,517	-	257,146
Menorah Mivtachim Finance Ltd.	100.00%	100.00%	Israel	31,591	188,066	10,613
Menorah Mivtachim Real Estate Ltd.	100.00%	100.00%	Israel	12,007	207,429	-
Menorah Mivtachim Mushlemet Ltd.	100.00%	100.00%	Israel	(1,205)	1,250	-
Dorot Customer Relations Management Ltd. *)	100.00%	100.00%	Israel	1,205	-	-
Menorah Provident Funds Management Ltd. *)	100.00%	100.00%	Israel	1,169	-	-
Menorah Agents Services (1994) Ltd. *)	100.00%	100.00%	Israel	282	-	-

	December 31, 2009					
	Shares that provide voting rights	Shares that provide profit rights	Country of incorporation	In shares	In loans	In capital notes
	Holding rate			NIS in thousands		
Companies consolidated by the Company						
Menorah Mivtachim Insurance Ltd.	100.00%	100.00%	Israel	1,814,340	-	-
Menorah Mivtachim Finance Ltd.	100.00%	100.00%	Israel	(8,851)	238,533	10,609
Menorah Mivtachim Real Estate Ltd.	100.00%	100.00%	Israel	18,393	150,756	-
Menorah Mivtachim Mushlemet Ltd.	100.00%	100.00%	Israel	(1,172)	1,218	-
Dorot Customer Relations Management Ltd. *)	100.00%	100.00%	Israel	1,184	-	-
Menorah Provident Funds Management Ltd. *)	100.00%	100.00%	Israel	1,147	-	-
Menorah Agents Services (1994) Ltd. *)	100.00%	100.00%	Israel	278	-	-

*) Inactive companies.

NOTE 9:- INVESTMENT PROPERTY

a. Composition and movement:

	2010	2009
	NIS in thousands	
Balance as at January 1	127,196	107,260
Additions during the year		
Acquisitions and additions to existing assets	22,545	3,845
Transfer from fixed assets	3,120	-
Total additions	25,665	3,845
Fair value adjustment	20,548	16,091
Balance as at December 31	173,409	127,196

b. Investment property is recorded on the basis of the fair value as determined in the valuation performed by an external independent assessors with expertise in valuation of real estate and have the necessary knowledge and experience. The fair value is determined based on the latest transactions in the market regarding real estate similar and in the location of the real estate owned by the Group, and based on the expected future cash flows estimates from the asset. In the estimation of the cash flows the inherent risk is taken into account. In the calculation of the fair value the assessors used the capitalization rates of 8.5% - 9%.

The investment property includes vacant land, real estate leased for businesses and apartments least for residence.

c. Regarding engagements relating to lease of investment property, see Note 37d.

d. Details regarding rights in real estate serving the Group as investment property

	Date of completion of leasing period (in years)	December 31 2010	December 31 2009
		NIS in thousands	
Ownership	-	172,260	126,282
Capitalized leasing *)	1.25 – 56	1,149	914
		173,409	127,196

*) After the reporting period the leasing period of the asset, whose end of leasing period as at the reporting date was 1.25 years, was expended for an additional 49 years.

NOTE 10:- DEBTORS AND RECEIVABLES

a. Composition:

	December 31	
	2010	2009
	NIS in thousands	
Income receivable	4,833	7,477
Prepaid expenses	32,416	29,972
Advances to suppliers	3,473	4,385
Insurance companies and insurance brokers – other accounts	32,103	30,040
Insurance agents	70,403	81,267
Others	12,100	8,015
Net of provision for doubtful debts	(46,970)	(44,886)
Total debtors and receivables	108,358	116,270

b. Hereunder is the movement in provision for doubtful debts:

	December 31	
	2010	2009
	NIS in thousands	
Balance as at January 1	44,886	39,936
Change in provision	2,084	4,950
Balance as December 31	46,970	44,886

NOTE 11:- OUTSTANDING PREMIUMS

a. Composition

	December 31 2010	December 31 2009
	NIS in thousands	
Outstanding premiums *)	530,463	533,651
Less provision for doubtful debts	(5,388)	(5,953)
Total outstanding premiums	525,075	527,698
*) Including checks receivable and standing orders	378,553	372,774

b. Aging

	December 31 2010	December 31 2009
	NIS in thousands	
Outstanding premium whose value did not deteriorate not including arrears	373,988	373,469
In arrears:		
Less than 90 days	69,440	64,232
Between 90 – 180 days	42,038	42,764
Over 180 days	22,633	26,889
Total outstanding premiums whose value did not deteriorate	508,099	507,354
Outstanding premium whose value deteriorated	16,976	20,344
Total outstanding premium	525,075	527,698

NOTE 11:- OUTSTANDING PREMIUMS (Cont.)

c. Hereunder is the movement in provision for doubtful debts in respect of outstanding premiums:

	December 31	
	2010	2009
	NIS in thousands	
Balance as at January 1	5,953	5,194
Change in provision	(565)	759
Balance as at December 31	5,388	5,953

NOTE 12:- ASSETS FOR YIELD DEPENDENT CONTRACTS

a. Hereunder are details of the assets

	December 31	
	2010	2009
	NIS in thousands	
Financial investments:		
Quoted debt assets	3,978,995	3,368,586
Unquoted debt assets *)	3,113,895	3,037,997
Shares	3,226,378	2,496,219
Other financial investments	1,486,344	1,038,798
Total financial investments	11,805,612	9,941,600
Cash and cash equivalents	67,575	105,295
Other	100,832	122,283
Total assets for yield dependent contracts	11,974,019	10,169,178
*) includes unquoted debt assets measured according to the amortized cost (see Note 2(g)(4)(a))	467,923	469,826

Concerning the exposure in respect of assets for yield dependant contracts, see Note 35(6) regarding risk management.

b. Classification of financial instruments by fair value hierarchy

The table below represents an analysis of financial instruments reported at fair value. The various levels are described in the following manner:

- Level 1 - Fair value that is measured by using quoted prices (unadjusted) in active markets for identical instruments.
- Level 2 - Fair value that is measured by using anticipated data, directly or indirectly, that is not included in Level 1 above.
- Level 3 - Fair value that is measured by using data that is not based on anticipated market data.

NOTE 12:- ASSETS FOR YIELD DEPENDENT CONTRACTS (Cont.)

b. Classification of financial instruments by fair value hierarchy (Cont.)

	As at December 31, 2010			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	3,978,995	-	-	3,978,995
Unquoted debt assets	-	2,557,725	88,247	2,645,972
Shares	3,101,524	-	124,854	3,226,378
Other financial investments	875,506	56,572	554,266	1,486,344
Total	7,956,025	2,614,297	767,367	11,337,689

	As at December 31, 2009			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	3,368,586	-	-	3,368,586
Unquoted debt assets	-	2,500,891	67,280	2,568,171
Shares	2,413,220	-	82,999	2,496,219
Other financial investments	621,641	4,784	412,373	1,038,798
Total	6,403,447	2,505,675	562,652	9,471,774

NOTE 12:- ASSETS FOR YIELD DEPENDENT CONTRACTS (Cont.)

c. The movement in financial assets measured at fair value and classified to level 3

	Fair value measurement during the reporting period			
	Financial assets at fair value through profit and loss			
	NIS in thousands			
	Unquoted debt assets	Shares	Other financial investments	Total
Balance as at January 1, 2010	67,280	82,999	412,373	562,652
Total income recognized:				
In profit and loss	888	9,897	39,436	50,221
Acquisitions	60,358	8,916	157,554	226,828
Sales	-	-	(39,271)	(39,271)
Surrenders	(40,279)	-	(15,826)	(56,105)
Transfers to Level 3	-	23,042	-	23,042
Balance as at December 31, 2010	88,247	124,854	554,266	767,367
Total income (loss) for the period included in profit and loss in respect of assets held as at December 31, 2010	(495)	9,897	33,306	42,708

	Fair value measurement during the reporting period			
	Financial assets at fair value through profit and loss			
	NIS in thousands			
	Unquoted debt assets	Shares	Other financial investments	Total
Balance as at January 1, 2009	59,761	23,118	337,443	420,322
Total income recognized:				
In profit and loss	2,489	1,363	7,210	11,062
Acquisitions	3,181	59,022	172,545	234,748
Sales	(2,648)	-	(64,944)	(67,592)
Surrenders	(3,370)	(504)	(39,881)	(43,755)
Transfers to Level 3	7,867	-	-	7,867
Balance as at December 31, 2009	67,280	82,999	412,373	562,652
Total income for the period included in profit and loss in respect of assets held as at December 31, 2009	2,416	1,363	5,680	9,459

NOTE 13:- OTHER FINANCIAL INVESTMENTS

a. Composition

	Detailed in paragraph	December 31, 2010 Measured at fair value through profit and loss	Available for sale	Loans and debtors	Total
		NIS in thousands			
Quoted debt assets	b	733,689	3,722,068	-	4,455,757
Unquoted debt assets	c	-	-	9,166,145	9,166,145
Shares	e	42,934	250,502	-	293,436
Others	f	355,953	142,270	-	498,223
Total		1,132,576	4,114,840	9,166,145	14,413,561

	Detailed in paragraph	December 31, 2009 Measured at fair value through profit and loss	Available for sale	Loans and debtors	Total
		NIS in thousands			
Quoted debt assets	b	508,255	3,253,843	-	3,762,098
Unquoted debt assets	c	-	-	8,866,223	8,866,223
Shares	e	39,483	225,295	-	264,778
Others	f	267,139	100,814	-	367,953
Total		814,877	3,579,952	8,866,223	13,261,052

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

b. Quoted debt assets

	December 31	
	2010	2009
	NIS in thousands	
Government bonds		
Measured at fair value through profit and loss: designated at the time of initial recognition	325,698	239,047
Available for sale	1,773,136	1,387,969
Total government bonds	2,098,834	1,627,016
Other debt assets:		
Unconvertible		
Measured at fair value through profit and loss designated at the time of initial recognition	399,627	247,487
Available for sale	1,948,932	1,865,874
Total other unconvertible debt assets	2,348,559	2,113,361
Other convertible debt assets		
Measured at fair value through profit and loss designated at the time of initial recognition	8,364	21,721
Total quoted debt assets	4,455,757	3,762,098
Fixed impairments allocated to profit and loss (accumulated)	38,670	77,311

c. Unquoted debt assets

	December 31, 2010	
	Carrying amount	Fair value
	NIS in thousands	
Government bonds		
Reported as loans and debtors:		
Hetz (life linked) bonds and deposits with the Accountant General	6,108,845	7,506,553
Other debt assets:		
Unconvertible		
Reported as loans and debtors, including deposits with banks	3,057,300	3,249,742
Total unquoted debt assets	9,166,145	10,756,295
Fixed impairment allocated to profit and loss (accumulated)	100,866	

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

c. Unquoted debt assets (Cont.)

	December 31, 2009	
	Carrying amount	Fair value
	NIS in thousands	
Government bonds		
Reported as loans and debtors:		
Hetz (life linked) bonds and deposits with the Accountant General	5,926,916	7,014,019
Other debt assets:		
Unconvertible		
Reported as loans and debtors, including deposits with banks	2,939,307	2,993,448
Total unquoted debt assets	8,866,223	10,007,467
Fixed impairment allocated to profit and loss (accumulated)	101,794	

d. Details regarding interest and linkage in respect of debt assets

	December 31	
	2010	2009
	Percentage	
Quoted debt assets		
Linkage basis:		
Linked to the CPI	3.05	6.52
In NIS	3.71	4.93
Linked to foreign currency	5.79	6.92
Unquoted debt assets		
Linkage basis:		
Linked to the CPI	5.39	6.09
In NIS	4.66	6.77
Linked to foreign currency	5.32	5.73

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

e. Shares

	December 31 2010	December 31 2009
	NIS in thousands	
Quoted		
Measured at fair value through profit and loss designated at the time of initial recognition	42,068	39,380
Available for sale	240,096	220,079
Total quoted shares	282,164	259,459
Unquoted		
Measured at fair value through profit or loss designated at the time of initial recognition	866	103
Available for sale	10,406	5,216
Total unquoted shares	11,272	5,319
Total shares	293,436	264,778
Fixed impairment allocated to profit and loss (accumulated)	43,209	47,847

f. Others

	December 31 2010	December 31 2009
	NIS in thousands	
Quoted		
Measured at fair value through profit and loss designated at the time of initial recognition	224,714	192,572
Available for sale	77,443	47,803
Derivative instruments *)	3,482	308
Total other quoted financial investments	305,639	240,683
Unquoted		
Measured at fair value through profit and loss designated at the time of initial recognition	109,279	68,413
Available for sale	64,827	53,011
Derivative instruments *)	18,478	5,846
Total other unquoted financial investments	192,584	127,270
Total other financial investments	498,223	367,953
Fixed impairment allocated to profit and loss (accumulated)	16,294	13,493

*) Financial investments that are classified to others mainly include investments in basket certificates, participation certificates in mutual funds, investment funds, financial derivatives, future contracts, options and structured products.

Regarding liabilities for investments in investment funds, see Note 37 c below.

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

f. Others (Cont.)

*) Hereunder is the amount of net exposure of the base asset, reported in Delta terms of financial transactions performed as at the date of the financial statements:

	December 31	
	2010	2009
	NIS in thousands	
Shares	2,274	1,544
Foreign currency	(509,296)	(298,429)

g. The interest rates used for determining fair value

The fair value of the unquoted debt assets that are measured at fair value through profit and loss and the unquoted financial debt assets measured at their amortized cost, for which information regarding the fair value is given for Note purposes only is determined through the capitalized estimate of the anticipated cash flows in their respect. The capitalization rates are based on the yields of the government bonds and the corporate bonds' margins, as measured in the Tel-Aviv Stock Exchange, with the addition of premium in respect of non-negotiability. The interest rate used for capitalization is determined by a company which provides interest quotes in relation to various risk rates.

In December 2010, the Ministry of Finance issued a press release according to which the "fair margin" group won a tender for the construction and operation of stock price quotations and interest rates pool for institutional entities. Beginning from March 20, 2011 (hereunder - the transition day), the fair margin group will provide price quotations and discounted interest rates to institutional entities for revaluation of unquoted debt assets (hereunder - the new model.). From that date, the Shaarey Ribit company will no longer supply these quotations to institutional entities. The new model is not essentially based on the credit rating of the asset but on the division of the market to echelons in accordance with the yield from surrenders of debt assets and determining the location of the unquoted asset in those echelons, in accordance with the risk premium derived from the transaction/issue prices in the non-commercial market. The new model expresses more updated changes in the risk premium of the debt assets, as they are reflected in the commercial market, in accordance with changes in the specific echelon. In the Group's opinion, the new model meets the requirements of the Regulator of Insurance and accounting regulations regarding measurement of fair value of financial assets. The transition to the new model will be applied as a change in estimate. No significant affect is expected in respect of the financial statements as a result of the initial application of the new model on the transitional date.

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

g. The interest rates used for determining fair value (Cont.)

Hereunder are the interest rates for the unquoted debt assets, which were calculated in accordance with the average duration of the rating range:

	December 31	
	2010	2009
	In percentage	
For unquoted debt assets according to local rating *):		
AA and above	1.6	4.2
BBB to A+	4.1	7.1
Lower than BBB	13.1	31.2
Not rated	36.1	43.7

*) The sources for the level of rating in Israel are the rating company “Ma’a lot”, “Midroog” and internal rating. The data from ”Midroog” was transferred to the rating categories according to the generally accepted conversion co-efficients. Each rating includes all the ranges: for example, rate A includes A- up to A+.

h. Classification of financial instruments by fair value hierarchy

The table below represents an analysis of financial instruments reported at fair value. The various levels are described in the following manner:

- Level 1 - Fair value that is measured by using quoted prices (unadjusted) in active markets for identical instruments.
- Level 2 - Fair value that is measured by using anticipated data, directly or indirectly, that is not included in Level 1 above.
- Level 3 - Fair value that is measured by using data that is not based on anticipated market data.

The balance in the financial statements of cash, outstanding premiums, customers, debtors and receivables and current tax assets, matches or almost matches their fair value.

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

	As at December 31, 2010			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	4,455,757	-	-	4,455,757
Shares	282,164	-	11,272	293,436
Others	305,639	18,478	174,106	498,223
Total	5,043,560	18,478	185,378	5,247,416

	As at December 31, 2009			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	3,762,098	-	-	3,762,098
Shares	259,459	-	5,319	264,778
Others	239,441	5,846	122,666	367,953
Total	4,260,998	5,846	127,985	4,394,829

The movement in financial assets measured at fair value and classified to Level 3

	Fair value measurement during the reporting period		
	Financial assets at fair value through profit and loss and available-for sale financial assets		
	Shares	Others	Total
Balance as at January 1, 2010	5,319	122,666	127,985
Total recognized income (losses):			
In profit and loss	(1,641)	7,616	5,975
In other comprehensive income	1,151	2,800	3,951
Acquisitions	3,785	53,700	57,485
Sales	-	(9,335)	(9,335)
Surrenders	-	(3,341)	(3,341)
Transfers to Level 3	2,658	-	2,658
Balance as at December 31, 2010	11,272	174,106	185,378
Total income (losses) for the period included in profit and loss in respect of assets held as at December 31, 2010	(1,641)	10,462	8,821

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

The movement in financial assets measured at fair value and classified to Level 3 (Cont.)

	Fair value measurement during the reporting period		
	Financial assets at fair value through profit and loss and available-for sale financial assets		
	Shares	**Others**	**Total**
Balance as at January 1, 2009	164	117,464	117,628
Total recognized income (losses):			
In profit and loss	(169)	(7,974)	(8,143)
In other comprehensive income	341	688	1,029
Acquisitions	5,079	28,286	33,365
Sales	-	(11,748)	(11,748)
Surrenders	(96)	(4,050)	(4,146)
Balance as at December 31, 2009	5,.319	122,666	127,985
Total losses for the period included in profit and loss in respect of assets held as at December 31, 2009	(169)	(7,067)	(7,236)

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

i. Analysis of the anticipated realization dates:

As at December 31, 2010

	Up to one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Not yet determined	Consolidated insurance company	Total
	NIS in thousands								
Financial assets measured at fair value through profit and loss:									
Quoted debt assets	11,877	39,264	99,684	46,860	39,398	144,461	-	352,145	733,689
Shares	6,381	-	15,198	-	-	-	-	21,355	42,934
Others	12,010	-	5,082	1,078	-	62,851	-	274,932	355,953
Financial assets available for sale:									
Quoted debt assets	3,388	31,215	45,164	14,727	5,669	297	-	3,621,608	3,722,068
Shares	-	-	-	-	-	-	-	250,502	250,502
Others	-	-	-	-	-	-	-	142,270	142,270
Loans and debtors:									
Unquoted debt assets	31,736	44,200	30,405	117,499	97,806	3,926,221	-	4,918,278	9,166,145
	65,392	114,679	195,533	180,164	142,873	4,133,830	-	9,581,090	14,413,561

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

i. Analysis of the anticipated realization dates: (Cont.)

As at December 31, 2009

	Up to one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Not yet determined	Consolidated insurance company	Total
	NIS in thousands								
Financial assets measured at fair value through profit and loss:									
Quoted debt assets	5,989	50,179	21,958	14,324	20,787	90,399	-	304,619	508,255
Shares	8,946	9,924	-	-	-	-	197	20,416	39,483
Others	4,205	1,177	1,077	1,390	770	43,602	-	214,918	267,139
Financial assets available for sale:									
Quoted debt assets	11,055	30,947	47,589	67,912	7,018	10,988	-	3,078,334	3,253,843
Shares	-	-	-	-	-	-	-	225,295	225,295
Others	-	-	-	-	-	-	-	100,814	100,814
Loans and debtors:									
Unquoted debt assets	456,672	408,657	358,092	316,174	354,366	2,193,606	-	4,778,656	8,866,223
	486,867	500,884	428,716	399,800	382,941	2,338,595	197	8,723,052	13,261,052

NOTE 14:- CASH AND CASH EQUIVALENTS

a. For yield dependent contracts:

	December 31	
	2010	2009
	NIS in thousands	
Cash and deposits for immediate withdrawal	67,575	105,295

The cash in the banking corporations as at the reporting date, bear current interest based on the interest rate in respect of the daily bank deposits of 1.45% - 1.80%.

Regarding the linkage terms of the cash and short term deposits, see Note 35(2)g.

b. Others:

	December 31	
	2010	2009
	NIS in thousands	
Cash and deposits for immediate withdrawal:		
In Shekels	278,084	272,183
In Dollars	45,842	24,256
In other foreign currency	14,885	2,693
	338,811	299,132
Short term deposits – in NIS	97,180	231,308
Cash and cash equivalents	435,991	530,440

The cash in the banking corporations as at the reported date, bear current interest based on the interest rate in respect of the daily bank deposits between 1.45% - 1.80%.

Short term deposits deposited in banking corporations are for the periods of between one week to three months. The deposits bear interest at the average rate of 2.08 % (previous year 1.5 %).

Regarding the linkage and interest terms of the cash and short term deposits, see Note 35(2)g.

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS

a. Composition of share capital

	December 31, 2010		December 31, 2009	
	Authorized	Issued and paid up	Authorized	Issued and paid up
	NIS in thousands			
Ordinary shares of NIS 1 nominal value each	88,000	63,272	88,000	63,272

b. Movement in share capital

The issued and paid up capital:

	Number of shares in thousands
Balance as at January 1, 2008	61,575
Issue of share capital – see paragraph f(2) below	1,697
Balance as at December 31, 2008 and December 31, 2009 and December 31, 2010	63,272

c. Rights attached to the shares

1. Voting rights in the general assembly, right to receive dividends, rights when the company is liquidated and right to appoint the company's Directors.

2. Traded on the Tel-Aviv Stock Exchange.

d. Dividend

In the years 2008 and 2009 and 2010 no dividend was distributed.

e. Other capital reserves

Composition – relating to the Company's shareholder:

	NIS in thousands
Revaluation reserve in respect of valuation of real estate	7,036
Tax benefit in respect of grant of shares to the Company's CEO (former CEO of Menorah Insurance)	5,961
Transaction with controlling shareholder	696
Balance as at December 31, 2009 and December 31, 2010	13,693

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

e. Other capital reserves (Cont.)

Real estate revaluation reserve

The revaluation reserve serves for registering the adjustment of the fair value (less the tax effect) of fixed assets and impairment to the degree that they relate to the increase in value recorded in respect of that asset in capital reserves.

Capital reserve in respect of transaction with controlling shareholder

The capital reserve relates to a transaction performed between the Company's subsidiaries. The difference between the fair value and the proceeds that were determined in the transaction is allocated to the capital reserve.

f. Non-controlling interests

1. Composition of non-controlling interests in the consolidated statements of financial position:

	December 31	
	2010	2009
	NIS in thousands	
The share in the equity value	1,093	682

2. Acquisition of the minority interests in Menorah Insurance

In the framework of the change in the plan to allot shares to the Company's CEO (formerly the CEO of Menorah Insurance) (see Note 32 below), on August 24, 2008 the Company issued 1,696,518 shares of NIS 1 nominal value each against receipt of the entire remaining balance of Menorah Insurance's shares held in trust for the CEO of the Company according to the original share allotment plan, and as a result the Company's holding rate in Menorah Insurance increased from 96.943% to 100%.

Management's policy is to maintain a solid capital basis in order to preserve the Company's ability to continue to operate so as to yield a return for its shareholders and in order to support future business development. Menorah Insurance and Shomera Insurance are subject to requirements prescribed by the Regulator.

a. Mivtachim Pension, Menorah Mivtachim Gemel Ltd. and Menorah Mivtachim and the Association of Engineers Provident Fund Management Ltd. (hereunder – Menorah Engineers) are required to comply with the conditions of minimum shareholders' equity, pursuant to the Income Tax Regulations (Principles for Approval and Management of Provident Funds), 1964.

b. Menorah Mivtachim Trust Funds Ltd. is required to comply with the Joint Investment in Trust Regulations (Shareholders' Equity and Insurance of a Fund Manager and Trustee and Qualification Conditions of Directors and Investment Committee Members), 1995.

c. Menorah Mivtachim Investment Portfolio Management Ltd. is required to comply with the Business Arrangement Regulations for Investment Consultation, Investment Marketing and Investment Portfolio Management (Shareholders' Equity and Insurance), 2000.

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

2. Hereunder is the data regarding the required and existing capital of Menorah Insurance and Shomera Insurance in accordance with Capital Regulations and the Regulator's directives.

	Menorah Insurance	
	December 31	
	2010	2009
	NIS in thousands	
Minimum shareholders' equity:		
Amount required as per the amended capital regulations (a1)	2,526,916	2,417,539
Amount required as per the regulations on the eve of publication of the amendment	1,821,384	1,792,172
Difference (b)	705,532	625,367
The required amount as per the capital regulations prior to the publication of the amendment	1,821,384	1,792,172
60% of the difference required for the supplementation as at December 31, 2010 (30% of the difference as at December 31, 2009)	423,319	187,610
Amount required as per the regulations and the Regulator's directives	2,244,703	1,979,782
Existing amount calculated as per the capital regulations:		
First tier capital - basic	2,048,846	1,804,669
First tier capital – complex (c)	263,951	-
Total first tier capital	2,312,797	1,804,669
Second tier capital – subordinate (d)	609,668	706,305
Total existing equity calculated as per the capital regulations	2,922,465	2,510,974
Surplus (*)	677,762	531,192

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

2. Hereunder is the data regarding the required and existing capital of Menorah Insurance and Shomera Insurance in accordance with Capital Regulations and the Regulator's directives. (Cont.)

(*) Other than the general requirements in the companies law, dividend distribution from capital surplus in insurance companies is also subject to liquidity requirements and compliance with the principles of the investment regulations

	Menorah Insurance	
	December 31	
	2010	2009
	NIS in thousands	
(a1) The required amount includes capital requirements in respect of:		
Activities in general insurance	282,681	277,428
Activities in Long Term Care insurance	6,731	5,602
Extraordinary risks in life assurance	141,358	152,604
Deferred acquisition costs in life assurance and in illness and hospitalization insurance	650,863	587,028
Requirements in respect of yield guaranteeing programs	3,477	1,127
Inadmissible assets as defined in the Capital Regulations	48,768	73,933
Investment in insurance companies and in consolidated managing companies	759,975	760,729
Investment assets and other assets	347,772	310,661
Catastrophe risks in general insurance	126,347	106,016
Operational risks	127,137	115,852
Guarantees	31,807	26,559
Total amount required according to the amended capital regulations	2,526,916	2,417,539

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

2. Hereunder is the data regarding the required and existing capital of Menorah Insurance and Shomera Insurance in accordance with Capital Regulations and the Regulator's directives (Cont.).

	Shomera Insurance	
	December 31	
	2010	2009
	NIS in thousands	
Minimum shareholders' equity:		
Amount required as per the amended capital regulations (a2)	188,613	170,272
Amount required as per the regulations on the eve of publication of the amendment	116,143	103,093
Difference (b)	72,470	67,179
The required amount as per the capital regulations prior to the publication of the amendment	116,143	103,093
60% of the required difference for supplementation as at December 31, 2010, (30% of the difference as at December 31, 2009)	43,482	20,154
Amount required as at balance sheet date as per the regulations and the Regulator's directives (b)	159,625	123,247
Existing amount calculated as per the capital regulations:		
First tier capital - basic	179,005	135,317
Less first tier capital beyond the basic capital multiplication limit	(36,383)	-
Second tier capital – subordinate (c)	34,907	31,790
Total existing amount calculated as per the capital regulations	177,529	167,107
Surplus (*)	17,904	43,860

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

2. Hereunder is the data regarding the required and existing capital of Menorah Insurance and Shomera Insurance in accordance with Capital Regulations and the Regulator's directives. (Cont.)

(*) Other than the general requirements in the companies law, dividend distribution from capital surplus in insurance companies is also subject to liquidity requirements and compliance with the principles of the investment regulations

In accordance with the approval of Shomera Insurance's investment in Sinai Insurance Agency Ltd. (hereunder – Sinai Agency), the Regulator of Insurance announced that the investment in Sinai Agency will be on condition that it will be from capital surplus for investment only.

	Shomera Insurance	
	December 31	
	2010	2009
	NIS in thousands	
Hereunder the amount of investment in Sinai Agencies:	8,697	5,607
(a2) The required amount includes capital requirements in respect of:		
Activities in general insurance	114,617	101,674
Inadmissible assets as defined in the Capital Regulations	1,526	1,419
Investment assets and other assets	43,231	40,768
Catastrophe risks in general insurance	9,404	9,030
Operational risks	19,835	17,381
Total amount required according to the amended capital regulations	188,613	170,272

The Capital Requirements from Mivtachim Pension

Mivtachim Pension is subject to the capital requirements prescribed by the Regulator and the Income Tax Ordinance. In accordance with the directives determined in the Income Tax Ordinance, Mivtachim Pension is required to comply with the conditions of the minimum required shareholders' equity in the amount of NIS 7 million, linked to the CPI according to the base index of November 2001 (as at December 31, 2010 – NIS 8.6 million). Mivtachim Pension complies with the required condition and its shareholders' equity as at December 31, 2010 amounts to about NIS 389 million.

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

2. Hereunder is the data regarding the required and existing capital of Menorah Insurance and Shomera Insurance in accordance with Capital Regulations and the Regulator's directives. (Cont.)

(b) In November 2009, an amendment to the Supervision of Financial Services Regulations (Minimum Solvency Margin Required from an Insurer) (Amendment), 2009 (hereunder – the amendment) was published.

According to the amendment, until the date of issuance of the financial statements, an insurer will be obligated to increase its capital in respect of the difference between the capital required according to the regulations before and after the amendment (hereunder– the difference). The difference will be calculated at each reporting date. The capital will be increased on the dates and according to the rates specified hereunder:

Until the date of issuing the financial statements for December 31, 2009 at least 30% of the difference;
Until the date of issuing the financial statements for December 31, 2010 at least 60% of the difference;
Until December 31, 2011 the remaining balance of the difference.

The aforementioned rates will increase by 15% on the dates of issuing the semi-annual financial statements following the dates of issuing the aforementioned financial statements.

(c) For details regarding complex first tier capital which Menorah Insurance issued to the Company, see Note 24 d(2) below.

(d) Includes capital notes in Shomera which were issued to Menorah Insurance and subordinated deeds in Menorah Insurance, which were issued up to December 31, 2009, and constitute subordinate second tier capital.

3. In the framework of the amendments capital requirements to the existing capital requirements were added in respect of the following categories:

a. Operating risks.

b. Market and credit risks at a percentage of the risk rate which characterizes the various assets.

c. Risks of a catastrophe in general insurance.

d. Capital requirements in respect of guarantees.

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

3. In the framework of the amendments capital requirements to the existing capital requirements were added in respect of the following categories: (Cont.)

   In addition, the capital requirements were expanded in respect of the following categories:

   a. Yield guaranteeing programs in life assurance which have no designated bonds held against them, or against part of them.

   b. Capital requirements in respect of the insurer's holdings in management companies of provident and pension funds.

   In addition, the following mitigations were granted:

   - a mitigation in the manner of calculation of the capital in respect of data systems development expenses, subject to the Regulator’s approval.
   - deduction of tax reserve created in respect of inadmissible assets held against investment regulations or against the Regulator’s directives.
   - it was determined that the Regulator will be entitled to permit, subject to certain conditions he will set-forth, a reduction in the capital requirements of up to 35% of the initial difference, for the acquisition of provident fund activities or for provident funds management company, if the insurers’ shareholders’ equity, at the date of the financial statements will at least amount to the minimum required shareholders’ equity, less 35% of the initial difference for the acquisition of provident funds activities or a provident funds management company.

   In the framework of the amendment, the definition of basic capital was eliminated, the definitions of first tier capital and second tier capital were changed and the definition of third tier capital was added. The definitions of second tier capital and third tier capital became subject to the conditions and rates that the Regulator will define. Consequently, and according to the Regulator's intention to adopt, in the future, the Solvency II directive of the European Union with respect to guaranteeing the insurers’ repayment capability, in January 2011 a third draft circular regarding the composition of the shareholders’ equity of an Insurer, was published (hereunder - the third draft).

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

3. (Cont.)

The third draft sets principles for the structure of an insurer's admissible shareholders' equity, and a framework of principles for the recognition of various capital components and their classification into the various capital tiers, as follows:

1) First tier capital – includes basic first tier capital (in the amount of the capital attributed to the Company's shareholders) and compound first tier capital. The first tier compound capital includes financial instruments which are available to absorb the insurer's losses by cancellation of interest payments and postponement of the payment of the principal and their settlement is deferred until all the insurer's liabilities are settled. The first repayment date of these instruments will be after the settlement of the latest insurance liabilities or after 49 years, the earlier of the two, but not before the end of 10 years from the date of issue.

2) Second tier capital – includes financial instruments that are available to absorb the insurer's losses by postponing the payment of the principal and interest, and their settlement is deferred until all other debts are settled, except for the first tier capital. The first repayment date of the second tier capital instruments will be after the end of the period that reflects the weighted average of the periods for settlement of the insurance liabilities, plus two years, or 20 years, at the earlier of the two, but not before the end of 8 years from the date of issue.

3) Third tier capital - includes financial instruments that are available to absorb the insurer's losses by postponing the payment of the principal only and their settlement is deferred until all other debts are settled, except for the first and second tier capital. The first repayment date of the third tier capital instruments is not before the end of 5 years from the date of issue.

In this respect, insurance liabilities include non-yield dependent liabilities, net of the reinsurers' share.

The total first tier capital will not be less than 60% of the shareholders' equity of the insurer. In addition, the total basic first tier capital will not be less than 80% of the total first tier capital (pursuant to the temporary order, until the Regulator will give different instructions, the rate is determined at 85%).

The total third tier capital will not be more than 15% of the total shareholders' equity of an insurer.

The third draft includes a temporary order regarding the composition of the shareholders' equity of an insurer during the period from December 31, 2010, until the date the Regulator announces, the provisions of the third draft will enter into effect gradually.

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

3. (Cont.)

In addition, it was determined in the transitional directives that the total rate of the capital instruments that are included in the “subordinate second tier capital” will not be higher than 50% of the basic capital, provided that they were issued up to December 31, 2009. Tier 2 capital is determined as the total of the following elements:

(1) Subordinated deeds, whether they are convertible or unconvertible into shares, issued for the period of at least 5 years, and their repayment date is at least two years after the financial statements date, on condition that they were not issued to a controlling shareholder;

(2) The subordinated deeds that were issued for the controlling shareholders and are linked, at the most, to the CPI, but do not bear interest and their repayment date is not less than two years after the financial statements date.

4. According to a letter published by the Regulator on March 29, 2009, commencing from the financial statements for the year 2008 and up to December 30, 2010, an insurance company and a management company will not distribute dividends, unless they obtain the Regulator's prior approval. According to the letter, as a whole, there will not be an approval of a distribution of dividends at a rate that is higher than 25% of the profit allowable for distribution. Following the aforementioned letter, a letter of clarification was published in March 2010, with respect to the criteria for approval of distribution of dividends by an insurer (hereunder - the clarification).

According to the clarification the insurance company will be entitled to submit a request for obtaining the Regulator's approval for distributing dividends, commencing from the date of publication of the periodic financial statements for the year 2009, subject to the compliance with the shareholders' equity as detailed in the clarification, as well as submitting an annual profit forecast for the years 2010 and 2011, an updated debt settlement plan that is approved by the Board of Directors of the holding company that holds the insurance company, an effective working plan for fund raising that was approved by the insurance company's Board of Directors and the minutes of the discussions in the insurance company's Board of Directors in which the dividend distribution was approved. Nevertheless, it was mentioned in the clarification that any company whose shareholders' equity, after the distribution of dividends, will be higher than 110% of the amount required in the clarification, will be entitled to distribute dividends without the prior approval of the Regulator, on condition that it notified the Regulator about the dividend distribution and provided him with the necessary documents before the distribution of the dividends.

In accordance with the clarification, Menorah Insurance is permitted to distribute dividends without the prior approval of the Regulator. On May 10, 2009, Mivtachim Pension obtained the Regulator's approval to distribute a dividend of up to NIS 150 million to Menorah Insurance. The Board of Directors of Mivtachim Pension has not yet come to a decision regarding the distribution of the dividend.

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

5. On July 10, 2007, the European Union adopted the proposed version of the Solvency II Directive (hereunder – the proposed Directive). The proposed Directive forms a fundamental and comprehensive change in the Regulations relating to guaranteeing the redemption ability and the capital appropriateness of the insurance companies who are members of the European Union.

   According to a circular that was published by the Regulator of Insurance, he intends to apply the provisions of the proposed Directive with respect to insurance companies in Israel when this Directive is applied in the countries who are members the European Union. The proposed Directive is based on three levels: quantitative requirements, qualitative requirements and disclosure requirements. The Group began to prepare for the application of the proposed Directive according to the determined schedule.

6. In June 2008, a circular was published with respect to the mode of application of the principles of measurement and presentation under IFRS, for the calculation of the required capital and the admissible capital of insurance companies. The purpose of the circular was to set directives regarding the mode of application of the capital regulations with respect to investments in investees (including insurance companies and managing companies controlled by insurance companies). According to the circular the capital requirements pursuant to the capital regulations will continue to be based on separate financial statements. In order to calculate the admissible capital according to the capital regulations, the investment of an insurance company in another insurance company or in a controlled managing company, as well as in other investees, will be calculated on an equity basis along the chain of control.

7. In January 2011, a draft of the Supervision of Financial Services Regulations (Provident Funds) (Minimum Shareholders' Equity required from a Management Company), 2009 as well as a draft circular regarding the capital requirements of managing companies (hereunder– “the directives”). In accordance with the directives, it is proposed to expand the capital requirements from managing companies. The new capital requirements will include capital requirements according to the volume of the managed assets and annual expenses, but not less than an initial shareholders' equity of NIS 10 million. Furthermore, it will be required to provide additional capital in respect of controlled managing companies and in respect of the amount of assets that are held against the provisions of the Ways of Investment of the Required Shareholders’ Equity, or against the Commissioner’s directives. A managing company will be entitled to distribute dividends only if its shareholders’ equity amounts to at least the shareholders’ equity that is required from it according to these regulations. The drafts include transitional directives for supplementing the equity up to December 31, 2014.

   Regarding the implications of the draft directives on the required shareholders' equity of subsidiaries, see paragraph 8 below.

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

8. According to an estimate performed by the subsidiaries Menorah Insurance, Shomera Insurance, Mivtachim Pension, Mivtachim Gemel and Menorah Engineering, as at the reporting date:

   Menorah Insurance has surplus capital in the amount of NIS 678 million. As a result of compliance with all the capital requirements according to Regulations valid until December 31, 2011, and taking into consideration the shareholders' equity as at December 31, 2010, Menorah Insurance has surplus capital in the amount of NIS 396 million.

   Shomera Insurance has surplus capital in the amount of NIS 18 million. As a result of compliance with all the capital requirements according to the Regulations that will be in force as at December 31, 2011, and taking into consideration the shareholders' equity as at December 31, 2010, Shomera Insurance will be required to increase its shareholders' equity byabout NIS 11 million (after the deduction of the primary capital beyond the limitation of the multiplied basic equity in the amount of about NIS 36 million). Regardless of the said primary equity deduction, Shomera Insurance has surplus equiy in the amount of about NIS 25 million.

   The capital requirements for Shomera Insurance will increase by NIS 71 million and will reach the amount of about NIS 79 million, compared to the required capital before the amendment of the regulations. Taking the existing equity of Mivtachim Pension into consideration, as at December 31, 2010, Mivtachim Pension will have surplus capital in the amount of NIS 310 million.

   The capital requirement for Mivtachim Provident will increase by NIS 21 million compared to the required equity prior to the amendment of the regulations which amounts to about NIS 1.2 million. Taking the existing equity as at December 31, 2010 into consideration, Mivtachim Providnet will not be required to increase its equity.

   The capital requirement for Menorah Engineers will increase by NIS 9 million compared to the required capital prior to the amendment of the regulations which amounts to about NIS 1.2 million. Taking the existing equity as at December 31, 2010 into consideration, Menorah Engineers is required to increase its shareholders' equity by about NIS 9 million.

9. In September 2010 the Regulator published a letter amending the minimum capital requirement which an insurer is required to provide in respect of exposure to catastrophic events beginning from the financial statement as at September 30, 2010. The amendment has no effect on the capital requirement of Menorah Insurance and Shomera Insurance.

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

g. Capital management and requirements (Cont.)

10. In October 2010 the Regulator issued a directive regarding the treatment of irregularities in the investment field. The directive determines that passive irregularities due to change in rating or any buy-back, will be amended according to the following principles:

    a. Any irregularity in quoted securities will be amended within 50 business days.

    b. Any irregularity in unquoted bonds which are traded in institutional sequence systems, whose duration does not exceed 3 years, including unquoted bonds that are not traded in the institutional sequence system, as well as deposits, can be held to the redemption date.

    c. Any irregularities in unquoted bonds that are traded in institutional sequence systems, whose duration exceeds 3 years, will be amended within 6 months.

    d. Any irregularities under a debt arrangement will be amended within 50 business days from the end of the period of three months from the date of outlining and/or implementation of the debt arrangement.

    If the aforementioned irregularities are not amended this will require a refund of management fees in the pension fund or classification as an inadmissible asset in the insurance companies.

    Despite the aforementioned, in a letter that the Regulator to the managers of institutional entities, it was determined that the investments of institutional entities in Ireland, will not be considered as a holding in violation of the investment regulations and the income tax regulations during the period of six months beginning on February 21, 2011.

    As at the reporting date Menorah Insurance and Shomera Insurance have passive irregularities in the amount of about NIS 29.6 million in assets held against yield dependent liabilities and the sum of about NIS 10 million in Nostro.

NOTE 16:- LIABILITIES IN RESPECT OF NON-YIELD DEPENDENT INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

	December 31					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long term savings:						
Insurance contracts	5,121,959	4,758,598	365,009	327,323	4,756,950	4,431,275
Investment contracts	4,368,179	4,207,832	-	-	4,368,179	4,207,832
	9,490,138	8,966,430	365,009	327,323	9,125,129	8,639,107
Less amounts deposited in the Company under the defined benefit plan for the Group's employees	(17,129)	(16,504)	-	-	(17,129)	(16,504)
Total life assurance and long term savings	9,473,009	8,949,926	365,009	327,323	9,108,000	8,622,603
Insurance contracts included in the general insurance segment	4,332,706	3,975,121	972,332	718,409	3,360,374	3,256,712
Total liabilities in respect of non-yield dependent insurance and investment contracts	13,805,715	12,925,047	1,337,341	1,045,732	12,468,374	11,879,315

NOTE 17:- LIABILITIES IN RESPECT OF YIELD DEPENDENT INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

	December 31					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long term savings:						
Insurance contracts	10,862,755	9,463,363	-	-	10,862,755	9,463,363
Investment contracts	1,108,792	834,266	-	-	1,108,792	834,266
	11,971,547	10,297,629	-	-	11,971,547	10,297,629
Net of amounts deposited in the Company under the defined benefit plan for the Group's employees	(63,351)	(59,435)	-	-	(63,351)	(59,435)
Total liabilities in respect of yield dependent insurance and investment contracts	11,908,196	10,238,194	-	-	11,908,196	10,238,194

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT

a1. Liabilities in respect of insurance contracts included in the general insurance segment according to type:

	December 31					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	NIS in thousands					
Motor act branch						
Provision for unearned premium	262,020	269,635	41,033	-	220,987	269,635
Excess of income over expenses (accruals)	161,660	86,884	7,383	7,308	154,277	79,576
Outstanding claims	1,941,574	1,836,877	165,276	115,398	1,776,298	1,721,479
Total motor act branch (see c2 below)	2,365,254	2,193,396	213,692	122,706	2,151,562	2,070,690
Liabilities branches						
Provision for unearned premium	99,521	100,409	55,308	49,690	44,213	50,719
Excess of income over expenses (accruals)	273,420	202,362	139,818	91,046	133,602	111,316
Provision for premium deficiency	1,310	3,048	-	-	1,310	3,048
Outstanding claims	615,236	598,311	133,499	106,274	481,737	492,037
Total liability branches	989,487	904,130	328,625	247,010	660,862	657,120
Total motor act and liability branches (see b below)	3,354,741	3,097,526	542,317	369,716	2,812,424	2,727,810
Property and other branches						
Provision for unearned premium	575,839	555,552	205,739	192,279	370,100	363,273
Provision for premium deficiency	4,544	-	-	-	4,544	-
Outstanding claims	402,595	343,389	224,276	156,414	178,319	186,975
Total assets and others branches (see b below)	982,978	898,941	430,015	348,693	552,963	550,248
Balance in respect of business combinations						
Motor act branches	-	(14,612)	-	-	-	(14,612)
Liabilities branches	(5,013)	(6,735)	-	-	(5,013)	(6,735)
Total balance in respect of business combinations	(5,013)	(21,347)	-	-	(5,013)	(21,347)
Total liabilities in respect of insurance contracts included in the general insurance segment	4,332,706	3,975,120	972,332	718,409	3,360,374	3,256,711
C/forward	4,332,706	3,975,120	972,332	718,409	3,360,374	3,256,711

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

a1. Liabilities in respect of insurance contracts included in the general insurance segment according to type: (Cont.)

	December 31					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	NIS in thousands					
B/forward	4,332,706	3,975,120	972,332	718,409	3,360,374	3,256,711
Deferred acquisition costs:						
Motor act branches	25,454	26,638	3,915	-	21,539	26,638
Liability branches	22,357	21,393	11,672	10,319	10,685	11,074
Property and other branches	146,725	140,841	52,933	49,291	93,792	91,550
	194,536	188,872	68,520	59,610	126,016	129,262
Balance in respect of business combinations						
Motor act branches	-	(7,646)	-	-	-	(7,646)
Liability branches	(946)	(946)	-	-	(946)	(946)
	(946)	(8,592)	-	-	(946)	(8,592)
Total deferred acquisition expenses	193,590	180,280	68,520	59,610	125,070	120,670
Liabilities in respect of general insurance contracts net of deferred acquisition costs:						
Motor act branches	2,339,800	2,159,792	209,777	122,706	2,130,023	2,037,086
Liability branches	963,063	876,948	316,953	236,691	646,110	640,257
Property and other branches	836,253	758,100	377,082	299,402	459,171	458,698
	4,139,116	3,794,840	903,812	658,799	3,235,304	3,136,041

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT

a2. Insurance liabilities in respect of insurance contracts included in the general insurance segment according to method of calculation:

	December 31					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	NIS in thousands					
Actuarial valuations:						
Mr. Avraham Levenglick	2,765,282	8,760	453,832	6,909	2,311,450	1,851
Mr. Nir Haramati	85,725	79,051	14,936	14,748	70,789	64,303
Mr. Amir Peled	-	2,588,815	-	317,634	-	2,271,181
Total actuarial valuations	2,851,007	2,676,626	468,768	339,291	2,382,239	2,337,335
Provisions on the basis of other valuations:						
Claims department valuation in respect of known outstanding claims	105,410	94,577	50,274	35,208	55,136	59,369
Addition to outstanding claims due to claims incurred but not yet reported (IBNR)	5,963	5,646	2,905	2,060	3,058	3,586
Provision for unearned premium	937,380	925,597	302,080	241,969	635,300	683,628
Other valuations	2,879	4,775	1,104	1,527	1,775	3,248
Excess of income over expenses (accruals)	435,080	289,246	147,201	98,354	287,879	190,892
	4,337,719	3,996,467	972,332	718,409	3,365,387	3,278,058
Change due to business combination	5,013	21,347	-	-	5,013	21,347
Total liabilities in respect of insurance contracts included in the general insurance segment	4,332,706	3,975,120	972,332	718,409	3,360,374	3,256,711

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

b. Movement in liabilities in respect of insurance contracts included in the general insurance segment, net of deferred acquisition costs:

1. Motor act and liability branches

	December 31					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance as at the beginning of the year	3,036,740	2,698,898	359,397	289,078	2,677,343	2,409,820
Accumulated claims cost in respect of the current underwriting year	664,382	701,111	155,235	69,768	509,147	631,343
Change in balances as at the beginning of the year as a result of linkage to the index	70,002	103,446	8,254	10,932	61,748	92,514
Change in accumulated claims cost estimate in respect of previous underwriting years	(108,578)	(14,067)	(6,594)	24,209	(101,984)	(38,276)
Total change in accumulated claims cost	625,806	790,490	156,895	104,909	468,911	685,581
Payments for settlement of claims during the year:						
In respect of current underwriting year	9,762	14,173	3,654	1,841	6,108	12,332
In respect of previous underwriting years	504,443	464,128	34,758	31,995	469,685	432,133
Total payments for the period	514,205	478,301	38,412	33,836	475,793	444,465
Accruals in respect of current underwriting year	67,357	62,489	30,707	27,676	36,650	34,813
Accruals allocated to profit in respect of the released underwriting year	(75,100)	(117,359)	(13,536)	(48,819)	(61,564)	(68,540)
Balance of change in accruals	153,577	64,322	31,676	20,389	121,901	43,933
Total change in the accruals for the period	145,834	9,452	48,847	(754)	96,987	10,206
Change due to business combinations	8,688	16,201	-	-	8,688	16,201
Balance as at the end of the year	3,302,863	3,036,740	526,727	359,397	2,776,136	2,677,343

Comments:

1. The opening and closing balances include: outstanding claims, provision for insufficient premium, accruals and unearned premium, net of deferred acquisition costs.
2. The ultimate claims cost is: outstanding claims balance (without accruals), provision for insufficient premium, unearned premium net of deferred acquisition costs, with the addition of the total claims payments including direct or indirect expenses for claims settlement.
3. The payments include indirect expenses for the settlement of claims (administrative and general expenses that are recorded under claims) relating to the respective underwriting years.

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

b. Movement in liabilities in respect of insurance contracts included in the general insurance segment, net of deferred acquisition costs:

2. Property and other branches

	December 31					
	2010	2009	2010	2009	2010	2009
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance as at the beginning of the year	758,100	735,166	299,402	210,486	458,698	524,680
Accumulated claims cost in respect of events during the current reporting year	937,465	861,894	342,227	246,662	595,238	615,232
Change in accumulated claims cost in respect of events prior to the reported year	(7,301)	(11,323)	3,036	13,300	(10,337)	(24,623)
	930,164	850,571	345,263	259,962	584,901	590,609
Payments for settlement of claims during the year:						
In respect of events in the reporting year	641,357	626,900	185,111	152,215	456,246	474,685
In respect events prior to the reporting year	229,601	213,156	92,289	74,940	137,312	138,216
Total payments	870,958	840,056	277,400	227,155	593,558	612,901
Change in provision for unearned premium, net of deferred acquisition costs	14,403	12,419	9,817	56,109	4,586	(43,690)
Change in provision for premium deficiency	4,544	-	-	-	4,544	-
Balance as at the end of the year	836,253	758,100	377,082	299,402	459,171	458,698

Comments:

1. The opening and closing balances include: outstanding claims, provision for insufficient premium, accruals and unearned premium, net of deferred acquisition costs.
2. The accumulated claims cost in respect of events during the reported year includes the outstanding claims balance as at the end of the reported year plus the total claims payments during the reported period, including direct and indirect expenses for settlement of claims.
3. The payments for claims settlement during the year include payments in respect of events prior to the reporting year with the addition of changes in the balance of outstanding claims in respect of events prior to the reported year.
4. The payments include indirect expenses for the settlement of claims (administrative and general expenses that are recorded under claims) relating to the respective underwriting years.

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c1. Examination of liabilities run-off valuation in respect of insurance contracts net of gross deferred acquisition costs, in the motor act and liability branches as at December 31, 2010:

Underwriting year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	NIS in thousands adjusted to the CPI of November 2010 *)										
Claims paid (accumulated) as at the end of the year:											
After the first year	5,185	6,757	8,717	10,936	14,515	15,794	16,237	16,730	14,672	9,761	
After two years	37,601	45,865	57,065	76,391	93,626	103,800	187,332	96,929	77,314		
After three years	73,033	83,743	112,977	161,852	184,091	192,465	280,951	192,532			
After four years	98,748	113,786	170,559	230,691	271,169	274,149	368,865				
After five years	129,148	149,751	221,714	288,558	349,604	364,320					
After six years	155,730	171,980	273,931	342,883	415,457						
After seven years	183,075	195,033	302,026	378,309							
After eight years	205,583	213,967	324,080								
After nine years	221,630	229,070									
After ten years	235,116										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	262,176	321,397	488,876	631,899	675,196	668,297	686,066	680,031	678,476	731,739	
After two years	322,655	377,136	526,258	688,135	750,827	746,144	784,005	773,430	789,928		
After three years	334,514	391,160	555,494	717,833	771,452	753,377	821,882	790,371			
After four years	249,085	271,775	397,419	493,234	618,930	659,481	764,808				
After five years	247,643	270,440	403,489	510,730	616,143	673,929					
After six years	250,787	277,530	406,759	508,185	624,433						
After seven years	270,115	280,987	403,388	506,554							
After eight years	271,167	284,869	411,063								
After nine years	269,743	276,689									
After ten years	263,572										
Deficiency after release of fund **)	(14,487)	(4,914)	(13,644)	(13,320)	(5,503)	(14,448)					(66,316)
Deviation rate after release of fund in percentage	(5.82%)	(1.81%)	(3.43%)	(2.70%)	(0.89%)	(2.19%)					(2.47%)
Accumulated claims cost as at December 31, 2010	263,572	276,689	411,063	506,554	624,433	673,929	764,808	790,371	789,928	731,739	5,833,086
Accumulated payments up to December 31, 2010	235,116	229,070	324,080	378,309	415,457	364,320	368,865	192,532	77,314	9,761	2,594,824
Total insurance liabilities	28,456	47,619	86,983	128,245	208,976	309,609	395,943	597,839	712,614	721,978	3,238,262
Outstanding claims in respect of the years up to and including the year 2000											64,601
Total insurance liabilities as at December 31, 2010											3,302,863

*) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.

**) Surplus between the accumulated claims valuation in the fourth year (the first after the release of the fund) and the accumulated claims valuation as at the balance sheet date.

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c2. Examination of liabilities run-off valuation in respect of insurance contracts net of deferred acquisition costs, on retention, in the motor act and liability branches as at December 31, 2010:

Underwriting year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Total**
	NIS in thousands adjusted to the CPI of November 2010 *)										
Claims paid (accumulated) as at the end of the year:											
After the first year	2,648	6,446	8,138	9,785	12,973	14,912	15,624	15,994	13,114	6,107	
After two years	14,374	41,451	53,682	72,590	89,381	101,047	110,981	92,676	72,291		
After three years	34,758	77,334	103,511	155,505	179,089	188,976	203,286	184,168			
After four years	40,371	104,947	154,971	223,987	264,282	270,095	289,886				
After five years	49,939	134,720	203,397	279,286	340,821	360,025					
After six years	56,038	155,593	253,185	328,288	404,868						
After seven years	69,349	176,583	279,795	362,667							
After eight years	77,544	189,974	301,495								
After nine years	85,900	201,071									
After ten years	89,366										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	138,823	263,850	426,786	584,562	609,846	596,402	604,367	605,471	579,723	545,797	
After two years	111,485	302,904	460,378	633,591	676,605	669,452	664,219	680,292	680,505		
After three years	128,646	315,338	478,687	662,443	696,456	678,672	687,715	696,572			
After four years	98,383	246,128	359,856	472,403	600,349	623,329	635,000				
After five years	95,824	241,103	373,198	489,172	594,926	628,648					
After six years	94,292	246,154	378,035	485,843	604,388						
After seven years	109,676	249,650	375,851	484,279							
After eight years	114,070	252,129	373,057	-	-	-					
After nine years	112,521	244,842	-	-	-	-					
After ten years	110,014	-	-	-	-	-					
Surplus (deficiency) after release of fund **)	(11,631)	1,286	(13,201)	(11,876)	(4,039)	(5,319)					(44,780)
Deviation rate after release of fund in percentage	(11.82%)	0.52%	(3.67%)	(2.51%)	(0.67%)	(0.85%)					(1.87%)
Accumulated claims cost as at December 31, 2010	110,014	244,842	373,057	484,279	604,388	628,648	635,000	696,572	680,505	545,797	5,003,102
Accumulated payments up to December 31, 2010	89,366	201,071	301,495	362,667	404,868	360,025	289,886	184,168	72,291	6,107	2,271,944
Total insurance liabilities	20,648	43,771	71,562	121,612	199,520	268,623	345,114	512,404	608,214	539,690	2,731,158
Outstanding claims in respect of the years up to and including the year 2000											44,978
Total insurance liabilities as at December 31, 2010											2,776,136

*) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.
**) Surplus between the accumulated claims valuation in the fourth year (the first after the release of the fund) and the accumulated claims valuation as at the balance sheet date.

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c3. Examination of liabilities run-off valuation in respect of insurance contracts net of gross deferred acquisition costs, in the motor act branches as at December 31, 2010:

Underwriting year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	NIS in thousands adjusted to the CPI of November 2010 *)										
Claims paid (accumulated) as at the end of the year:											
After the first year	4,241	5,992	6,499	8,594	11,702	11,939	13,415	13,524	11,316	4,757	
After two years	31,626	37,461	47,776	67,276	83,730	87,401	88,340	81,120	64,071		
After three years	57,806	67,477	97,549	142,155	164,711	166,066	170,204	157,122			
After four years	76,222	89,888	148,124	201,645	242,135	232,232	241,343				
After five years	94,074	114,910	191,989	249,471	309,217	310,345					
After six years	108,260	130,970	234,742	290,515	361,881						
After seven years	126,415	144,782	257,744	320,029							
After eight years	141,533	158,780	275,002								
After nine years	153,821	167,430									
After ten years	164,582										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	166,227	202,534	327,643	459,252	480,957	455,148	462,670	463,156	480,789	536,042	
After two years	226,559	245,285	374,126	511,962	544,563	526,073	543,194	549,470	590,988		
After three years	232,453	256,698	399,681	534,218	555,246	522,016	557,758	560,283			
After four years	178,373	201,057	328,153	410,405	510,656	500,620	530,678				
After five years	170,663	198,029	327,706	419,861	503,945	514,034					
After six years	175,242	198,932	333,599	421,717	517,985						
After seven years	183,432	203,647	333,642	421,480							
After eight years	182,014	204,784	332,075	-	-						
After nine years	179,483	197,180	-	-	-	-					
After ten years	175,067	-	-	-	-	-					
Deficiency after release of fund **)	3,306	3,877	(3,922)	(11,075)	(7,329)	(13,414)					(28,557)
Deviation rate after release of fund in percentage	1.85%	1.93%	(1.20%)	(2.70%)	(1.44%)	(2.68%)					(1.34%)
Accumulated claims cost as at December 31, 2010	175,067	197,180	332,075	421,480	517,985	514,034	530,678	560,283	590,988	536,042	4,375,812
Accumulated payments up to December 31, 2010	164,582	167,430	275,002	320,029	361,881	310,345	241,343	157,122	64,071	4,757	2,066,562
Total insurance liabilities	10,485	29,750	57,073	101,451	156,104	203,689	289,335	403,161	526,917	531,285	2,309,250
Outstanding claims in respect of the years up to and including the year 2000											30,550
Total insurance liabilities as at December 31, 2010											2,339,800

*) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.

**) Surplus between the accumulated claims valuation in the fourth year (the first after the release of the fund) and the accumulated claims valuation as at the balance sheet date.

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c4. Examination of liabilities run-off valuation in respect of insurance contracts net of deferred acquisition costs, on retention, in the motor act branches as at December 31, 2010:

Underwriting year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	NIS in thousands adjusted to the CPI of November 2010 *)										
Claims paid (accumulated) as at the end of the year:											
After the first year	1,706	5,693	6,499	8,594	11,702	11,939	13,415	13,524	11,316	4,030	
After two years	8,410	35,699	47,776	67,276	83,730	87,401	88,340	81,120	64,071		
After three years	19,912	63,803	91,811	142,155	164,711	166,066	170,204	157,122			
After four years	23,461	85,029	137,350	201,645	241,779	232,232	241,252				
After five years	27,303	109,050	178,615	248,223	307,440	310,312					
After six years	27,134	124,163	219,697	288,890	358,693						
After seven years	33,587	137,671	241,578	317,502							
After eight years	35,128	148,110	258,612								
After nine years	40,923	154,799									
After ten years	42,948										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	74,985	195,884	324,451	451,367	467,820	447,421	452,290	451,540	467,737	444,613	
After two years	58,302	231,323	367,217	501,493	531,285	514,660	521,400	527,045	567,419		
After three years	71,009	240,652	380,595	523,718	542,330	511,092	532,865	538,357			
After four years	48,278	188,283	300,071	404,093	504,749	493,417	497,700				
After five years	45,434	184,739	308,135	413,624	498,026	501,156					
After six years	44,563	184,903	314,244	415,384	511,317						
After seven years	49,712	189,230	314,757	415,278							
After eight years	51,917	188,163	313,617								
After nine years	51,509	181,831									
After ten years	49,850										
Deficiency after release of fund **)	(1,572)	6,452	(13,546)	(11,185)	(6,568)	(7,739)					(34,158)
Deviation rate after release of fund in percentage	(3.26%)	3.43%	(4.51%)	(2.77%)	(1.30%)	(1.57%)					(1.75%)
Accumulated claims cost as at December 31, 2010	49,850	181,831	313,617	415,278	511,317	501,156	497,700	538,357	567,419	444,613	4,021,138
Accumulated payments up to December 31, 2010	42,948	154,799	258,612	317,502	358,693	310,312	241,252	157,122	64,071	4,030	1,909,341
Total insurance liabilities	6,902	27,032	55,005	97,776	152,624	190,844	256,448	381,235	503,348	440,583	2,111,797
Outstanding claims in respect of the years up to and including the year 2000											18,226
Total insurance liabilities as at December 31, 2010											2,130,023

*) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.

**) Surplus between the accumulated claims valuation in the fourth year (the first after the release of the fund) and the accumulated claims valuation as at the balance sheet date.

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS

a. Details of the liabilities in respect of insurance contracts and investment contracts according to exposure

Data as at December 31, 2010	Life assurance policies including savings component (including riders) according policy's date of issue				Life assurance policies not including savings component						
			From the year 2004		Risk sold as separate policy		Long term care				
	Up to 1990	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	Individual	Group	Other health	Liabilities to members of guaranteed yield provident fund tracks	Total
	NIS in thousands										
(a) According to insurance exposure:											
Liabilities in respect of insurance contracts:											
Annuity without secured coefficients	-	-	-	-	-	-	-	-	-	-	-
Annuity with secured coefficients:											
Up to May 2001	1,456,398	3,842,327	-	-	-	-	-	-	-	-	5,298,725
From June 2001	-	465,543	-	1,025,894	-	-	-	-	-	-	1,491,437
Annuity in payment	67,078	88,049	171,095	-	-	-	-	-	-	-	326,222
Lump sum (without annuity option)	2,178,004	4,146,846	-	944,266	-	-	-	-	-	-	7,269,116
Other risk components	87,279	363,617	-	223,020	249,168	34,441	411,192	4,555	145,462	-	1,518,734
Total in respect of insurance contracts	3,788,759	8,906,382	171,095	2,193,180	249,168	34,441	411,192	4,555	145,462	-	15,904,234
Liabilities in respect of investment contracts											
In life assurance	23,410	9,144	2,793	1,099,648	-	-	-	-	-	-	1,134,995
For provident fund track members	-	-	-	-	-	-	-	-	-	4,341,976	4,341,976
Total in respect of investment contracts	23,410	9,144	2,793	1,099,648	-	-	-	-	-	4,341,976	5,476,971
Total	3,812,169	915,526	173,888	3,292,828	249,168	34,441	411,192	4,555	145,462	4,341,976	21,381,205
(b) According to financial exposure:											
Yield dependent	54,572	8,712,591	-	3,070,974	24,635	-	45,424	-	-	-	11,908,196
Guarantees yield	3,744,702	153,982	173,888	211,572	153,083	-	365,768	-	-	4,341,976	9,144,971
Other	12,895	48,953	-	10,282	71,450	34,441	-	4,555	145,462	-	328,038
Total	3,812,169	8,915,526	173,888	3,292,828	249,168	34,441	411,192	4,555	145,462	4,341,976	21,381,205

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

a. Details of the liabilities in respect of insurance contracts and investment contracts according to exposure (Cont.)

Data as at December 31, 2009	Policies including savings component (including riders) according policy's date of issue				Life assurance policies not including savings component						
			From the year 2004		Risk sold as separate policy		Long term care			Liabilities to members of guaranteed yield provident fund tracks *)	
	Up to 1990	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	Individual	Group	Other health		Total
	NIS in thousands										
(a) According to insurance exposure:											
Liabilities in respect of insurance contracts											
Annuity without secured coefficients	-	-	-	-	-	-	-	-	-	-	-
Annuity with secured coefficients:											
Up to May 2001	1,350,968	3,348,042	-	-	-	-	-	-	-	-	4,699,010
From June 2001	-	280,206	-	832,171	-	-	-	-	-	-	1,112,377
Annuity in payment	42,424	70,885	32,441	-	-	-	-	-	-	-	145,750
Lump sum (without annuity option)	2,221,752	4,009,981	-	639,740	-	-	-	-	-	-	6,871,473
Other risk components	87,734	339,635	-	184,925	226,256	31,179	328,290	4,274	115,119	-	1,317,412
Total in respect of insurance contracts	3,702,878	8,048,749	32,441	1,656,836	226,256	31,179	328,290	4,274	115,119	-	14,146,022
Liabilities in respect of investment contracts											
In life assurance	20,992	11,445	2,895	822,821	-	-	-	-	-	-	858,153
For provident fund track members	-	-	-	-	-	-	-	-	-	4,183,945	4,183,945
Total in respect of investment contracts	20,992	11,445	2,895	822,821	-	-	-	-	-	4,183,945	5,042,098
Total	3,723,870	8,060,194	35,336	2,479,657	226,256	31,179	328,290	4,274	115,119	4,183,945	19,188,120
(b) According to financial exposure:											
Yield dependent	49,702	7,842,139	-	2,294,891	17,279	-	34,183	-	-	-	10,238,194
Guarantees yield	3,662,888	168,846	35,336	176,132	149,355	-	294,107	-	-	4,183,945	8,670,609
Other	11,280	49,209	-	8,634	59,622	31,179	-	4,274	115,119	-	279,317
Total	3,723,870	8,060,194	35,336	2,479,657	226,256	31,179	328,290	4,274	115,119	4,183,945	19,188,120

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

b. Details of the results according to policy type

Data for the year ended as at December 31, 2010	Policies including savings component (including riders) according policy's date of issue				Life assurance policies not including savings component risk sold as separate policy		Long term care			
			From the year 2004							
	Up to 1990	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	Individual	Group	Other health	Total
	NIS in thousands									
Gross premiums:										
Traditional/Endowment	50,501	61,713	-	-	-	-	-	-	-	112,214
Savings component	35,049	364,261	124,738	462,740	-	-	-	-	-	986,788
Other	6,099	205,494	-	103,126	315,214	18,185	49,548	859	(* 215,546	914,071
Total	91,649	631,468	124,738	565,866	315,214	18,185	49,548	859	215,546	2,013,073
Receipts in respect of investment contracts allocated directly to insurance reserves	3	111	9	399,511	-	-	-	-	-	399,634
Financial margin including management fees	54,976	159,455	(13,290)	41,792	-	-	-	-	-	242,933
Income (loss) from life assurance business	56,615	56,439	(13,832)	(84,682)	46,331	1,813	(6,406)	(967)	20,786	76,097
Offsets and adjustments	-	(2,183)	-	-	-	-	-	-	-	(2,183)
Income (loss) from life assurance business after offsets and adjustment	56,615	54,256	(13,832)	(84,682)	46,331	1,813	(6,406)	(967)	20,786	73,914
Other comprehensive income from life assurance business	16,030	874	-	982	719	117	1,605	19	136	20,482
Total comprehensive income from life assurance business	72,645	55,130	(13,832)	(83,700)	47,050	1,930	(4,801)	(948)	20,922	94,396
Income from pension and provident										148,610
Total income from life assurance and long term savings										243,006
Annualized premium in respect of insurance contracts – new business	195	1,786	-	125,400	52,375	-	5,584	-	18,348	203,688
One time premium in respect of insurance contracts	51	4,993	124,738	62,818	-	-	-	-	-	192,600
Annualized premium in respect of investment contracts – new business	-	-	-	20,265	-	-	-	-	-	20,265
One time premium in respect of investment contracts	-	-	-	352,578	-	-	-	-	-	352,578

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

b. Details of the results according to policy type (Cont.)

*) From this individual premiums in the amount of NIS 177,653 thousand and collective premiums in the amount of NIS 37,893 thousand.

Comments:

(1) Products issued from the year 1990 (including the large ones) are mainly yield guaranteed, and they are mainly backed by designated bonds.

(2) The increase in existing policies is not included in the framework of the annualized premium in respect of new business, but in the framework of operational results of the original policy.

(3) The financial margin does not include additional income collected as a percentage of the premium, and it is calculated before the deduction of investment management expenses.

The financial margin in policies with guaranteed yield is based on the actual investment income during the reporting year net of the multiplication of the guaranteed yield rate during the year, multiplied by the sum of the average reserve for the year in respect of various insurance funds.

For profit participating policies, the financial margin represents the amount of the fixed and variable management fees, calculated on basis of the yield and average sum of assurance reserves.

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

b. Details of the results according to policy type (Cont.)

Data for the year ended as at December 31, 2009	Policies including savings component (including riders) according policy's date of issue				Life assurance policies not including savings component risk sold as separate policy		Long term care			
			From the year 2004							
	Up to 1990	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	Individual	Group	Other health	Total
	NIS in thousands									
Gross premiums:										
Traditional/Endowment	61,407	70,647	-	-	-	-	-	-	-	132,054
Savings component	30,378	383,439	36,328	352,493	-	-	-	-	-	802,638
Other	17,425	217,679	-	97,629	281,028	30,907	43,741	1,407	(* 204,631	894,447
Total	109,210	671,765	36,328	450,122	281,028	30,907	43,741	1,407	204,631	1,829,139
Receipts in respect of investment contracts allocated directly to insurance reserves	46	606	38	237,192	-	-	-	-	-	237,882
Financial margin including management fees	66,046	55,633	6,397	26,050	-	-	-	-	-	154,126
Income (loss) from life assurance business	107,192	(47,877)	6,102	(36,664)	54,246	21,842	55,943	2,589	36,903	200,276
Offsets and adjustments	-	(1,827)	-	-	-	-	-	-	-	(1,827)
Income (loss) from life assurance business after offsets and adjustment	107,192	(49,704)	6,102	(36,664)	54,246	21,842	55,943	2,589	36,903	198,449
Other comprehensive income from life assurance business	69,970	-	-	-	548	542	1	98	2,991	74,150
Total comprehensive income (loss) from life assurance business	177,162	(49,704)	6,102	(36,664)	54,794	22,384	55,944	2,687	39,894	272,599
Income from pension and provident funds										142,288
Total profit from life assurance and long term savings										414,887
Annualized premium in respect of insurance contracts – new business	131	3,126	-	125,355	56,595	-	5,224	-	18,215	208,646
One time premium in respect of insurance contracts	599	5,183	34,657	33,810	-	-	-	-	-	74,249
Annualized premium in respect of investment contracts – new business	-	-	-	18,819	-	-	-	-	-	18,819
One time premium in respect of investment contracts	-	-	-	174,334	-	-	-	-	-	174,334

*) From this individual premiums in the amount of NIS 168,472 thousand and collective premiums in the amount of NIS 36,159 thousand.

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

b. Details of the results according to policy type (Cont.)

Data for the year ended as at December 31, 2008	Policies including savings component (including riders) according policy's date of issue				Life assurance policies not including savings component risk sold as separate policy		Long term care			
			From the year 2004							
	Up to 1990	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	Individual	Group	Other health	Total
	NIS in thousands									
Gross premiums:										
Traditional/Endowment	65,932	84,681	-	-	-	-	-	-	-	150,613
Savings component	28,506	413,583	-	338,669	-	-	-	-	-	780,758
Other	21,983	227,095	-	90,206	252,325	28,644	40,003	339	188,955	849,550
Total	116,421	725,359	-	428,875	252,325	28,644	40,003	339	188,955	1,780,921
Receipts in respect of investment contracts allocated directly to insurance reserves	82	632	212	239,033	-	-	-	-	-	239,959
Financial margin including management fees	21,010	41,435	(227)	22,039	-	-	-	-	-	84,257
Income (loss) from life assurance business	72,282	(39,675)	(253)	(90,212)	20,069	11,649	(39,178)	1,342	35,323	(28,653)
Offsets and adjustments	-	(1,381)	-	-	-	-	-	-	-	(1,381)
Income from life assurance business after offsets and adjustment	72,282	(41,056)	(253)	(90,212)	20,069	11,649	(39,178)	1,342	35,323	(30,034)
Other comprehensive loss from life assurance business	(44,989)	-	-	-	(325)	(392)	-	(82)	(2,812)	(48,600)
Total comprehensive income (loss) from life assurance business	27,293	(41,056)	(253)	(90,212)	19,744	11,257	(39,178)	1,260	32,511	(78,634)
Profit from pension and provident fund										43,378
Total profit from life assurance and long term savings										(35,256)
Annualized premium in respect of insurance contracts – new business	471	3,746	-	112,744	46,059	-	3,235	-	14,846	181,101
One time premium in respect of insurance contracts	170	5,644	-	27,318	-	-	-	-	-	33,132
Annualized premium in respect of investment contracts – new business	-	-	-	51,521	-	-	-	-	-	51,521
One time premium in respect of investment contracts	-	-	-	163,673	-	-	-	-	-	163,673

*) From this individual premiums in the amount of NIS 169,180 thousand and collective premiums in the amount of NIS 19,775 thousand.

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

c. Additional information regarding yield dependent liabilities

	December 31, 2010	Year ended December 31, 2010		
	Yield dependent liabilities	Premiums/ receipts	Annuities, claims and maturity	Surrenders
	NIS in thousands			
In respect of policies issued between 1991 – 2003:				
"Tet" Fund (Fund No. 9)	443,529	18,600	7,072	16,371
"Yud" Fund (Fund No. 10)	8,386,197	977,789	246,051	331,188
In respect of policies issued from the year 2004	1,969,678	544,014	26,941	160,920
Investment contracts	1,108,792	399,621	-	186,951
Total	11,908,196	1,940,024	280,064	695,430

	December 31, 2009	Year ended December 31, 2009		
	Yield dependent liabilities	Premiums/ receipts	Annuities, claims and maturity	Surrenders
	NIS in thousands			
In respect of policies issued between 1991 – 2003				
"Tet" Fund (Fund No. 9)	400,382	19,258	8,797	14,399
"Yud" Fund (Fund No. 10)	7,531,475	978,024	215,943	274,958
In respect of policies issued from the year 2004	1,472,071	441,120	16,897	112,968
Investment contracts	834,266	237,798	-	186,375
Total	10,238,194	1,676,200	241,637	588,700

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

d. Information regarding yield and management fees in respect of yield dependent liabilities

	Annual gross nominal yield					Annual nominal average yield 5 years		Management fees for the year ended December 31, 2010		
	2010	2009	2008	2007	2006	Before management fees	After management fees	2010	2009	2008
"Yud" Fund (Fund No. 10)	11.63	40.53	(23.12)	6.92	8.74	7.00	5.73	152,468	53,428	39,323
General track for policies beginning from the year 2004	11.63	40.53	(23.12)	6.92	8.74	7.00	6.67	30,374	18,470	16,783
Other								18,405	9,785	7,368
Total								201,247	81,683	63,474

NOTE 20:- MOVEMENT IN LIABILITIES IN REPSECT OF LIFE ASSURANCE POLICIES AND INVESTMENT CONTRACTS, GROSS

	Life assurance and long term savings		
	Insurance contracts	Investment contracts	Total
	NIS in thousands		
Balance as at January 1, 2009	10,812,069	4,710,776	15,522,845
Interest, linkage differences and investment income	2,639,057	537,916	3,176,973
Increase in respect of premiums allocated to liabilities	1,062,808	230,264	1,293,072
Decrease in respect of claims, surrenders and maturity	(582,715)	(329,858)	(912,573)
Changes due to change in assumptions	82,533	-	82,533
Reclassification of investment plans	107,000	(107,000)	-
Other changes	25,270	-	25,270
Balance as at December 31, 2009	14,146,022	5,042,098	19,188,120
Interest, linkage differences and investment income	1,111,860	351,442	1,463,302
Increase in respect of premiums allocated to liabilities	1,220,821	419,810	1,640,631
Decrease in respect of claims, surrenders and maturity	(721,746)	(343,208)	(1,064,954)
Changes due to change in assumptions	56,566	-	56,566
Reclassification of investment plans	(6,829)	6,829	-
Other changes	97,541	-	97,541
Balance as at December 31, 2010	15,904,235	5,476,971	21,381,206

NOTE 20:- MOVEMENT IN LIABILITIES IN REPSECT OF LIFE ASSURANCE POLICIES AND INVESTMENT CONTRACTS, GROSS (Cont.)

	December 31	
	2010	**2009**
Composition (gross)	**NIS in thousands**	
Non-yield dependent insurance and investment contracts	9,473,009	8,949,926
Yield dependent insurance and investment contracts	11,908,196	10,238,194
	21,381,205	19,188,120

1. Interest, linkage differences and investment income – this item includes interest, linkage differences and investment income (losses) in respect of the balance as at the beginning of the year, with the addition of interest, linkage differences and investment income (losses) in respect of premiums only for savings reported during the reported period.

2. Increase in respect of premiums allocated to liabilities – this premium does not include all the premium recorded as income in the Company. The premium includes the premium for savings and part of the premium in products with fixed premium.

3. Other changes – the item includes changes in reserve for outstanding claims, reserve for future claims, IBNR, annuities in payment, etc. (according to assumptions used at the end of the previous year). In addition, the item also includes the interest effect, linkage differences and investment income not included in the "interest, linkage differences and investment income", such as: interest, linkage differences and investment income for claims payment and non-savings premiums.

The movement in liabilities in respect of insurance contracts and investment contracts does not include a reference to policies issued and cancelled in the reporting year.

NOTE 21:- TAXES ON INCOME

a. Tax laws applicable to the Group companies

1. General

The subsidiaries, Menorah Insurance, Shomera Insurance, Mivtachim Pension, Mivtachim Gemel, Mutual Funds, Menorah Engineers and Capital Raising are "financial institutions" as defined by the Value Added Tax Law, 1975. The tax applicable to financial institutions is comprised of company tax and profit tax.

The only tax that is applicable to the Company and the rest of the investees is Corporate Tax.

2. Income Tax Law (Inflationary Adjustments), 1985

The Income Tax Law (Inflationary Adjustments), 1985 (hereunder – the Law) is applicable to the Company and its investees that are not companies held abroad, until the end of the year 2007. According to the law, the results for tax purposes are measured after adjustment to the changes in the CPI.

In February 2008 the Knesset passed an amendment to the Law which prescribed that the applicability of the adjustments law will be terminated in the 2007 tax year and as of the 2008 tax year, the provisions of said law shall not longer be applicable, with the exception of the transfer provisions which were for the purpose of preventing distortion of the tax calculations. As of the 2008 tax year and onwards, the calculation of income for tax purposes shall no longer be adjusted in nominal values except for certain adjustments in respect of changes in the CPI for the period up to December 31, 2007. The amendment to the law includes, among others, the cancelation of the adjustment of the addition and the deduction due to inflation and the additional deduction for depreciation in respect of acquisitions from the year 2008.

3. Amendment to the Value Added Tax Law

Further to the foregoing amendment in Section a 2 above, the Value Added Tax Law (Amendment 35) was also amended and stipulates that in the calculation of the gains tax applicable to financial institutions, as of 2009, tax is applicable to the full amount of the salaries paid. In the 2008 tax year, deduction of half of the salary tax payments for the said year were permitted. In addition, the salaries tax as of 2009 is also paid on the employer's share of National Insurance. In the 2008 tax year, salaries tax was paid on half of the employer's share of National Insurance.

NOTE 21:- TAXES ON INCOME (Cont.)

a. Tax laws applicable to the Group companies (Cont.)

4. Non-application of IFRS for tax purposes

In accordance with Amendment 174 to the Income Tax Ordinance (Temporary Order for Tax Years 2007, 2008 and 2009) - 2010 that was published on the official gazette on February 4, 2010 (hereunder– “the Amendment to the Ordinance”), Accounting Standard No. 29 of the Israel Accounting Standards Board in respect of the adoption of the IFRS standards, shall not apply when determining the taxable income for the said tax years, even if it was applied when preparing the financial statements for those years. The effect of the amendment to the Ordinance on the Group companies is insignificant.

5. Tax arrangements that are unique to the insurance industry

a. The Agreement with the Tax Authorities

There is an agreement between the insurance companies and the Tax Authorities (hereinafter - the Tax Agreement) that is renewed every year, which arranges the unique tax issues of the insurance business for the tax years up to and including the 2008 tax year. The agreement relates, among others, to the following issues:

- Period of amortization of deferred acquisition costs in life assurance (D.A.C.) for tax purposes.
- The rate of expenses allocated to income subject to preferred tax rates (interest income and dividend from securities that according to law are subject to a tax rate lower than the corporate tax rates).
- Income taxes on assets held as investments earmarked to yield dependant liabilities.
- Taxes on income from quoted securities.
- Directives regarding the tax implications following initial implementation of the IFRS Standards. However, it was agreed that if and when the Tax Authorities will outline its policy regarding the issue in the manner which contradicts the principles of the agreement, the parties will discuss the tax implications resulting from this.

The agreement for the tax years 2009 and 2010 was not yet signed. The financial statements have been prepared in accordance with the principles of the 2008 agreement.

NOTE 21:- TAXES ON INCOME (Cont.)

a. Tax laws applicable to the Group companies (Cont.)

5. Tax arrangements that are unique to the insurance industry (Cont.)

b. The tax applicable to the cancelation of the reserve for extraordinary risks in life assurance

The Arrangements in the State Economy Law (Legislative Amendments for Attaining the Budget Goals and the Economic Policy for the Fiscal Year 2007), 2007, dated January 11, 2007, prescribed regulations for the tax applicable due to the cancelation of the reserve for extraordinary risks in life assurance that was included in the financial statements as at December 31, 2006. According to the regulations, a portion of the reserve which is calculated at the rate of 0.17% of the insurance risk amount, on retention, in life assurance and for which the capital requirement was defined, will be exempt from tax. In the branch taxation agreement it was noted that the basis of the exempt is the capital requirement which is expressed as mentioned above, and in the event of a cancelation or decrease in the capital requirement, the parties will discuss the consequent tax implications, if any.

As at December 31, 2006 the existing balance of the reserve in Menorah Insurance constituted 0.17% of the amount of insurance at risk on retention.

6. On August 2, 2009 the Israeli Tax Authority published the report of the committee that examined the tax implications involving the implementation of the recommendations of the Bachar Committee (hereunder– the committee and the report). The committee included in its recommendations a number of basic principles that will serve as an outline in principle for the position of the Tax Authority with respect to taxation of the sale transactions that were executed following the recommendations of the Bachar Committee. In accordance with the recommendations of the committee, 80%-85% of the excess cost created upon the acquisition should be attributed to goodwill and to the contractual right to manage accounts (as detailed in the report). The balance of the surplus cost (15%-20%) will be allocated to other intangible assets that cannot be amortized for tax purposes by the buyer (such as list of customers, brand names, etc.)

With respect to transactions in which shares were acquired, unlike transactions in which activities and other assets were acquired (transactions according to the program of sale of shares), the Committee determined that the sellers will be liable to tax as in the case of ordinary sale of shares, whereas the buyers will not be entitled to any deduction in respect of the cost of acquisition.

The implementation of the report's recommendations has no material affect on the financial statements.

NOTE 21:- TAXES ON INCOME (Cont.)

b. Tax rates applicable to the to the income of the Group companies

1. The statutory tax rate applicable to financial institutions constitute the Group's main activities is comprised of corporate tax and profit tax.

2. In accordance with the Value Added Tax Orders (the tax rate for non-profit business organizations and financial institutions) (Temporary Order), 2009, which was approved by the Knesset (the Israeli Parliament) in June and December 2009 and in December 2010, the profit tax rate applicable to financial institutions will be as follows:

- 16.5% beginning from July 1, 2009 up to December 31, 2009.
- 16.0% in the years 2010-2012.
- 15.5% beginning from January 1, 2013.

3. In July 2009, the "Knesset" (the Israeli Parliament) passed the Law for Economic Efficiency (Legislation Amended for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting from 2011.

Hereunder are the statutory tax rates applicable to financial institutions:

Year	Corporate tax rate	Profit tax rate		Overall tax rate in financial institutions
		%		
2008	27	15.5		36.80
2009	26	16.0	*)	36.21
2010	25	16.0		35.34
2011	24	16.0		34.48
2012	23	16.0		33.62
2013	22	15.5		32.47
2014	21	15.5		31.60
2015	20	15.5		30.74
2016 and thereafter	18	15.5		29.00

*) Weigted tax rate.

The effect of the said change on the deferred tax balances resulted in an increase in the net profit for the year 2009, in the amount of about NIS 10,258 thousand, which was allocated to the taxes on income item. The change in the profit tax rate had no significant effect on the income for the years 2009 - 2010.

NOTE 21:- TAXES ON INCOME (Cont.)

c. Tax assessments

1. Final tax assessments

The Company and Shomera Insurance have received final tax assessments up to and including the tax year 2005. Menorah Insurance has received final tax assessments up to and including the tax year 2003. Mivtachim Pension received final tax assessments up to and including the tax year 2001 and the tax assessments for the tax years 2002-2003 are considered final. The tax assessments of other subsidiaries for the tax years up to and including the tax year 2006 are considered to be final. Subsidiaries that were established after the tax year 2005 did not receive final tax assessments since their establishment.

2. Tax assessments in dispute

a. Menorah Insurance received decrees for the tax years 2004 and 2005. The issue in dispute is regarding the expenses allowable in respect of the amortization of the goodwill that Menorah Insurance obtained following the acquisition of Mivtachim Pension. Menorah Insurance disagrees with the income tax assessor's opinion and has submitted its reservations to the Court. Menorah Insurance has no monetary exposure in respect of the said rulings.

b. In July 2009 Mivtachim Pension received tax assessments, to the best of judgment, for the tax years 2005-2007 which constitute capitalization of acquisition expenses in respect of new members. The income tax assessor claims that the above expenses are not allowable in the year of their incurrence but through spreading them over a period of 15 years.

Mivtachim Pension disagrees with the income tax assessor's opinion, which forms the basis for the abovementioned requirement and has submitted its reservations accordingly. Mivtachim Pension did not set up a provision in respect of the tax assessments, since to the best of its judgment, there is a good chance that their reservations will be accepted.

c. In October 2010 Mivtachim Pension received a warrant for tax year 2004, whereby Mivtachim Pension is required to pay the amount of about NIS 389 million (including interest and linkage differences up to the date of the alternative tax assessment), in addition to the tax liability it already paid which forms as an alternative tax assessment in the framework of proceedings taking place between the tax assessor and Menorah Insurance regarding the amortization of goodwill deriving from the acquisition of Mivtachim Pension by Menorah Insurance. Mivtachim Pension disagrees with the tax assessor and in November 2010 it submitted an appeal to the Court against this order.

Mivtachim Pension's management estimates, based on the opinion of its professional advisors, that a provision in its financial statements in respect of this alternative tax assessment is not necessary.

NOTE 21:- TAXES ON INCOME (Cont.)

c. Tax assessments (Cont.)

2. Tax assessments in dispute (Cont.)

d. As mentioned in paragraph a' 6 above, in December 2010 Mivtachim provident received tax assessments according to the best of judgment, for the tax years 2006 to 2008, whereby it is required to pay tax in the total amount of about NIS 2,000 thousand (including interest and accumulated linkage differences).

After the reporting date, Mivtachim Provident came to an understanding with the Tax Authorities and accordingly it recorded a provision in its financial statements.

In addition, in December 2010 Menorah Mutual Funds received a tax assessment, to the best of judgment for the tax year 2006, whereby it is required to pay tax in the total amount of about NIS 205 thousand (including interest and accumulated linkage differences).

After the reporting date Menorah Mivtachim Provident Funds came to an understanding with the Tax Authorities.

d. Losses carried forward for tax purposes and other temporary differences

The subsidiaries have business losses for tax purposes carried forward to future years, as at December 31, 2010 in the amount of about NIS 4,522 thousand (as at December 31, 2009 – NIS 13,414 thousand). In respect of these balances and in respect of other temporary differences that are allowable for deduction, deferred tax assets were recorded in the financial statements as detailed in paragraph h' below.

A deferred tax asset in respect of business losses carried forward, in the amount of about NIS 53,824 thousand and in respect of capital loss in the amount of NIS 3,161 thousand (as at December 31, 2009 business losses in the amount of NIS 54,180 thousand and capital loss in the amount of NIS 2,507), was not included since it was not expected to be utilized in the foreseeable future.

e. Taxes on income included in the statements of profit and loss

	Year ended December 31		
	2010	**2009**	**2008**
	NIS in thousands		
Current taxes	148,940	120,385	40,936
Deferred taxes relating to the creation and reversal of temporary difference, also see g below	317	73,424	(121,287)
Taxes in respect of previous years (current and deferred)	3,511	7,242	12,900
Adjustment of the deferred tax balances following change in the tax rates	-	(10,258)	-
	152,768	190,793	(67,451)

NOTE 21:- TAXES ON INCOME (Cont.)

f. Taxes on income relating to other comprehensive income items

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Profit (loss) in respect of available for sale assets	8,041	143,764	(93,028)
Loss in respect of adjustments resulting from the translation of the financial statements of activities abroad	(604)	-	-
	7,437	143,764	(93,028)

g. Taxes on income relating to equity items

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Acquisition of non-controlling interest	-	-	4,098
Taxes on income (tax benefit) in respect of share based payments	(25)	(3,458)	2,837
	(25)	(3,458)	6,935

h. Deferred taxes

Composition:

	Deferred acquisition costs in life assurance	Attributed initial difference	Financial instruments	Provisions for doubtful debts	Losses for tax purposes	Others	Total
	NIS in thousands						
Balance of deferred tax asset (liability) as at January 1, 2009	(135,762)	(23,311)	121,744	28,740	56,276	5,003	52,690
Changes allocated to profit and loss	13,003	7,294	(28,796)	2,428	(52,938)	(8,948)	(67,957)
Changes allocated to comprehensive income and capital	-	-	(143,764)	-	-	3,458	(140,306)
Balance of deferred tax asset (liability) as at December 31, 2009	(122,759)	(16,017)	(50,816)	31,168	3,338	(487)	(155,573)
Changes allocated to profit and loss	8,333	5,702	4,829	559	(2,127)	(11,625)	5,671
Changes allocated to comprehensive income and capital	-	-	(8,041)	-	-	629	(7,412)
Balance of deferred tax asset (liability) as at December 31, 2010	(114,426)	(10,315)	(54,028)	31,727	1,211	(11,483)	(157,314)

NOTE 21:- TAXES ON INCOME (Cont.)

h. Deferred taxes (Cont.)

The deferred taxes are reported in the consolidated statements of financial position as follows:

	December 31	
	2010	2009
	NIS in thousands	
Deferred tax assets	556	484
Liabilities in respect of deferred taxes	(157,870)	(156,057)
	(157,314)	(155,573)

As at December 31, 2010 no deferred tax liabilities were recognized in respect of temporary differences in the comprehensive amount of about NIS 1,571,650 thousand (as at December 2009 about NIS 1,293,479) relating to investments in investees since these investments were not expected to be realized in the foreseeable future.

i. Theoretical tax

Hereunder is the reconciliation of the theoretical tax amount due, had all the income and expenses, profits and losses in the statement of profit and loss been liable to tax at the statutory tax rate applicable on income taxes in the statement of profit and loss:

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Profit (loss) before taxes on income	434,715	593,763	(299,581)
Comprehensive statutory tax rate applicable on financial institutions (see paragraph b above)	35.34%	36.21%	36.80%
Tax (tax saving) computed at the statutory tax rate including amortization for not applying profit tax on companies which are not financial institutions	153,750	201,826	(106,435)
Increase (decrease) in taxes on income resulting from the following factors:			
Unallowable expenses for tax purposes	10,582	6,741	6,767
Exempt income	(5,492)	(2,919)	(6,752)
Profit tax on salary tax	-	-	683
Group's share in profits of affiliates	1,562	899	19
Differences in the measurement basis	(2,914)	(2,628)	(4,646)
Temporary differences for which no deferred taxes were allocated	1,176	(102)	-
Increase in losses for tax purposes for which no deferred taxes were allocated	93	393	12,819
Utilization of losses from previous years for tax purposes for which no deferred taxes were allocated in the past	(3,624)	(10,542)	(1,344)
Update of deferred tax balances in respect of changes in the tax rates	(6,140)	(10,258)	17,832
Taxes in respect of previous years (current and deferred)	3,511	7,242	12,900
Others	264	141	706
Taxes on income (tax benefit)	152,768	190,793	(67,451)
Average effective tax rate	35.14%	32.13%	22.52%

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS, NET

Employee benefits include short term benefits, post employment benefits, other long term benefits, and dismissal benefits.

Post employment benefits

Labor laws and the Severance Pay Law in Israel require the Company to pay severance pay to an employee upon dismissal or retirement or to make current deposits in a defined deposit plan, according to Section 14 as described below. The Company's liabilities in this respect are treated as a post employment benefit.

The calculation of the Company's liability due to employee benefits is made in accordance with a valid employment contract and is based on the Company's forecast of the employee's salary at the time of dismissal or retirement.

Post employment benefits are usually financed by deposits classified as defined deposit plans or as a defined benefit plan as detailed below:

Defined deposit plan

The provisions of Section 14 to the Severance Pay Law, 1963, apply to a portion of the severance pay. According to these provisions, the Company's current deposits in insurance companies' policies and/or in pension funds, are exempt from any additional liability to employees, in respect of who amounts were depositing, as mentioned above. These deposits and deposits in respect of benefits, constitute a defined deposit plan. In the years 2010, 2009 and 2008 the expenses in respect of the defined deposit plan amounted to NIS 5,901 thousand, NIS 3,892 thousand and NIS 3,186 thousand, respectively and were included under administration and general expenses.

Defined benefit plan

The portion of severance pay that is not covered by deposits in defined deposit plans, as mentioned above, are handled by the Group as a defined benefit plan according to which a liability is recorded in respect of employee benefits and for which the Group deposits amounts in the relevant insurance policies and in central severance pay funds.

a. Composition of liabilities for employee benefits, net

	December 31	
	2010	**2009**
	NIS in thousands	
Liabilities in respect of defined benefit plan which is not financed	33,492	28,006
Liability in respect of financed defined benefit plan	128,153	108,767
	161,645	136,773
Fair value of the plan's assets	43,023	33,699
Total liabilities, net in respect of defined benefit plans	118,622	103,074

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS, NET (Cont.)

b. Information regarding defined benefit plans

1. Changes in the present value of the liability for a defined benefit plan

	December 31	
	2010	2009
	NIS in thousands	
Balance as at January 1	136,773	112,521
Interest cost	7,033	3,820
Current service costs	17,479	17,414
Benefits paid	(7,244)	(9,005)
Actuarial loss, net	7,487	11,210
Other adjustments	117	813
Balance as at December 31	161,645	136,773

2. Plan assets

a) Plan assets

The plan assets include assets held by the employee long term benefit fund (provident funds for employees and pension funds) and the related insurance policies.

b) The movement in the fair value of the plan assets

	December 31	
	2010	2009
	NIS in thousands	
Balance as at January 1	33,699	25,910
Anticipated yield	1,952	1,023
Actuarial profit, net	412	3,200
Deposits to plan by employer	9,884	8,263
Benefits paid	(2,827)	(3,012)
Other adjustments	(97)	(1,685)
Balance as at December 31	43,023	33,699

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Cont.)

b. Information regarding defined benefit plans (Cont.)

3. The main actuarial assumptions in determining liabilities in respect of defined benefit plans

	December 31	
	2010	2009
	NIS in thousands	
The capitalization rate	5.32	5.65
The anticipated yield on the plan assets	5.55	3.10
Anticipated salary increase rate	5.40	5.37

4. The amounts regarding the current year and previous years

	December 31		
	2010	2009	2008
	NIS in thousands		
Present value of liability in respect of defined benefit	161,645	136,773	112,521
Fair value of the plan assets	43,023	33,699	25,910
Deficiency in plan	(118,622)	(103,074)	(86,611)
Adjustments resulting from past experience regarding:			
Plan liabilities	7,487	11,210	3,953
Plan assets	412	3,200	(2,480)

5. Expenses allocated to profit and loss

	Year ended as at December 31		
	2010	2009	2008
	NIS in thousands		
Current service cost	17,479	17,414	12,064
Interest in respect of liabilities for benefits	7,033	3,820	5,188
Anticipated yield on plan assets	(1,952)	(1,023)	(1,433)
Net actuarial loss recognized this year	7,075	8,010	6,433
Total expenses in respect of employee benefits *)	29,635	28,221	22,252
Actual yield on the plan assets	2,968	4,440	(1,577)

*) The expenses were included in the salaries and related expenses item, under administrative and general expenses, see Note 31 below.

NOTE 23:- CREDITORS AND PAYABLES

	December 31	
	2010	2009
	NIS in thousands	
Employees and other liabilities for salary and wages	87,243	95,342
Expenses payable	68,732	68,672
Suppliers and service providers	58,077	68,029
Government authorities and institutions	17,314	14,459
Deferred acquisition costs in respect of reinsurance	71,404	62,512
Insurance companies and brokers:		
Deposits by reinsurers	384,311	281,708
Other accounts	50,265	59,215
Total insurance companies and brokers	434,576	340,923
Insurance agents	189,575	158,914
Policyholders and members	162,752	110,065
Provision for profit participating policyholders	3,458	2,873
Prepaid premium	36,773	26,737
Pension funds	19,133	42,964
Others	2,730	2,819
Total creditors and payables	1,151,767	994,309

See details of assets and liabilities distributed according to linkage basis in Note 35(2)(g).

NOTE 24:- FINANCIAL LIABILITIES

This Note provides information regarding the contractual conditions of financial liabilities. Additional information regarding the Group's exposure to interest risks, foreign currency and liquidity risks, are provided in Note 35, regarding risk management.

a. Details of financial liabilities

	December 31			
	2010	2009	2010	2009
	Book value		Fair value **)	
	NIS in thousands			
1. Financial liabilities reported at amortized cost:				
Loans from banking institutions see c below	38,347	48,391	46,782	50,923
Bonds – see d below	883,804	610,827	964,025	646,855
Subordinated deeds *) see e below	797,534	853,022	887,442 **)	946,503
Loan from an affiliate See f below	455	-	443	-
On call loans from bank	-	1,134	-	1,134
Total financial liabilities	1,720,140	1,513,374	1,898,692	1,645,415
*) From this subordinated deeds constituting second tier capital	609,668	706,305	678,560	785,028

(**) The fair value of the liability certificates traded on the Tel-Aviv Stock Exchange is based on their stock exchange price as at the reporting date. The fair value of the liability certificates which are not traded are based on the capitalization of the anticipated cash flows from the liability certificates.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

b. Financial liabilities reported at amortized cost – details regarding interest and linkage

	December 31	
	2010	2009
	Effective interest	
	Percentage	
Linkage basis:		
Linked to the CPI	4.52	4.61
Shekel	6.60	6.46
Dollar	2.42	-

c. Loans from banking institutions – additional information

Details	Linkage basis	Annual nominal interest % as at financial statements date	Book value as at December 31 2010	2009
			NIS in thousands	
(1)	NIS	6.60	34,375	40,625
	CPI	4.90	3,972	7,766
			38,347	48,391
	Dollar	Libor + 1.25%	-	1,134

(1) A bank loan to Menorah Mivtachim Mutual Funds received in July 2007. The loan is settled in sixteen equal semi-annual payments beginning from December 31, 2008.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

d. Bonds – Additional information

Details	Linkage base	Annual nominal interest % as at the reporting date	Book value as at December 31 2010	2009
			NIS in thousands	
(1)	index	4.28	624,957	610,827
(2)	index	4.50	258,847	-
			883,804	610,827

(1) Bonds were issued by the Company to institutional investors on July 12, 2007 and were rated by the Midroog Rating Company at Aa2. The bonds are linked to the CPI, bear interest at a rate of 4.28% per annum and will be settled in nine equal annual payments beginning from July 2011. The bonds were listed for trade on March 6, 2008.

(2) In July 2010 the Company completed a private collection of a debt from institutional investors in the amount of NIS 170 million. In the framework of the collection the Company allotted NIS 170 million nominal value bonds (Series B) to the institutional investors, which bear interest at the rate of 4.5% per annum, paid once a year on June 30 beginning from the year 2018 up to the year 2022. The bonds' principal will be settled in five equal annual payments beginning from June 2018 up until June 2022. The principal and the interest are linked to the index. The Company undertook not to pledge its assets without prior written consent from the trustee, except for a pledge on an asset which will be acquired by the Company in favor of an entity who will finance its acquisition. Customary cases were determined in respect of the bonds according to which there is a right for immediate settlement such as an appointment of a Receiver, stay of proceedings order etc. In addition, a right was determined for immediate settlement in the event that the Company sells most of its assets or most of its activities. The bonds were rated by Midroog Rating Company Ltd. at Aa3. The rating was granted for series and/or for loans from banking institutions in the overall amount of NIS 250 million. The Company invested all the issue monies in Menorah Insurance as first tier hybrid capital. In September 2010 the Company issued to an institutional investor additional bonds in the amount of NIS 80 million nominal value (Series B). The proceeds from the issue amounted to about NIS 84.6 million, which includes a premium of about 3.98% above par. This issue completes the collection of Series B bonds in the overall amount of NIS 250 million nominal value bonds, whose terms were described above. NIS 83 million from the issue's procees was invested in Menorah Insurance as complex first tier capital (hybrid capital), by the issue of a deferred capital note in the amount of NIS 80 million nominal value, whose conditions are identical to the conditions of the capital note issued in July 2010.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

d. Bonds – Additional information (Cont.)

(2) (Cont.)

In May 2010 Midroog informed the Company about a decrease in the rating of the Company's liability certificates to Aa3 on a stable rating. The main considerations for reducing the rating, according to Midroog as published in their report, include the Company's commitment to support Menorah Insurance in view of the capital requirements and the volatility in the net profit of the insurance company. In addition, the main contribution of the insurance company to the Company's value along with the deferred structure of the debt holders in the Company in relation to the insurance company's liabilities, define the Company's liabilities at a lower rate than the insurance company's liabilities, following Moody's rating methodology for rating insurance holding companies.

e. Subordinated deeds – Additional information

Details	Annual nominal interest % as at the reporting date	Book value as at December 31 2010	Book value as at December 31 2009
		NIS in thousands	
(1)	6.60	26,278	34,255
(2)	5.84	37,238	43,689
(3)	5.45	284,211	333,462
(4)	4.05	449,807	438,851
(5)	6.30	-	2,765
		797,534	853,022

(1) A subordinated deed that Menorah Insurance issued to the bank on January 20, 2000. The subordinated deed was settled in ten equal annual installments beginning from January 20, 2004. The bank's rights to receive any amounts are deferred until after the claims of all the other creditors of Menorah Insurance are settled.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Subordinated – Additional information (Cont.)

(2) Subordinated deeds issued by Menorah Insurance to institutional investors on July 8, 2001 and are not traded on the stock exchange. The subordinated deeds are redeemable in ten equal annual installments starting from July 8, 2006. The investors' rights to receive any amounts are deferred until after the claims of all the other creditors of Menorah Insurance are settled.

(3) Subordinated deeds issued by Menorah Insurance to institutional investors in May and September 2004 and are not traded on the stock exchange. The subordinated deeds were rated as Aa2 by the Midroog Company.

The subordinated deeds will be redeemed in six equal annual installments starting from May 6, 2010.

The investors' rights to receive any amounts are deferred until after the claims of all the other creditors of Menorah Insurance are settled.

(4) In accordance with a prospectus from May 2007, Menorah Capital Raising issued 200,000,000 nominal value registered liability certificates (Series A), of NIS 1 nominal value each, of Menorah Capital Raising (hereunder – the proposed certificates). The certificates bear the interest rate of 4.05% per annum, linked (principal and interest) to the CPI published for April 2007, and are to be settled in 11 equal annual installments on July 1st of each of the years 2012 up to 2022. The interest on the liability certificates (Series A) is paid in annual installments on July 1st of each calendar year commencing from the year 2008 and up to their final settlement date on July 1, 2022. The consideration for the debenture issue was deposited with Menorah Insurance, for its own use and according to its own judgment and responsibility. Menorah Insurance undertook to pay the holders of the debentures the principal, the linkage and the interest in accordance with the terms of the debentures. The debentures were rated as Aa2 by the Midroog Company and are traded on the stock exchange. The investors' rights to receive any amounts of money are deferred until after the claims of all the other creditors of Menorah Insurance are settled.

In accordance with a prospectus from May 2008, Menorah Capital Raising issued 200,000,000 registered liability certificates (Series A) at nominal value, of NIS 1 nominal value each, of Menorah Capital Raising (hereunder – the proposed certificates). The proposed liability certificates were issued by way of expanding the series listed for the first time on the Tel-Aviv Stock Exchange Ltd., according to the prospectus which Menorah Capital Raising published in May 2007. The proposed liability certificates were issued at a discount rate of 2.57%.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Subordinated deeds – Additional information (Cont.)

(5) In August and November 2007 Shomera Insurance issued subordinated deeds to the bank. The subordinated deeds were payable in one payment during August and November 2012. The bank's right to receive any sums of money based on the subordinated deeds is deferred until after all the claims of other creditors of Shomera Insurance are settled. In March 2010 Shomera Insurance settled the subordinated deeds at an early redemption..

f. Loan from an affiliate

In January 2010 an affiliate granted a loan to a subsidiary in the amount of $ 125 thousand. The loan bears annual interest at the rate of Uribor for two years + 1.5% and is expected to be settled in January 2013.

g. Unamortized issue expenses

The balance of the unamortized deferred issue expenses as at December 31, 2010 is NIS 2,824 thousand (as at December 31, 2009 – NIS 3,056 thousand). The deferred issue expenses are amortized according to the effective interest method.

NOTE 25:- PREMIUMS EARNED ON RETENTION

	Year ended December 31, 2010		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	2,013,073	208,305	1,804,768
Premiums in general insurance	2,279,287	756,624	1,522,663
Total premiums	4,292,360	964,929	3,327,431
Change in the unearned premium balance	(22,098)	(60,111)	38,013
Total premiums earned	4,270,262	904,818	3,365,444

	Year ended December 31, 2009		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	1,829,139	203,249	1,625,890
Premiums in general insurance	2,276,934	624,451	1,652,483
Total premiums	4,106,073	827,700	3,278,373
Change in the unearned premium balance	(36,479)	(95,979)	59,500
Total premiums earned	4,069,594	731,721	3,337,873

	Year ended December 31, 2008		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	1,780,921	199,285	1,581,636
Premiums in general insurance	2,156,296	403,899	1,752,397
Total premiums	3,937,217	603,184	3,334,033
Change in the unearned premium balance	(41,438)	368	(41,806)
Total premiums earned	3,895,779	603,552	3,292,227

NOTE 26:- NET INVESTMENT INCOME (LOSS) AND FINANCE INCOME

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Profits (losses) from assets held against yield dependent liabilities			
Financial investments:			
Quoted debt assets	320,655	991,347	(106,651)
Unquoted debt assets	276,464	646,718	146,055
Shares	430,336	1,018,036	(1,642,899)
Others	146,565	224,181	(510,778)
Cash and cash equivalents	626	(3,787)	1,521
Total profits (losses) from assets held against yield dependent liabilities, net	1,174,646	2,876,495	(2,112,752)
Profits (losses) from assets held against non-yield dependent liabilities, capital and others			
Income from investment property:			
Revaluation of investment property	20,548	16,091	5,969
Current income in respect of investment property	5,702	4,328	4,749
Total income from investment property	26,250	20,419	10,718
Profits (losses) from financial investments, except for interest and linkage differences exchange rate differences and dividend in respect of:			
Available for sale assets (a)	158,172	133,715	(151,484)
Assets measured at fair value through profit and loss (b)	88,464	123,658	(71,248)
Assets reported as loans and debtors (c)	17,305	(5,293)	(22,305)
	263,941	252,080	(245,037)
Interest income (*) and linkage differences from financial assets not measured at fair value through profit and loss	835,158	921,175	549,536
Interest income and linkage differences from financial assets measured at fair value through profit and loss	41,549	21,312	312,018
Profit (loss) from exchange rate differences in respect of investments not measured at fair value through profit and loss and from other assets	(46,384)	10,748	(7,343)
Income from dividend	14,652	10,140	14,491
Total net investment income (loss) and finance income	2,309,812	4,112,369	(1,478,369)
*) The above income includes interest in respect of financial assets not reported at fair value through profit and losses whose value was impaired	6,030	7,003	8,030

NOTE 26:- NET INVESTMENT INCOME (LOSS) AND FINANCE INCOME (Cont.)

a. Net investment income (loss) in respect of available-for-sale assets

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Net profits (losses) from realized securities	170,094	155,485	(11,618)
Net impairment allocated to profit and loss	(11,922)	(21,770)	(139,866)
Total investment income (losses) in respect of available for sale assets	158,172	133,715	(151,484)

b. Investment income (loss) in respect of assets measured at fair value through profit and loss

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Net changes in fair value, including realization profit:			
In respect of assets designated upon initial recognition	88,464	123,658	(71,248)

c. Investment income (loss) in respect of assets reported as loans and debtors

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Net profits from the realization of assets reported as loans and debtors	16,377	27,419	19,927
Cancellation of impairment (impairment) net allocated to profit and loss	928	(32,712)	(42,232)
Total profits (losses) from investments in respect of assets reported as loans and receivables	17,305	(5,293)	(22,305)

NOTE 27:- INCOME FROM MANAGEMENT FEES

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Management fees in the pension and provident funds branches	355,706	310,266	276,004
Variable management fees in respect of life assurance contracts	109,112	9,792	-
Fixed management fees in respect of life assurance contracts	75,242	58,703	52,939
Management fees in respect of investment contracts	16,893	13,188	10,535
Other management fees	86,840	65,754	58,673
Total income from management fees	643,793	457,703	398,151

NOTE 28:- INCOME FROM COMMISSION

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Insurance agencies' commission	9,110	9,277	11,458
Reinsurance commission, net of change in deferred acquisition costs in respect of reinsurers	208,157	158,338	119,117
Other commissions	12,864	10,806	4,899
Total income from commissions	230,131	178,421	135,474

NOTE 29:- PAYMENTS AND CHANGE IN LIABILITIES IN RESPECT OF INSURANCE CONTRACTS AND INVESTMENT CONTRACTS ON RETENTION

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
In respect of life assurance contracts:			
Claims paid and outstanding			
Death, disability and others	444,163	368,164	373,691
Less reinsurance	132,123	110,520	108,871
	312,040	257,644	264,820
Surrenders	601,327	492,757	469,475
Maturities	84,715	73,678	73,250
Annuities	15,234	7,508	5,206
Total claims	1,013,316	831,587	812,751
Increase (decrease) in liabilities in respect of life assurance contracts(except for change in outstanding) on retention	1,875,343	3,255,100	(1,174,468)
Increase in liabilities in respect of investment contracts for the yield component	375,538	556,630	189,887
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention, in respect of life assurance contracts	3,264,197	4,643,317	(171,830)
Total payments and change in liabilities in respect of general insurance contracts:			
Gross	1,730,966	1,664,935	1,644,623
Reinsurance	(509,622)	(346,768)	(253,785)
On retention	1,221,344	1,318,167	1,390,838
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention	4,485,541	5,961,484	1,219,008

NOTE 30:- COMMISSION, MARKETING EXPENSES AND OTHER ACQUISTION EXPENSES

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Acquisition expenses:			
Acquisition commission	535,273	476,120	453,576
Other acquisition expenses	207,682	182,279	190,278
Change in deferred acquisition costs	(70,961)	(10,713)	(21,488)
Total acquisition expenses	671,994	647,686	622,366
Other current commissions	218,530	193,849	192,646
Other marketing expenses	24,313	27,270	25,767
Total commission, marketing expenses and other acquisition expenses	914,837	868,805	840,779

NOTE 31:- ADMINISTRATIVE AND GENERAL EXPENSES

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Salaries and related expenses	454,437	397,879	317,681
Depreciation and amortization	82,178	65,846	60,439
Maintenance of office premises and communications	62,329	55,699	52,795
Professional and legal counseling	48,215	39,583	43,117
IT expenses (not including depreciation and wages)	88,629	83,134	83,578
Fines	14,262	-	-
Bank	28,577	30,969	27,556
Vehicle maintenance	16,784	14,863	13,378
Others	47,081	39,549	40,531
Total (*)	842,492	727,522	639,075
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contract	(58,909)	(43,993)	(39,156)
Amounts classified under commissions, marketing expenses and other acquisition expenses	(222,084)	(194,972)	(201,619)
Administrative and general expenses	561,499	488,557	398,300
(*) Administrative and general expenses include expenses in respect of IT in the amount of	169,739	162,781	149,244

NOTE 32:- SHARE BASED PAYMENT

a. Expense recognized in the financial statements

Hereunder is the expense recognized in the financial statements in respect of share based payment plans:

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Total expenses recognized from the share based payment transaction settled by capital instruments (see b below)	1,921	2,630	3,473
Total expenses recognized from the share based payment plan settled in cash (see c below)	5	-	-

b. Details of plan to allot shares to the Company's CEO (formerly – CEO of Menorah Insurance)

1. Details of the plan

On August 27, 2003 Menorah Insurance's Board of Directors, and later on its general assembly, audit committee and the Company's Board of Directors approved a plan to allot shares to the Company's CEO (on the date the plan was approved Menorah Insurance's CEO) (hereunder – the plan) as detailed below:

In the framework of the plan Menorah Insurance allotted shares to the CEO which constitute 4% of its issued capital after the allotment, which were entrusted with a trustee. The shares were allotted at no consideration and are eligible to any dividend or other benefit, that Menorah Insurance will distribute from the date the plan is approved. These shares are not transferable and cannot be sold or pledged.

The trustee will transfer the shares to the CEO in ten equal annual portions, beginning from the end of one year after the plan is signed. In addition, from the entitlement date, the CEO will be entitled to convert the Menorah Insurance's shares into the Company's shares, which constitute 4% of the Company's capital after the conversion, subject to adjustments. The parent company is entitled to obligate the CEO to convert the shares as mentioned above.

The fair value of the said shares on the date of allotment is about NIS 44.7 million. The fair value is measured according to the value at which the Company's shares were traded on the Tel-Aviv Stock Exchange on the date of allotment of the said shares.

Menorah Insurance and the Company received an approval for the plan from the Tax Authorities, in accordance with directives of Section 102 to the Income Tax Ordinance, in the salary track.

The share allotment plan includes conditions that if one of them is met, the CEO will be entitled to all the shares and their proceeds immediately, and the Chairman of the Board has the authority to precede the employee's entitlement in respect of the shares in an amount not exceeding 20% of the shares.

The share allotment plan was approved by the General Meeting of the Company on November 19, 2003 and it received all the necessary approvals by law.

In the year 2005 the CEO converted two portions (out of ten) of the Menorah Insurance's shares that were granted to him into the Company's shares.

NOTE 32:- SHARE BASED PAYMENT (Cont.)

b. Details of plan to allot shares to the Company's CEO (formerly – CEO of Menorah Insurance)

2. Change in the plan

On July 31, 2008 the Audit Committees and the Boards of Directors of Menorah Insurance and the Company approved a change in the share allotment plan for the CEO, that was originally approved on August 27, 2003 (hereunder – the original plan), as detailed below.

There was an immediate conversion of all the Menorah Insurance 's shares that were held with the Trustee for the CIO, into the Company's shares, which are also held in his favor with the Trustee, according to the conversion ratio as determined in the original plan, and it is calculated on the date right before the approval of the Audit Committee and the Board of Directors, as mentioned above, namely, at the end of the trading date as at July 30, 2008 (hereunder – the immediate conversion). It should be clarified hereby that as a result of the immediate conversion there was no change in the vesting periods of the blocks of shares the CEO was entitled to according to the original plan.

In addition, the taxation track that is applicable for the shares the CEO is entitled to, was changed from a yielding track to a lump sum track pursuant to Section 102 to the Income Tax Ordinance, namely, instead of the yielding allotment track (salary track), as determined in the original plan, the CEO will be taxed at the time of realization (as defined in Section 102 to the Income Tax Ordinance) according to the lump sum track. It should be clarified that the share plan according to the aforementioned lump-sum track, replaces the original plan and is applicable for the six blocks of shares that have not yet vested according to the original plan only. Apart from the above changes, the conditions of the original plan will continue to be applied.

On August 24, 2008, following the aforementioned, the Company issued 1,696,518 shares of NIS 1 nominal value each, against the receipt of the balance of all the Menorah Insurance 's shares that were held in Trust for the CEO according to the original plan. Consequently, the Company's holdings of Menorah Insurance increased to 100%.

NOTE 32:- SHARE BASED PAYMENT (Cont.)

c. Details of plan to allot benefit units to the CEO of Menorah Insurance and Senior Officeholder

1. Details of the plan

In the framework of an overall remuneration program as detailed in Note 36 c' below, Menorah Insurance allocated to officeholders in the Company and in Menorah Insurance and to the CEO of Mivtachim Pension, benefit units under the conditions detailed below. No benefit units were allocated to the Directors in the Company or in Menorah Insurance and to officeholders who are a related party to a controlling shareholder or who are not Management members. The Board of Directors of Menorah Insurance will be responsible for the management of the plan for granting benefit units in the framework of the overall benefit plan and they will be responsible for all the necessary activities for this purpose, including determination of the offerees identity, grant of additional benefit units to additional offerees in accordance with the provisions of the benefit units plan or unlike its provisions regarding specific offerees, as well as any other issue that is required for the settlement of the grants to the offerees, as well as the management, clarification and implementation of the plan for granting benefit units.

The benefit units are units for calculating the monetary benefit (gross) due to the offeree at the time of realization of the benefit units only, and they do not constitute options and/or any right to acquire any securities of any the Group companies and/or any of the rights associated with any of the shares of the Group companies.

The amount that will be paid to an offeree in respect of the realization of any of the benefit units, will be calculated according to the difference between the realization price of each benefit unit and the basic price of each benefit unit, multiplied by the number of the realized benefit units (hereunder - the benefit amount). The basic price of each benefit unit is the average price of the Company's share on the Stock Exchange 90 days before the date the Board of Directors approve the plan (with one exception, the CEO of Menorah Insurance, for whom the average was calculated for the period of 90 days prior to the approval of the agreement with him). The realization price will be the locking price of the Company's share on the Stock Exchange, on the day of realization (and if the realization day is not a trading day, then the first trading day after the realization day). The amount to be paid to the offeree in respect of the realization of the benefit units is the "gross" amount, and all the relevant taxes whatsoever that are applicable to the payment in respect of the benefit units, and/or which the Company will be required to deduct according to the law, will be applicable to the offeree.

The benefit units will be vested in a number of portions, over four years from the date the Board of Directors of Menorah Insurance approve the grant of benefit units (namely, from December 16, 2010), while the first portion at the rate of 50% will be vested after two years, 25% after three years and the remaining 25% after four years. Each portion will be realizable within one year from the date of its vesting, and after the last realization date of the benefit units in relation to each portion, the offeree will not be entitled to realize the benefit units by virtue of that unit, and he will not be entitled to any other right by its virtue. The life span of each option is one year from its vesting date.

NOTE 32:- SHARE BASED PAYMENT (Cont.)

c. Details of plan to allot benefit units to the CEO of Menorah Insurance and Senior Officeholder (Cont.)

1. Details of the plan (Cont.)

The plan prescribes directives regarding the realization of the benefit units in the event of resignation, dismissal, retirement, termination of employer-employee relations due to disability/death, as well as adjustments of benefit units due to the distribution of bonus shares, dividend distribution and proposal of rights in the Company and also due to additional events which the Board of Directors will determine, if it does so according to its discretion, or adjustment mechanisms, as the case may be.

2. Liabilities balance in respect of employee rights that have vested until the reporting date

December 31	
2010	**2009**
NIS in thousands	
5	-

3. The fair value of options was estimated on the date of grant using the binomial model. The total value of the benefit to officeholders in the Group, for providing such benefit units is about NIS 22,161 thousand, over four years, recognized over the expected vesting period.

Until the settlement of the liability, the Group re-measures the fair value of the liability at each reporting date, and the changes in fair value are recognized in the statement of profit and loss.

Hereunder is a table presenting the data which was used for measuring the fair value of the options:

	2010 Plan
Dividend yield (%)	-
Excepted fluctuations in the price of the share (%)	44% - 52%
Risk-free interest rate (%)	3.3% - 4%
Anticipated duration of the options to shares (years)	3 - 5
Price of share (NIS)	51

4. Movement during the year

	2010
	Units
Benefit units granted this year	1,052,336
Benefit units as at the end of the year	1,052,336

5. The weighted average of the anticipated remaining duration of the benefit units as at December 31, 2010 is 3.72 years.

NOTE 33:- FINANCE EXPENSES

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Interest expenses and linkage differences in respect of:			
Liabilities to banks	3,096	5,339	11,685
Subordinated deeds	57,025	73,265	70,105
Bonds	51,070	48,730	51,597
Interest expenses to reinsurers	9,063	9,454	9,771
Other finance expenses	1,620	3,288	814
Total finance expenses	121,874	140,076	143,972

NOTE 34:- EARNING (LOSS) PER SHARE

a. Basic earnings (loss) per share:

The calculation of the basic earnings per share for the year 2010, was based on the profit attributed to the holders of ordinary shares in the amount of NIS 281,616 thousand (in the year 2009 – a profit in the sum of NIS 402,798 thousand and in the year 2008 a loss in the amount of NIS 231,784 thousand) divided by the weighted average number of ordinary shares outstanding during the period, which amount to 63,272 thousand shares (in the year 2009 – 63,272 thousand shares and in the year 2008 – 62,173 thousand shares) as follows:

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Weighted average number of ordinary shares			
Balance as at January 1	63,272	63,272	61,575
Effect of shares issued during the year	-	-	598
Weighted average of the number of ordinary shares used for calculation of basic earnings (loss) per share as at December 31	63,272	63,272	62,173

NOTE 35:- RISK MANAGEMENT

1. General

a. Segments of activity

The Group operates in following main areas of activity: life assurance and long term savings (including life assurance, health insurance, pension and provident) and general insurance. In addition the Group is engaged in the lines of financial services (mutual funds, investment portfolio management and underwriting) and real estate. The Group's activities expose it to the following risks:

- financial risks: market risks, liquidity risks, credit risks.
- insurance risks.
- operational risks.

b. Risk management

Taking risks constitutes an integral part of the Group's business activities and therefore is essential to the achievement of its monetary objective and realization of its business strategy. The objective of the risk management is not to neutralize the risks or minimize them arbitrarily, but rather to prudently manage the risks in such a manner that will maximize the profit while preserving the risk limitations that were predetermined. The Group appointed a risk manager whose role is to establish a risk management array and to implement standard practices for risk management that are suitable for the Group's business requirements and in accordance with the Regulator's Directives.

The risks management described below is divided between the core risk categories: financial risks (market, credit and liquidity risks), insurance risks and operational risks.

Financial risks management (market, credit and liquidity)

Financial risk relates to the uncertainty of the value of the future assets which is likely to increase or decrease as a result of their exposure to changes in various market factors such as interest rates, exchange rates, the price of shares and credit margins and uncertainty of the ability of the borrower/issuer/reinsurer to comply with their liabilities towards the Company. The experience and theory together, support the principle according to which the yield is proportional to taking a risk. Therefore, the exposure to market and credit risks is essential for achieving the Group's business objectives. Hence, the aim of the risk management, in this respect, is not to neutralize the risk, but rather to find the optimal balance between the risk and the anticipated yield. The Group's management implements the financial risk management policy which were approved by the various Board of Directors in the Group.

The principles of credit and market risk management policy are:

The risk management responsibility is divided between officeholders and various functions in the organization, starting with the Board of Directors, through to the investment committees, credit committee, investment department, risk management department and back office and middle office departments.

NOTE 35:- RISK MANAGEMENT

1. General

b. Risk management (Cont.)

The principles of credit and market risk management policy are: (Cont.)

General principles for the credit risk management in the assets portfolio include credit risk dispersal over sectors, groups of borrowers and individual borrowers, rating of borrowers, investment liquidity (quoted/unquoted).

Risk Monitoring: by follow up and control of compliance with the limitations of various exposure and risks. The limitations include statutory limitations, limitations determined by the Board of Directors and limitations determined by various investment committees and the credit committee. Monitoring is preformed on an ongoing basis by the middle office department and the risk controller in the risk management department.

In the Nostro (general insurance reserves, yield guaranteeing life assurance, yield guaranteeing provident funds and shareholders' equity) – asset liability management (ALM): the allocation of assets is derived from the adjustment of the linkage basis and also from the timing of the anticipated payments of assets and liabilities. Effective management of ALM is performed by limitation of the exposure to interest risk (difference in average term), market risk limitation through the "Value at Risk" (VaR) criterion, and follow up of assets and liabilities adjustment during various periods of repayments.

In managed portfolios (profit participating life assurance, pension and provident funds) – effective risk management: strategic allocation of strategic assets for each managed portfolio, establishment of indication portfolios, measurement of absolute and proportional risks (proportionally to the indicator portfolio) calculation of risk adjusted performance indices and analysis of the affect of extreme events. The risk management, as mentioned, is performed by the risk manager each quarter and it is reported to the investment committees and to the Board of Directors.

The reinsurers' credit risk management principles are:

Maintaining the quality of credit portfolio is made by setting a lower threshold for the credit rating of the reinsurers with whom it is allowed to engage in the life assurance and general assurance fields, by choosing reinsurers with financial strength.

Determining limitations to the level of the maximum exposure (according to the reinsurance contract) to an individual reinsurer regarding a catastrophe risk.

The Group monitors changes in the reinsurers' ratings and changes in their financial stability, as long as the information is available and it also evaluates the stability of each reinsurer, separately.

NOTE 35:- RISK MANAGEMENT

1. General

b. Risk management (Cont.)

The principles of the liquidity risk management are:

The liquidity risk derives from: (a) accelerated surrenders of life assurance policies or withdrawal of money by the provident fund members (the probability of this scenario increased after the publication of the regulations for the mobility of the long term investment monies). (b) uncertainty as to the strength and timing of the claims in the general insurance. Accordingly, the Group determined a minimum level for the proportion of the quoted assets and cash in its asset portfolio. In addition, and taking into consideration the probability that a catastrophic event will occur in Israel, and will require the provision of large amounts of cash within a short period, a minimum proportion for investment in liquid assets abroad, was determined.

The liquidity risk in the managed portfolios (profit participating life assurance, pension and provident funds) derives from the need to realize assets at a loss as a result of the massive demand to collect the long term savings, or the absence of liquidity in the markets as a result of exogenous factors. In order to manage this risk, and by virtue of the requirement of the Regulator's circular in this matter, the Group is striving to develop and apply a model for the valuation of the liquidity risk and its management by setting liquidity limitations that are suitable for each portfolio.

The insurance risk management

The insurance risk (that is derived from the underwriting risk policies) relates to exposure to monetary losses as a result of the choice of risks which the Group insures and is expressed by the uncertainty regarding the number of claims and the amount of claims which are likely to be higher than expected, due to unexpected events (for example: natural disaster, social-political crisis, regulatory changes, medical breakthrough which will bring about an increase in life expectancy, epidemic etc.).

The following principles form the Group's approach regarding the insurance risk management:

NOTE 35:- RISK MANAGEMENT

1. General

b. Risk management (Cont.)

General approach: the insurance tariff is supposed to provide a complete solution, along the years, for the future insurance liabilities that will be created as a result of the occurrence of insurance risks (at a high probability level) involved in each policy (including expenses and desired profit rates), In addition, underwriting principles regarding the various populations, are determined for each filed of insurance.

Limitations of exposure on retention: in each branch a maximum limitation of exposure on retention is determined at the portfolio, policy or event level. The limitation expresses the exposure to the insurance risk that the Group is prepared to take upon itself. Any risk beyond this, is transferred to reinsurers abroad. If it is decided to become exposed to a new type of risk, it will be done gradually, while collecting data regarding the claims run-off, and at the beginning, a large part of the risk will be transferred to reinsurers.

Insurance product design process: in this process the Group defines the nature of the insurance coverage it is interested to sell. This process guarantees, from the product design stage, that the Group will not be exposed to risks which it does not want to be exposed to.

Underwriting: the system of underwriting regulation includes limitations with a double purpose: a) to create a decision making hierarchy regarding taking risks (from the risk level, through the head of the district, the underwriter and up to the head of the branch) b) to limit the exposure to the insurance risks. The underwriting regulations are enforced in an automated manner (i.e.: automatic underwriting in life assurance or blockages to the level of the coverage in general insurance) or manually by a professional (i.e. a medical doctor in health insurance).

Earthquake risk management: this risk is a significant insurance risk in which the Group relates to the potential effect of an unexpected extreme event. The risk management policy which is brought up for the approval of the Group's Board of Directors each year, is based on three principles:

- Most policies covering earthquakes include a deducible component.
- Transfer of earthquake risk to reinsurers by a proportional contract.
- Purchase of protection of exposure on retention, according to the probability of a large and rare event (MPL), through a catastrophe contract (Cat Cover).

NOTE 35:- RISK MANAGEMENT

1. General

b. Risk management (Cont.)

Earthquake risk management: (Cont.)

The abovementioned principles are based on the assumptions and estimates regarding the nature of the earthquake event and damage it caused. A very rare event that will occur differently from the assumptions and estimates mentioned above, is likely to expose the Group to a higher amount.

War risk management (except for – nuclear/biological/chemical): this risk is a significant insurance risk in the life assurance field in which the Group relates to the potential effect of an unexpected extreme event. In respect of a risk of this type, the Group does not maintain insurance reserves. Therefore, the risk management policy is based on the following principle: the acquisition of protection according to management's judgment regarding the exposure on retention. It should be noted that at the beginning of the year 2010 the Group acquired additional protection for the exposure on retention against death risk coverage, permanent disability and occupational disability, through Cat Cover contracts which also cover earthquakes, as well as events of nuclear/biological/chemical warfare up to a certain limit.

Management of operating risks

According to the standard definition the operating risk relates to a loss resulting from failure or mismatch of proceedings, people or internal systems or as a result of an external event in respect of the organization. At this stage a policy for managing operating risks has not yet been defined. The Group intends to prepare for that in the framework of the implementation of the IFRS for capital adequacy for insurance companies – "Solvency II".

The Group has taken various measures in the operational risk management field: it prepared a Disaster Recovery Plan (DRP) to reestablish the IT systems in the event of an external catastrophic event that will damage its offices; it established, as required, among others, by the Regulator's directives, a data security unit for handling the data security risks; it performed a survey of embezzlement and fraud risks in order to form a multi annual audit program, focusing on risks, since they acknowledge that effective internal audit and control processes are likely to reduce the operational risks. In addition, some of the Group companies are required to apply the directives of Section 104 of the Sarbanes Oxley Law applicable to institutional entities. The Group performed a comprehensive and in-depth survey and applies the recommendations to improve the examination of disclosures in the financial statements. The Group intends to analyze the findings of the above surveys and to complete a comprehensive survey of the operational risks which will be mapped for the current business processes, with the aim of determining effective indicators and to monitor the operational losses.

c. Description of the working context of the risk management array

The risk management context consists of five components:

Risk identification: each year a risk identification review is performed in cooperation with the Group's senior managers. During the review new risks are identified, existing risks are revaluated and the steps taken for handling risks that had materialized, are examined. During the year, for each new product that the Group launches, it performs a separate risk identification review which is relevant to the risks involved in that product.

NOTE 35:- RISK MANAGEMENT

1. General

c. Description of work framework of the risk management array (Cont.)

Measurement of risks: The Group measures financial risks by an advanced computer programs for quantifying market and credit risks. In addition, the Group applied Solvency II standard model formulas for the calculation of quantitative capital requirements in respect of the insurance risks to which it is exposed. The Group intends to measure the insurance risks according to this model as part of its preparations for fully adopting the Solvency II governance.

Risk management: The Group manages the insurance risks mainly through limiting its exposure on retention to these risks and their transfer to renisurers abroad. In addition, the Group limits the risks through an underwriting process used mainly for adjustment of insured populations for pricing the insurance product, thus limiting the insurance risk it assumes. The Group manages the financial risks mainly through limitation of its exposure to the shares, interest, foreign currency and the credit risks. The Group takes strategic steps to hedge the financial risks, from time to time. In the year 2009 the Group acquires financial derivatives for protection against the devaluation of the U.S. Dollar (forward contracts) and protection against an increase in interest (future contracts). The affect of these actions is included in the sensitivity tests reported in paragraph 2 below (market risks).

Risk Control: the control of the insurance risk management is done in the framework of the current activities and includes a periodical examination of the portfolio mix, sample test of in the compliance with underwriting regulations and an examination of the scope of the exposure to catastrophe viruses the reinsurance contract that was signed, in order to make sure that the amount on retention does not exceed the limitations determined. The control of the financial risks is performed by the control and reporting department manager (middle office) and by the risk management department.

Reporting: there are current reports to the Board of Directors, the investment committees to the credit committee and to the CEO: exposure to an earthquake event, the potential effect of the market and credit risks on the Group's capital, etc.

NOTE 35:- RISK MANAGEMENT

1. General

d. Description of work procedures in risk management (Cont.)

The risk management is a cross organization activity based on the insurance and investment departments which take the risks, support units, including actuary, reinsurance and accounting, and the risk management unit which deals with identification, measurement, control and reporting. In addition, in the subsidiary Menorah Insurance there is a risk management committee led by the CEO whose role is to define, direct and support the activities of the risk management array in the organization, while taking into consideration the business and regulatory aspects.

The work of the risk management array consists of a number of activities:

Launching new products is a work process performed regularly, and includes, among others, identification and comprehensive examination of the risks involved in the product and determining ways to manage and audit them. The Group aims to perform a most accurate valuation regarding the required capital (risk adjusted) for launching a new product in order to include the cost of the required capital in the pricing of the product. During the life span of the product, when there is a concern that there is a deterioration in the underwriting results, that is not as a result of random fluctuations, an in depth examination is performed, among others, for the valuation of the risk involved, and if necessary the reserves valuation is adjusted.

The insurance risk management: The business entities are aware of the risks they take and that are managed by them (mainly through reinsurance and the policyholders' deductibles). These entities hold professional/insurance discussions about various matters including exposure analysis, branch profitability, and periodical examinations of the risk factors and accordingly, they come to administrative decisions. The insurance risks are moderated by a large spread of the insurance contracts and by transferring the exposure to reinsurers. The risks are also decreased by choosing and applying underwriting strategies and creating spreads according to branches, geographical areas, types of risk, amount of coverage etc. Each year the Board of Directors approves the risk transfer policy through reinsurers' contracts in all the insurance branches. See details regarding types of insurance risks, the exposure to them, instruments and methods used for estimating them, as well as sensitivity tests in their respect, in paragraph 4 below.

Managing extreme scenarios: the Group takes a policy of limiting the exposure to catastrophe by determining maximum amounts of coverage in certain contracts and by acquisition of adequate reinsurance coverage. The purpose of the underwriting and reinsurance policy is to adjust the maximum loss derived from the exposure to catastrophes, to the risk priced in the tariff. The maximum loss is predetermined in accordance with the Group’s risk considerations as approved by the Board of Directors.

NOTE 35:- RISK MANAGEMENT

1. General

e. Description of work procedures in risk management (Cont.)

Financial risk management: the Group employs a policy of limitation of exposure to financial risks, by determining the range of investment allowable for each asset, and limitations relating to the risk factors: interest, shares, insolvency, foreign currency, etc. The Board of Directors determines the financial risk management policy, approves the investment ranges of the main types of assets and approves the allocation of assets for each and every managed portfolio (the portfolios in which financial risk is placed on the policyholder/member). The Board of Directors determines the overall risk level that the financial risks will affect the Group’s capital. In addition, the Board of Directors determines the level of the overall fluctuations of each of the managed portfolios in accordance with the composition of the respective portfolio for each and every allotment. The Board of Directors receives ongoing reports regarding the compliance with the overall risk limitation, statutory limitations and limitations in risk management. The Group has a Nostro investment committees for supervising the limitations approved by the Board of Directors. In addition, the Group has investment committees for members'/policyholders' monies, for supervising the limitations in the risk management in the assets portfolios that are managed for its clients. The middle office and risk control departments monitor the limitations, warn about deviations, and report accordingly to the investment committee. See details regarding types of financial risks, exposure to them, instruments and methods used to estimate them and sensitivity tests for changes in risk factors, in paragraphs 2 and 3 below.

Risk adjusted capital management: from time to time the Board of Directors holds discussions regarding the implications of the adoption of the Solvency II governance in Israel, on the risk adjusted capital management in the Group and verifies the Group's organizational and IT preparations towards the application of Solvency II. Regarding this matter, a board of director committee was appointed to supervise the Group’s preparation for the adoption of Solvency II.

NOTE 35:- RISK MANAGEMENT

1. General (Cont.)

e. Legal requirements

In the framework of the Treasury's Circular which deals with the preparations for the application of the International Standard Solvency II:

- The Group management and the Board of Directors took a training course regarding the quantitative and qualitative requirements of the European Standard dealing with risk management and risk adjusted capital management.
- The Group appointed a key team for the implementation of the quantitative requirements of Solvency II which are expressed in the Quantitative Investigation Standard No. 5 (QIS5) published by the European Committee. The key team completed its work in December 2010.
- The risks manager reported the results of the QIS5 (quantitative effect study No. 5) in January 2011.
  The Group plans on complete the quantitative study of QIS5 in May 2011 according to the Regulator's directives.
- At the same time, the Group continues to carry out the deployment project for the implementation of the Standard. The Board of Directors authorized the balance sheet committee to supervise the project's progress.
- The Group carried out a survey to examine the differences between the existing computer systems and the IT requirements under Solvency II, through an external consultation office. The findings and recommendations were submitted in May 2010. Following the survey, the Group performed the first stage of the planning and characterization of the required adjustments in the working procedures, inflow of information and designing the computer systems in order to comply with the requirements of Solvency 2. The Second stage – implementation and development, began in the first quarter of the year 2011 and will last for about two years.

The Group applies the following requirements under the Treasury's circular that relates to the roles of the risk manager:

- The identification of insurance and financial risks that are material to the insurer's strength and compliance with his liability to his present and future policyholders, including material risks that stem from the assets held against yield dependent liabilities (profit participating).

- Each year the Group performs a risk identification and mapping survey through which it describes the risks that were materialized and that manner of their treatment, it identifies new risks that were created and identifies existing risks whose manner of treatment was changed. During the year the Group identifies new risks in the framework of the new products procedure.

- The Group manages a registration of all the faults in the manner of the risk management and constantly improves the means of control and supervision according to the work plan that was approved by the risk management committee headed by the CEO.

- Quantification of the exposure and evaluation of the potential risk of the material risks that were identified according to the criteria that will be defined by the insurer for future periods that will be determined.

NOTE 35:- RISK MANAGEMENT

1. General (Cont.)

   e. Legal requirements (Cont.)

      The Group applies the following requirements under the Treasury's circular that relates to the roles of the risk manager: (Cont.)

      - The Group measures the market risks including the evaluation of the market risks potential impact on the Group's available capital (excess of assets at fair value over liabilities at fair value).

      - The Group began to quantify the market risks that are imposed on the customers of the yield dependent life assurance portfolios. The measurement includes the performances proportionally to sample portfolios, on a yield level as well as on a risk level.

      - The Group basis the quantification of the insurance risks on the results of the standard model, at the first level of Solvency 2 (detailed in the QIS5 document), published by the European committee that outlines Solvency 2).

      In the framework of the Treasury's circular that deals in the launching of an insurance plan, the Group applies the following requirements:

      - Maintenance of an identification procedure, evaluation and description of the manner of handling and control of the risks embodied in a new product.

      - Issue of management risks confirmation that the Group is capable of managing the risks resulting from the new product.

      In the framework of the Treasury's circular that deals in the management of credit risks regarding investments in unquoted credit, the Group applies the following requirements:

      - Development and application of methodology for evaluating credit transaction risks, and rating internal credit.

      - Estimation of the probability of discontinuation of repayments, and recovery rates, in order to calculate the anticipated loss on the level of the assets portfolio that are exposed to the credit risk.

      In the framework of the Treasury's circular that deals in the management and control of risks in provident funds, the Group applies the following requirements:

      - The Group settled the issue of the financial risks management through the financial risks management policy that was approved by the provident fund company's Board of Directors.

      - The Group is establishing a system for measurement, control and reporting of financial risks.

      - The Group has quarterly reporting process to the Group companies management, to the investment committee and to various Boards of Directors regarding the following issues: compliance with the limitations of risk management, risk assessment and adjustment of the performance of yield/risk policy that was approved for each of the funds.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market and credit risks

a. Definition of market risks

A market risk is the risk that the fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in the market risk factors. Market risk factors include, among others, changes in the interest curve, share rates, foreign currency exchange rates and in the credit margins.

State risk: concentration of the investment portfolio in a particular geographic area exposes the value of the assets portfolio to political and security changes in Israel. As at December 31, 2010, the sum of NIS 13,464 million is exposed to this risk (as at December 31, 2009 – NIS 12,218 million).

Interest risks: the assets portfolio is exposed to an increase in interest in real terms and thus resulting in losses in the quoted debt assets track. As at December 31, 2010 the sum of NIS 4,456 million (as at December 31, 2009 – NIS 3,762 million) is exposed to this risk.

Equity risk: a risk of sharp decreases in the shares market is liable to effect the value of the shares in the assets portfolio. As at December 31, 2010 the sum of NIS 511 million (as at December 31, 2009 – NIS 458 million) is exposed to this risk.

Currency risk: change in the exchange rate of the Dollar versus the Shekel is likely to cause a decrease in the value of the assets linked to the Dollar. As at December 31, 2010 the sum of NIS 1,369 million (as at December 31, 2009 – NIS 974 million) is exposed to this risk. As at December 31, 2010 there are liabilities in the amount of NIS 973 million, which are exposed to currency risk (as at December 31, 2009 – NIS 676 million). As at December 31, 2010 the Company hedges NIS 509 million from the net exposure through forward contracts (as at December 31, 2009 in the amount of NSI 298 million).

Real estate risk: a risk of decrease in real estate prices in countries where the Group invest in real estate is likely to harm the value of real estate assets in which they invest. As at December 31, 2010 the sum of NIS 214 million is exposed to this risk (as at December 31, 2009 – NIS 158 million).

Base risk: a risk of changes at the linkage basis of the assets and liabilities. Discrepancy between the assets to liabilities in the linkage basis is likely to lead to a situation where a change in the linkage basis will affect the assets and the liabilities in a different manner and will harm the Group's capital. See the amounts of exposure to base risk in the table of linkage base details in g below.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market and credit risks

a. Definition of market risks (Cont.)

Credit risk in debt assets: there is a risk that companies who issued the debt assets which the Group acquired (debentures, loans, etc.) will not comply with their liabilities in the framework of the securities that were issued. This risk is expressed in two ways:

- In the market price of securities, the price expresses the market valuation regarding the issuing company's ability to comply with its liabilities and therefore the credit risk is expressed in the interest margin as compared to similar securities that were issued by the government and defined, for this matter, as riskless. As long as the credit margin widens, the market estimates that the credit risk increases and therefore the value of the securities decreases in the market and alternatively - as long as the issuing company is conceived as more stable the credit margin will decrease and the securities value will increase. As at December 31, 2010 the sum of NIS 2,321 million is exposed to this risk (as at December 31, 2009 – NIS 2,067 million).

- In an investment loss that will be caused in the event of bankruptcy. In spite of the increase, which began during the year 2009, when examining the probability of insolvency of Israeli companies it turns out that only very few companies (to which the Company is exposed) became insolvent. As at December 31, 2010 the sum of NIS 5,414 million is exposed to this risk (as at December 31, 2009 – NIS 5,074 million).

b. Market risk management process is detailed in paragraphs 1 (d) and (e) above.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks

c. Description of the tools used for risk management

The Group uses a number of tools for market risk management:

- Following are the measurement and control of exposure limitations:
  - Ranges of investment by type of assets
  - Average adjusted life span index
  - Percentage of unquoted assets
  - Percentage of assets according to rated groups
  - Percentage of assets per individual borrower, per group of borrowers and per a certain sector

- Measurement and control of reconciliation of assets to liabilities according to repayment dates
- Control of ALM risk including (VaR) and the effect of the market risks on the economic capital
- Control of ALM risk including (VaR) and the effect of the market risks on the accounting capital
- Control of proportional risk (relating to the index portfolio)
- Follow-up of fluctuation index of managed portfolios – HSSTD
- Stress testing of extreme events on the Group's capital

a. The risks involved in assets and liabilities for yield dependent contracts

Yield dependent liabilities (in the subsidiary Menorah Insurance only)

Yield dependent liabilities are liabilities for contracts where the insurance benefits the policyholder is entitled to, depend on the yield that certain investments of the Group generate, net of management fees, as described below:

- Policies issued up to 2004 – fixed management fees as well as variable management fees at a rate of 15% of the real return after deducting the fixed management fees.

- Policies issued as of 2004 and thereafter – fixed management fees only.

As for the assets and liabilities in respect of these products, the Group is not directly exposed to the market risk factors, as detailed above. The effect of the monetary results on the insurance company's profits is reduced to the exposure derived from the variable management fees based on the fluctuations in the yield carried to the policyholders, only with respect to policies issued up to 2004 and from the overall scope of the liability from which the fixed management fees of the insurer are derived with respect to the total yield dependent products.

NOTE 35:- RISK MANAGEMENT (Cont.)

d. The risks involved in assets and liabilities for yield dependent contracts (Cont.)

Yield dependent liabilities (in a subsidiary Menorah Insurance only) (Cont.)

In view of the above, the sensitivity tests and maturity dates of the liabilities detailed in the paragraphs below do not include yield dependent contracts.

Hereunder is the sensitivity test regarding yield dependent contracts and the manner in which the income (loss) is effected from change in yield:

Any change of 1% in the real yield on the investments, after the deduction of fixed management fees in the framework of yield dependent contracts in respect of policies issued up to the year 2004, whose liabilities in their respect as at December 31, 2010 is about NIS 8.9 billion, effects the management fees in the amount of about NIS 13.3 million (as at December 31, 2009, about NIS 7.9 billion, effects the management fees in the amount of about NIS 11.9 million). When the real yield of these contracts is negative, the Group does not charge variable management fees and will not be able to collect them as long as it does not achieve a positive yield to cover the total losses accumulated in the investment portfolio due to the negative yield.

e. Sensitivity tests relating to market risks

Hereunder are sensitivity tests that present the change in the profit (loss) and in the comprehensive income (shareholders' equity) with respect to financial assets, financial liabilities and liabilities in respect of insurance contracts and investment contracts in respect of the relevant risk variable as at each reporting date, and under the assumption that all the other variables are fixed. Thus, for example, the change in interest is under the assumption that all the other parameters have not changed. The sensitivity analysis does not include, as mentioned, the effects of the yield dependent contracts as detailed above. The changes in the variables are in respect of the carrying value of the assets and liabilities. In addition, it was assumed that the said changes do not reflect a parameter impairment of the assets that are reported at a depreciated cost or of the available for sale assets. Therefore, the following sensitivity tests did not include impairment losses in respect of these assets.

The sensitivity tests only reflect the direct effects and do not reflect the ancillary effects.

It should also be noted that these sensitivities are not linear. Hence, bigger or smaller changes versus the changes that are described below, are not necessarily a simple extrapolation of the effect of those changes.

The sensitivity analysis for the interest rate below relates to the assets and liabilities presented in the direct interest risk table in paragraph 2.f below, as assets or liabilities "with direct interest risk" provided that their value in the statement of the financial position is based on their fair value.

The amount of assets effected by the direct interest risk and the changes therein that are recognized in profit and loss amount to: as at December 31, 2010 about NIS 1,118 million (previous year – NIS 811 million).

The amount of assets effected by the direct interest risk and the changes therein that are recognized in the capital reserve amount to: as at December 31, 2010 about NIS 3,723 million (previous year – NIS 3,109 million).

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks (Cont.)

e. Sensitivity tests relating to market risks (Cont.)

As at December 31, 2010:

	The interest rate (*)		Investments in capital instruments **)		Rate of change in the CPI		Rate of change in the foreign exchange rate ****)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	(15,191)	16,590	6,288	(6,274)	(24,003)	24,003	20,095	(20,095)
Comprehensive income (loss) ***)	(95,127)	103,086	29,549	(29,534)	(7,621)	7,621	29,994	(29,994)

As at December 31, 2009:

	The interest rate (*)		Investments in capital instruments (**)		The rate of change in the CPI		Rate of change in the foreign exchange rate ****)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	(24,047)	26,085	9,480	(9,480)	(14,884)	14,884	16,816	(16,816)
Comprehensive income (loss) ***)	(119,323)	130,059	26,709	(26,705)	(3,828)	3,828	24,089	(24,089)

(*) The sensitivity analysis in relation to the change in interest also relates to instruments at fixed interest and instruments with variable interest. In relation to instruments with fixed interest, the exposure is in relation to the book value of the instrument and for instruments with variable interest, the exposure is in relation to the cash flows from the financial instrument. For calculation of sensitivity tests, the change in interest from the beginning of the year, also regarding the assets acquired during the year, were taken into account.

(**) Investments in instruments that do not have fixed flows, or alternatively, the Company has no information regarding this flow.

(***) The sensitivity tests in relation to the comprehensive income also reflect the effect on the profit (loss) for the period.

(****) The rate of change the foreign exchange rate includes in respect of financial instruments which are not monetary items.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks (Cont.)

f. Direct interest risk

Direct interest risk is the risk that the change in the market interest will cause a change in the fair value or in the cash flows deriving from the asset or liability. This risk relates to assets settled in cash.

It should be emphasized that there are assets with direct interest risk whose fair value is effected from the change in the market interest, but the Group does not record them at fair value in the financial statements and therefore are not included in the sensitivity tests described in the previous paragraph. Below are the amounts of these assets.

The addition of the word "direct" emphasizes the fact that the interest change can also effect other types of assets but not directly, such as the effect of the interest change on the share rates.

See the reference to the discount interest used to calculate the insurance liabilities in paragraph 4 (b) (4) below:

	December 31, 2010		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	4,455,757	3,978,995	8,434,752
Unquoted debt assets:			
"Hetz – life linked" bonds and deposits by the accountant general	6,108,845	165,622	6,274,467
Other	3,057,300	2,948,273	6,005,573
Other financial investments	203,994	148,707	352,701
Cash and cash equivalents	435,991	67,575	503,566
Reinsurance assets	1,337,341	-	1,337,341
Total assets with direct interest risk *)	15,599,228	7,309,172	22,908,400
Assets without direct interest risk	3,579,757	4,664,847	8,244,604
Total assets	19,178,985	11,974,019	31,153,004
Liabilities with direct interest risk:			
Financial liabilities	1,720,140	-	1,720,140
Liabilities in respect of insurance contracts and investment contracts	13,805,715	11,908,196	25,713,911
Others	384,311	-	384,311
Total liabilities with direct interest risk **)	15,910,166	11,908,196	27,818,362
Liabilities without direct interest risk	927,786	153,124	1,080,910
Shareholders' equity	2,253,732	-	2,253,732
Total equity and liabilities	19,091,684	12,061,320	31,153,004
Total assets net of liabilities	87,301	(87,301)	-

*) Of this assets in the amount of NIS 10,758 million whose interest effect on the fair value in not included in the above sensitivity tests since the average life span in their respect is up to half a year and therefore the interest risk in their respect is low.

**) The effect of the interest on the fair value is not included in the above sensitivity tests.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks (Cont.)

f. Direct interest risk (Cont.)

	December 31, 2009		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	3,762,098	3,368,586	7,130,684
Unquoted debt assets:			
"Hetz – life linked" bonds and deposits by the accountant general	5,926,916	155,037	6,081,953
Other	2,939,307	2,882,960	5,822,267
Other financial investments	69,771	64,055	133,826
Cash and cash equivalents	530,440	105,295	635,735
Reinsurance assets	1,045,732	-	1,045,732
Total assets with direct interest risk *)	14,274,264	6,575,933	20,850,197
Assets without direct interest risk	3,456,898	3,593,245	7,050,143
Total assets	17,731,162	10,169,178	27,900,340
Liabilities with direct interest risk:			
Financial liabilities	1,513,374	-	1,513,374
Liabilities in respect of insurance contracts and investment contracts	12,925,047	10,238,194	23,163,241
Others	290,925	-	290,925
Total liabilities with direct interest risk **)	14,729,346	10,238,194	24,967,540
Liabilities without direct interest risk	859,087	123,063	982,150
Shareholders' equity	1,950,650	-	1,950,650
Total equity and liabilities	17,539,083	10,361,257	27,900,340
Total assets net of liabilities	192,079	(192,079)	-

*) Of this assets in the amount of NIS 10,354 million whose interest effect on the fair value in not included in the above sensitivity tests since the average life span in their respect is up to half a year and therefore the interest risk in their respect is low.

**) The effect of the interest on the fair value is not included in the above sensitivity tests.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks (Cont.)

f. Direct interest risk (Cont.)

Comments:

In yield guaranteeing life assurance - the major part of the yield guaranteeing life assurance portfolio is mainly backed by designated bonds (Hetz – life linked bonds) issued by the Bank of Israel during the policy's entire term. Therefore, the Company has financial coverage overlapping the main liabilities regarding interest and linkage over the policy's term. As at December 31, 2010, the designated bonds covered about 61.3% (in December 2009 about 61.5%) of all the insurance liabilities in life assurance in these programs.

In respect of the Company's others investments in the framework of life assurance business, there is an exposure to the interest rates that will prevail when the investments whose term is lower than the average term of the insurance liabilities, are recycled.

In respect of these products and in respect of continuous claims payments, in long term care and in occupational disability insurance, the calculation of the insurance liability is based on the tariff interest rate of the policy (see details in paragraph 4 (b) (4)).

With respect to products under general insurance business, the calculation of the insurance liabilities is based on the undiscounted future claims flow. Therefore, their balance sheet value is not affected by the changes in interest.

Part of the liabilities for investment contracts, including liabilities in respect of yield guaranteeing provident funds mostly backed by Accountant General deposits issued by the Accountant General, hence the Company has an earmarked financial coverage over most of the liabilities in connection with interest and linkage. As at December 31, 2010, the Accountant General deposits covered about 86.8% of all the liabilities in these provident funds (as at December 31, 2009, about 86.9%).

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks (Cont.)

g. Details of assets and liabilities distributed into linkage basis

	December 31, 2010					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto *)	Non-financial items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Intangible assets	-	-	-	1,079,071	-	1,079,071
Deferred tax assets	-	-	-	556	-	556
Deferred acquisition costs	-	-	-	874,456	9,041	883,497
Fixed assets	-	-	-	198,968	-	198,968
Investments in affiliates	-	-	25,221	-	-	25,221
Investment property	-	-	-	173,409	-	173,409
Reinsurance assets	302,080	870,419	164,842	-	-	1,337,341
Current tax assets	-	98,769	-	-	-	98,769
Debtors and receivables	21,682	19,064	22,487	25,062	20,063	108,358
Outstanding premiums	-	453,010	337	-	71,728	525,075
Financial investments for yield dependent contracts	-	-	-	-	11,805,612	11,805,612
Other financial investments:						
Quoted debt assets	996,954	2,956,797	502,006	-	-	4,455,757
Unquoted debt assets	37,007	8,828,431	300,707	-	-	9,166,145
Shares **)	222,205	-	71,231	-	-	293,436
Others	114,271	162,682	221,270	-	-	498,223
Total financial investments	1,370,437	11,947,910	1,095,214	-	-	14,413,561
Cash and cash equivalents for yield dependent contracts	-	-	-	-	67,575	67,575
Other cash and cash equivalents	375,120	-	60,871	-	-	435,991
Total assets	2,069,319	13,389,172	1,368,972	2,351,522	11,974,019	31,153,004

*) The main exposure to foreign currency relates to the dollar.
**) The relevant currency for the exposure of shares is determined based on the listed value.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks (Cont.)

g. Details of assets and liabilities distributed into linkage basis (Cont.)

	December 31, 2010					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto *)	Non-financial items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Total capital	-	-	-	2,253,732	-	2,253,732
Liabilities						
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	937,379	12,591,103	277,233	-	-	13,805,715
Liabilities in respect of yield dependent insurance contracts and investment contracts	-	-	-	-	11,908,196	11,908,196
Deferred tax liabilities	-	-	-	157,870	-	157,870
Liabilities for employee benefits, net	118,622	-	-	-	-	118,622
Liabilities in respect of current taxes	-	32,988	-	-	-	32,988
Excess of losses over investments in affiliates	-	-	3,974	-	-	3,974
Creditors and payables	589,295	283,307	114,141	11,900	153,124	1,151,767
Financial liabilities	34,375	1,685,310	455	-	-	1,720,140
Total liabilities	1,679,671	14,592,708	395,803	169,770	12,061,320	28,899,272
Total capital and liabilities	1,679,671	14,592,708	395,803	2,423,502	12,061,320	31,153,004
Total balance sheet exposure	389,648	(1,203,536)	973,169	(71,980)	(87,301)	-
Exposure to base assets through derivate instruments in Delta terms	482,138	24,884	(509,296)	2,274	-	-
Total exposure	871,786	(1,178,652)	463,873	(69,706)	(87,301)	-

*) The main exposure to foreign currency relates to the dollar.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks (Cont.)

g. Details of assets and liabilities distributed into linkage basis (Cont.)

	December 31, 2009					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto *)	Non-financial items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Intangible assets	-	-	-	1,047,593	-	1,047,593
Deferred tax assets	-	-	-	484	-	484
Deferred acquisition costs	-	-	-	802,218	10,318	812,536
Fixed assets	-	-	-	184,068	-	184,068
Investments in affiliates	-	-	27,424	-	-	27,424
Investment property	-	-	-	127,196	-	127,196
Reinsurance assets	241,969	660,238	143,525	-	-	1,045,732
Current tax assets	-	172,952	-	-	-	172,952
Debtors and receivables	71,911	14,963	184	394	28,818	116,270
Outstanding premiums	-	444,272	279	-	83,147	527,698
Financial investments for yield dependent contracts	-	-	-	-	9,941,600	9,941,600
Other financial investments:						
Quoted debt assets	738,287	2,538,266	485,545	-	-	3,762,098
Unquoted debt assets	52,366	8,599,485	214,372	-	-	8,866,223
Shares **)	216,259	-	48,519	-	-	264,778
Others	71,621	113,858	182,474	-	-	367,953
Total financial investments	1,078,533	11,251,609	930,910	-	-	13,261,052
Cash and cash equivalents for yield dependent contracts	-	-	-	-	105,295	105,295
Other cash and cash equivalents	474,749	-	55,691	-	-	530,440
Total assets	1,867,162	12,544,034	1,158,013	2,161,953	10,169,178	27,900,340

*) The main exposure to foreign currency relates to the dollar.
**) The relevant currency for the exposure of shares is determined based on the listed value.

NOTE 35:- RISK MANAGEMENT (Cont.)

2. Market risks (Cont.)

g. Details of assets and liabilities distributed into linkage basis (Cont.)

	December 31, 2009					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto *)	Non-financial items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Total capital	-	-	-	1,950,650	-	1,950,650
Liabilities						
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	1,176,350	11,555,191	193,506	-	-	12,925,047
Liabilities in respect of yield dependent insurance contracts and investment contracts	-	-	-	-	10,238,194	10,238,194
Deferred tax liabilities	-	-	-	156,057	-	156,057
Liabilities for employee benefits, net	103,074	-	-	-	-	103,074
Liabilities in respect of current taxes	-	18,602	-	-	-	18,602
Excess of losses over investments in affiliates	-	-	1,033	-	-	1,033
Creditors and payables	483,396	100,440	287,410	-	123,063	994,309
Financial liabilities	43,434	1,469,940	-	-	-	1,513,374
Total liabilities	1,806,254	13,144,173	481,949	156,057	10,361,257	25,949,690
Total capital and liabilities	1,806,254	13,144,173	481,949	2,106,707	10,361,257	27,900,340
Total balance sheet exposure	60,908	(600,139)	676,064	55,246	(192,079)	-
Exposure to base assets through derivate instruments in Delta terms	296,885	-	(298,429)	1,544	-	-
Total exposure	357,793	(600,139)	377,635	56,790	(192,079)	-

*) The main exposure to foreign currency relates to the dollar.

NOTE 35:- RISK MANAGEMENT (Cont.)

3. Liquidity risks

a. Liquidity risks

A liquidity risk is the risk that the Group will be required to realize its assets at a low price in order to meet its obligations.

The Group is exposed to risks resulting from uncertainty regarding the date the Group will be required to pay claims and other benefits to policyholders in relation to the scope of the monies that will be available for that purpose on that date.

It should be noted that it might be necessary to raise funds unexpectedly and with a short notice – as a result of the materialization of a catastrophic event which will damage the general insurance and life assurance simultaneously and will cause a sharp unexpected increase, in claims –might require a quick realization of a large portion of assets and these assets will be sold at prices that will not necessarily reflect their market value.

A significant part of its insurance liabilities in the life assurance segment are not exposed to the liquidity risks due to the nature of the insurance contracts as described below.

Yield dependent contracts, in life assurance – according to the terms of the contracts, the owners are entitled to receive only the value of the said investments. Hence, if the investment value decreases for any reason whatsoever, there will be a corresponding decrease in the Group's liabilities.

Non-yield dependent contracts, in life assurance – according to the terms of the contracts, the policyholders are entitled to receive guaranteed yield. The liability in respect of these contracts as at December 31, 2010 is in the amount of NIS 4,947 which constitutes 29% of the life assurance portfolio (previous year NIS 4,616 million which constitutes 30% of the life assurance portfolio). These contracts are mainly backed up by designated bonds (Hetz – "life linked bonds") issued by the State of Israel. The Group is entitled to realize these bonds when the redemption of the aforementioned policies is required.

Yield guaranteeing provident funds – according to the terms of the fund, the members are entitled to receive agreed upon yield. Liability in respect of these funds as at December 31, 2010 is in the amount of NIS 4,342 million (previous year NIS 4,184 million. These liabilities are mainly backed by the accountant general's deposits. The Group is entitled to realize these deposits when the members demand a monetary redemption.

Hence, the Group's liquidity risk derives mainly from the balance of assets that are not designated bonds and are not against yield dependant contracts. The balance of assets as at December 31, 2010 is NIS 8.3 billion (previous year NIS 7.2 billion).

From the said asset balance, as at December 31, 2010 about NIS 5.3 billion are quoted assets (as at December 31, 2009 NIS 4.3 billion), realizable for relatively short period, depending on the liquidity conditions of the capital markets.

NOTE 35:- RISK MANAGEMENT (Cont.)

3. Liquidity risks

a. Liquidity risks (Cont.)

According to the Ways of Investment Regulations an insurance company is required to hold liquid assets (namely, government bonds or cash and cash equivalents) in the amount of not less than 15% of the required capital. As at December 31, 2010 and December 31, 2009, the consolidated insurance companies complied with the regulation requirements.

Every quarter the Investment Committee discusses the adjustment of assets versus the liabilities and makes sure that there are liquid assets for the realization of the Group's liquidity requirements resulting from the anticipated spread of its liabilities. See the analysis below.

b. Assets and liabilities management

The Group manages its assets and its liabilities in accordance with the Supervision Law requirements and regulations.

The tables below concentrate the estimated settlement dates of the Group’s non-capitalized insurance and financial liabilities. Since the amounts are non-capitalized, they do not match the balances of the insurance and financial liabilities in the statement of financial position.

The estimated settlement dates of the liabilities in life assurance and health insurance are included in the tables as follows:

Savings monies – contractual settlement dates, namely, retirement age, without cancellation assumptions, under the assumption that the savings will continue as a lump sum and not as annuity.

Annuity in payment, occupational disability in payment and long term care in payment - on the basis of an actuarial estimate.

Outstanding claims and other – reported under the column “without a defined settlement date”.

The estimated settlement dates of the liabilities in respect of general insurance contracts were included in the tables as follows:

- Insurance liabilities valuated by an actuary – on the basis of actuarial estimate.
- Provision for unearned premiums – were spread out on the basis of an actuarial estimate.
- Excess of income over expenses (accruals) - included in the column “without defined settlement date”

The repayment dates of the financial liabilities and the liabilities in respect of investment contracts were included on the basis of the settlement dates of the contracts. In contracts in which the opposing party is entitled to chose the time of payment of any amount, the liability is included on the basis of the earliest date that the Group can be required to pay the liability.

NOTE 35:- RISK MANAGEMENT (Cont.)

3. Liquidity risks

c. Analysis of the settlement dates of the financial and insurance liabilities amounts

Liabilities in respect of life assurance and health insurance contracts(*)

	Up to one year	Over one year up to 5 years	Over 5 years up to 10 years	Over 10 years up to 15 years	Over 15 years	Without a defined settlement date	Total
	NIS in thousands						
As at December 31, 2010	667,757	1,241,156	1,418,841	1,124,675	1,258,267	1,078,855	6,789,551
As at December 31, 2009	545,910	1,152,612	1,344,330	1,128,596	1,323,547	980,368	6,475,363

(*) Does not include yield dependent contracts.

Liabilities in respect of general insurance contracts

	Up to one year	Over one year up to 3 years	Over 3 years up to 5 years	Over 5 years	Without a defined settlement date	Total
	NIS in thousands					
As at December 31, 2010	1,256,213	1,249,546	664,430	727,437	435,080	4,332,706
As at December 31, 2009	1,214,821	1,213,535	640,169	635,311	289,246	3,993,082

NOTE 35:- RISK MANAGEMENT (Cont.)

3. Liquidity risks

c. Analysis of the settlement dates of the financial and insurance liabilities amounts (Cont.)

Financial liabilities and liabilities in respect of investment contracts:

	Up to one year *)	Over one year up to 5 years	Over 5 years up to 10 years	Over 10 years up to 15 years	Over 15 years	Total
	NIS in thousands					
As at December 31, 2010:						
Financial liabilities	222,748	1,035,499	722,570	141,008	-	2,121,825
Liabilities in respect of investment contracts	4,368,179	-	-	-	-	4,368,179
Liabilities in respect of yield dependent investment contracts	1,108,792	-	-	-	-	1,108,792
As at December 31, 2009:						
Financial liabilities	158,631	1,036,003	726,222	137,437	-	2,058,293
Liabilities in respect of investment contracts	4,207,832	-	-	-	-	4,207,832
Liabilities in respect of yield dependent investment contracts	834,266	-	-	-	-	834,266

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks

a. Description of the main insurance risks

Underwriting risks: the risk of using incorrect prices due to inadequacies in the underwriting process and due to the gap between the risk that was estimated when pricing and establishing the premium and the actual occurrence, so that the collected premiums are insufficient for covering future claims and expenses. The gaps may arise from accidental changes in business results and from changes in the cost of the average claim and/or the frequency of the claims as a result of various factors.

The Group manages this risk in two principal manners: (a) limitation of the risk by underwriting processes that are compatible for each type of insurance product (b) transfer of the risk to a third party through a reinsurance contract.

Reserve risks: the risk of an incorrect assessment of the insurance liabilities which might cause the actuarial reserves to be inadequate for covering all the liabilities and claims. The actuarial models according to which, among the others, the Group evaluates its insurance liabilities are based on the fact that the pattern of the behavior of past claims represents forward looking information. The Group's exposure is comprised of the following risks:

a) Model risk – the risk of choosing an incorrect model for pricing and/or assessing the insurance liabilities;

b) Parameter risk – the risk of using wrong parameters including the risk that the amount paid for settling the Group's insurance liabilities or that the date of settlement of the insurance liabilities, will not be according to the expectations.

c) Process risk – the risk that even if the models and parameters are suitable, there could be actual coincidental deviations compared to the expected value in a specific year.

The Group manages this risk through by carrying out a most precise survey of the actuaries' reports by the Balance Sheet Committee, whose objective is to reduce the risk of using incorrect assumptions or methods. In addition, the internal auditor also performs audits.

actuarial instruments such as "deficient premium" whose aim is to reduce the risk of deficient valuation of the liabilities and claims, and it carries out a strict review of the actuarial reports by the balance sheet committee, in order to reduce the risk of using incorrect assumptions or methods. In addition the internal auditor and the Regulator of Insurance carry out inspections.

The product design risk: The risk that in the process of designing new products or changing existing products, the Group will be exposed to risks that it does not want to be exposed to.

The Group manages this risk by maintaining an orderly process of characterizing and development of the product, a review of the risks and how to handle them, and outlining an insurance contract that will accurately reflect the risks that the Group is prepared to take upon itself versus the policyholder.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

a. Description of the main insurance risks (Cont.)

Catastrophe risk: an exposure to the risk that a single event with significant effect (catastrophe) such as natural disasters, war, terrorism, or earthquake will lead to the accumulation of massive damages. The material catastrophes to which the Group is exposed in Israel are war and earthquake.

The Group manages the life assurance catastrophe risk by transferring it to a reinsurer abroad in the framework of a Cat Cover contract which also covers the risk of death, total disability and disability income insurance as a result of a catastrophe event such as an earthquake or war.

The maximum anticipated loss in the general insurance business due to the exposure to a single large damage or accumulation of damages in respect of an earthquake at a probability of about 0.2% is about NIS 2,852 million gross (2.00% - 2.75% Maximum Possible Loss - MPL) and about NIS 63 million on retention (in the previous year NIS 2,805 million gross exposure and NIS 73 million on retention).

The Group manages this risk by transferring it to reinsurers abroad in the framework of proportional contracts and Cat Cover contract that is renewed every year according to the desired MPL when the volume and composition of the policy portfolios that cover this risk, is known. The Group revaluates the risk each year according to the composition of the actual policies portfolio.

Regarding data in respect of the various insurance products in respect of which the insurer has an exposure to the aforementioned insurance risks – see details of the insurance liabilities according to the type of insurance risks in paragraphs b and c below.

b. Life assurance and Health insurance

Description of the insurance products and their embedded risks

(1) Adif insurance program and Investment tracks. This product has an identified savings component. The embedded risks are financial risks and effect the management fees that the Group collects and insurance risks as a result of coverage accompanying the policy (death, occupational disability, dread disease and long term care): mortality, morbidity, catastrophe and other risks such as expense and cancellation risks.

(2) Endowment insurance program. In this product the savings component is combined with the death component. This product involves the same risks as those described in paragraph (1) above.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

b. Life assurance and Health insurance (Cont.)

1. Description of the insurance products and their embedded risks (Cont.)

(3) Guaranteed pension plan. The embedded risks in this product are: longevity risks, expenses risks and the risk of expenses.

(4) Other life assurance programs include pure risk products (occupational disability, death, long term care, dread disease, disability, etc.) are sold as independent policies or are riders in other policies. The risks involved in this product is similar to the risks described in paragraph (1) above.

(5) Health insurance program. These programs include coverage for surgery (not covered in the government health basket) and medications not in the medications basket. The main risks involved in this product are: increase in medical expenses as a result of advanced technology, change in the government health basket and catastrophic risk (mass epidemic).

(6) Other risks that are generically involved in these products (common to all) are: changes in underwriting regulations which are liable to bring about incompatibility between the risk profile and the tariff, changes in judicial climate which are likely to bring about an unexpected increase in frequency of claims or in cost of average claims, regulatory changes, and model risk (reserve risk) which relate to the use of an unsuitable model for pricing or calculating the reserve or use of incorrect parameters.

2. Manner of measurement of the insurance risk

The Group measures the insurance risks for two main objectives:

(1) Pricing of insurance products which it sells.

(2) Calculation of the insurance risk's contribution for the calculation of the overall capital that is required.

The measurement of risks per product is performed by the actuary who analyzes the claims (according to data accumulated in the company and based on the information received from the reinsurer), estimates the anticipated claims and the rest of the costs such as expenses and commissions and determines the appropriate tariff per product and various populations of potential policyholders.

Measurement of the total risk (for all the policies together) is according to a standard model for insurance products in Israel. The model is based on the performance of changes in the risk factors that affect the fair value (according to the best estimate) of the insurance liabilities. For example, an extreme change in the morality rates or a sudden change in the cancellation rates that were assumed for the calculation of the insurance liabilities. In addition, the model assumes the effect of an extreme event (catastrophe) on the amount of liabilities according to parameters determined in advance (increase in mortality and morbidity). It should be noted that measurement of the risk takes into account that all the risks are realized at the same time and therefore there is a correlation between the various risks which reduces the overall risk.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

b. Life assurance and health insurance (Cont.)

3. Description of the actuarial methods for calculating the insurance liabilities

(1) “Adif” type and “Investment tracks” insurance programs:

In “Adif” and “Investment track” insurance programs there is an identified savings component. The basic and main reserve is at the level of the accumulated savings plus the yield according to the policy’s terms as follows:

Principal linked to the investment portfolio’s yield (yield dependent contracts)

Principal linked to the CPI plus a fixed guaranteed interest or credited by a guaranteed yield against adjusted assets (yield guaranteed contracts).

In respect of insurance components that are attached to these policies (occupational disability, death, long term care, etc.), the insurance liability is calculated separately as mentioned below.

(2) “Endowment” type policies (“Traditional”) and others:

The “Endowment” type insurance programs and similar programs combine a savings component in the event that the policyholder is still alive at the end of the term of the program with an insurance component of death risk during the period of the program. In respect of these products, the insurance liability is calculated for each coverage as a capitalization of the cash flows in respect of the anticipated claims, including a payment at the end of the period, net of future anticipated premiums. This calculation is based on assumptions according to which the products were priced and/or on assumption based on the claims experience, including the interest rates (hereunder – tariff interest), mortality or morbidity tables. The calculation is according to the net premium reserve method, which does not include the component that was loaded on the premium tariff for covering the commissions and expenses, in the anticipated flow of receipts and on the other hand it does not deduct the anticipated expenses and commissions. The reserve in respect of yield dependent traditional products is calculated according to the actual yield that was obtained, net of management fees.

(3) Liabilities for annuities in payment are calculated in accordance with the anticipated life expectancy, based on updated mortality tables that were created with the assistance of data published by the Treasury’s actuary in the Regulator’s circular.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

b. Life assurance and health insurance (Cont.)

3. Description of the actuarial methods for calculating the insurance liabilities

(4) Liabilities in respect of annuities paid for life in respect of policies in force (paid and settled) which have not yet reached the stage of realization of annuity or the policyholder has reached retirement age and the actual payment did not yet begin, are calculated according to the Regulator's circulars and the probability of annuity withdrawal and in accordance with the anticipated life expectancy on the basis of the updated mortality tables. At the time of updating the mortality tables, there is a gradual increase of the liabilities for annuity taking into consideration the anticipated profits from the policies until the policyholders reach retirement age. If the guaranteed annuity coefficients of the policies are higher, the required increase is also higher.

(5) Other life assurance programs include pure risk products (occupational disability, death, long term care dread disease, disability, etc) sold as independent policies or attached to policies with a basic program such as “Adif”, “Investment tracks” or “Traditional”. An actuarial liability is calculated in respect of these programs. In occupational disability and long term care the calculation is on the basis of the net premium reserve. For occupational disability the method takes prudent cancellation rates into account, whereas in long term care it is taken into account without cancellations.

(6) In respect of prolonged payment claims, in long term care and occupational disability insurance, the insurance liability is calculated according to the duration of the anticipated payment, and it is capitalized according to the tariff interest rate of the product.

(7) The insurance liabilities in respect of group insurance consists of a liability in respect of unearned premium, outstanding claims reserve and IBNR (claims incurred but not yet reported), reserve for prolonged payments, provision for participation in profits and provision for future losses, if necessary.

(8) The liabilities for outstanding claims in life assurance include provisions for unpaid claims, including IBNR, in all branches except for long term care and occupational disability.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

b. Life assurance and Health insurance (Cont.)

3. Description of the actuarial methods used to calculate the insurance liabilities (Cont.)

(9) Liabilities in respect of health policies are from a number of types, for collectives and individual policies, separately:

- Provision for premium deficiency which is calculated as an excess (if higher than zero) of the present value of all the future costs, less the present value of all the future income, according to the type of coverage based on prudent assumptions.

- Outstanding claims, including provision for IBNR and direct expenses for settlement of claims.

- Cost of the continuity clause in collective policies.

- Participating in the profits of collective policies accumulated but not yet paid.

- Premium reserve in the event that the premium is paid at a frequency which is less than monthly.

4. Main assumptions used in the calculation of the insurance liabilities

(1) The capitalization rate

For endowment insurance programs, etc. (traditional) (see paragraph 3 (2) above), and pure risk products (see paragraph 3(5) above) with fixed premium, the interest used for capitalization is as follows:

(a) in insurance programs that are mainly backed by designated bonds – at the interest rate of between 3% to 5% linked to the index; the part which is not backed by designated bonds – at risk-free interest.

(b) For yield guaranteeing programs and guaranteeing an annuity coefficient which are not backed by designated bonds (launched after 2005) –risk-free interest.

(c) In policies paying LTC payments and PHI, the interest serving as capitalization is as follows:

- In the event that the compensation is not yield dependent the rate is 2.5%.
- Yield dependent compensation is capitalized at rate of 3.1%.

The discount rate can change as a result of significant changes in the long term market interest rate.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

b. Life assurance and Health insurance (Cont.)

4. Main assumptions used in the calculation of the insurance liabilities (Cont.)

(2) Morbidity and mortality rates

- The mortality rates used in the calculation of insurance liabilities in Endowment type policies ("Classic") in respect of mortality of the insureds according to retirement age (not including mortality of insureds who receive old age pension and monthly compensation for occupational disability or long term care) are mainly based on the AM 49/52 tables.

- The liability for annuities payable for life is calculated according to updated mortality tables.

  Under the assumption that there will be an increase in the mortality rate assumption, due to an increase in the actual mortality rate to a level exceeding the existing assumption, shall result in a decrease in the liability for annuities payable for life.

  It should be noted that there is an increase in the life expectancy and decrease in mortality rate, that is taken into account for determining the mortality assumption used in the calculation of the liability for annuity that will be paid in the future.

- The morbidity rates relate to the prevalence of claims for morbidity from serious diseases, occupational disability, long term care, operations and hospitalization, disability from accidents, etc. These rates and the period of annuity payments (in respect of long term care and occupational disability insurance) are determined based on Menorah Insurance's experience or researches of reinsures. If the morbidity rate assumption will increase, the insurance liability for morbidity rate from serious diseases, occupational disability, long term care, operations and hospitalization and disability from accidents, will increase.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

b. Life assurance and Health insurance (Cont.)

4. Main assumptions used in the calculation of the insurance liabilities (Cont.)

(3) Annuity rates

Life assurance contracts that include a savings component, were managed, in respect of monies deposited from the year 2000 up to the end of 2007 in two possible tracks: a lump sum track or an annuity track. With respect to premiums deposited up to the year 2000, the policyholder is entitled to choose the track he prefers, at the time of retirement. Since the amount of the insurance liability is different in each of these two tracks, the Company is required to estimate the rate of policies that the policyholders will chose in the annuity track, due to the implication with respect to the required reserve in respect of this type of liabilities. This rate is determined according to the Supervision’s directives and adjusted to the Menorah Insurance’s accumulated experience. It should be noted that beginning from the year 2008 almost all the programs are for annuity.

(4) Cancellation rates

The cancellation rates effect the insurance liabilities in respect of part of the health and occupational disability insurances and the annuities paid for life during the period before beginning the payments. The cancellation of insurance contracts can be due to the cancellation of policies initiated by the Company due to discontinuation of the premium payments or surrenders of policies at the policyholders’ request. The assumptions regarding the cancellation rates are based on the Company's experience regarding the life span of the product and sales frameworks according to the type of product.

(5) Continuity rates

In health insurances and group long term care insurances where the policyholders are entitled to continue to be insured under the same conditions, in the event that the collective contract is not renewed or the policyholder leaves the group. The Company has a liability that is based on assumptions regarding the continuity rates of the collective insurances and the continuity rates of the contracts with the policyholders after the collective contract expires.

If there is a higher probability that the collective contract will not be renewed (a higher continuity rate) the insurance liability will also increase, since the insurance will continue under the previous conditions, without adjusting the underwriting to the change in the policyholders’ state of health.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

b. Life assurance and Health insurance (Cont.)

4. Main assumptions used in the calculation of the insurance liabilities (Cont.)

Sensitivity tests in life assurance and health insurance *)

As at December 31, 2010:

	Rate of cancellations (surrenders, settlements and decreases)		**Morbidity rate**		**Mortality rate**	
	+10%	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
	NIS in thousands					
Profit (loss)	4,805	(11,498)	(50,911)	12,891	(719)	(50,373)

As at December 31, 2009:

	Rate of cancellations (surrenders, settlements and decreases)		**Morbidity rate**		**Mortality rate**	
	+10%	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
	NIS in thousands					
Profit (loss)	4,217	(9,949)	(43,623)	11,196	(5,661)	(42,079)

*) Sensitivity analysis are based on the book value and not on the economic value. Therefore, when there is an improvement in mortality or morbidity and the economic result that is obtained in the sensitivity analysis brings about a reduction in the calculated reserve versus the pricing of the initial coverage, then under prudent considerations, the profit that is created in the amount of the reserve's difference, is not taken into account.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance

1. Description of the insurance products and their embedded risks

The generic risks involved in the general insurance products (common to all the branches) are: fluctuations in the severity and frequency of the claims (number of factors effecting this uncertainty – delay in reporting claims, judicial climate, change in legislation, large claims), risk model (reserve risk), exposure concentration risk.

(a) Motor act insurance

Motor act insurance is a statutory insurance that is an essential pre-condition for driving a motor vehicle. The motor at insurance policy, pursuant to the Motor Vehicle Insurance Ordinance, grants a coverage to the owner of the vehicle and its driver, for any liability they might incur in accordance with the Compensation Law, or any other liability they may incur due to bodily damages that were caused to the driver of the vehicle, its passengers, or pedestrians that were injured as a result of using the motor vehicle. The insurance coverage in the area of motor act insurance is fixed and uniform for all the insurance companies. Motor act insurance claims are characterized by a long tail, namely, there are cases in which a long time passes from the date of the event until the date of final settlement of the claim. According to the amendment to the Economic Arrangement Law, from the year 2010 and onwards the medical expenses were removed from the motor act insurance policy coverage and will be paid by the Sick Funds.

(b) Motor casco insurance

A motor casco insurance policy includes coverage in respect of personal damages caused to the insured vehicle, theft and property damage caused by the insured vehicle to a third party. It is possible to purchase a policy for damage to a third party only or in combination with additional coverage. The standard policy determines the minimal version and conditions for comprehensive motor insurance and the insurance company can only change them if there is a change to the benefit of the policyholder. The tariff for the motor casco insurance is not uniform and depends on a number of variables, such as: type and value of the insured vehicle, its accumulated claims experience, the age of the driver and the limitation of the number of persons entitled to drive the vehicle. In most cases, claims in respect of these policies are handled close to the date of the insurance event.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

1. Description of the insurance products and their embedded risks (Cont.)

(b) Motor casco insurance (Cont.)

b.1. Comprehensive motor insurance (private and commercial including trucks) – coverage in respect of damage to the vehicle as a result of an accident, damage to the vehicle as a result of fire, theft, damage caused during the theft of a vehicle, damage caused as a result of natural disaster (flood, storm, snow and hail), damage to a vehicle as a result of a malicious act (except if it was caused by the policyholder or someone on his/her behalf), damage that the vehicle caused to a third party's property.

b.2. Comprehensive insurance without accident coverage – insurance coverage for all the risks detailed in sub-section a above, except for the section of damage as a result of an accident.

b.3. Comprehensive insurance without theft coverage – insurance coverage of all the risks detailed in sub-section a above, except for vehicle theft.

b.4. Liability insurance towards a third party– protects the policyholder against his liability for damages that were caused to the third party's property as a result of using his vehicle.

b.5. Motorcycle insurance

b.6. In addition to the basic coverage, the Group allows the policyholder to expand the coverage as follows: earthquake damage coverage, new vehicle in return for the old vehicle that was stolen (for vehicles of the latest models only and in the event of total loss insurance), radio tape insurance or replacement radio disc, windshield breakage insurance, towing service and replacement vehicle. In addition, there is a unique track only for private vehicles, allowing a wider basket of services and benefits for the policyholder, with the possibility of reduced premium.

(c) Liabilities and others

Claims in liability are characterized by a long tail, in other words sometimes long periods pass from the date of the event until the date of the final settlement of the claim.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

1. Description of the insurance products and their embedded risks (Cont.)

(c) Liabilities and others (Cont.)

c.1. Employers' liability insurance – policyholder coverage in respect of the employer's liability for bodily damage caused to an employee due to and during the course of his work with the insured. The liability coverage is a liability according to the Civil Wrongs Ordinance or according to the Damaged Products Liability Law, 1980, and the insurance is residual, above the coverage according to the National Insurance Law [Combined Version], 1995. The insurance is usually prepared on the basis of the event. Insurance premiums are determined as a function of a number of variables, and the main variables are – number of employees employed, the annual wages the employer pays, type of employer's activities, ceiling of required liability, policyholder's claims history, means of protection in the business, etc. This insurance is usually prepared on the basis of each event. The claim can be submitted after the insurance period, within the statue of limitations.

c.2. Third party insurance – the liability insurance policy towards the third party covers the policyholder's liability according to legal provisions, in respect of bodily or property injury caused to a third party who is not an employee of the policyholder due to damage caused from an accident event which occurred during the insurance period regarding the activities for which the policyholder purchased the insurance coverage. This insurance is usually prepared on the basis of each event. The insurance premiums are determined as a function of a number of variables, and the main variables are – the policyholder's profession, the volume of the policyholder's activities, the required liability ceiling, the policyholder's claims history, exposure to obstacles or environmental risks, means of protection in the business, etc.

c.3. Professional liability insurance – the insurance covers the professional's liability in respect of failure of performance of his professional duty which resulted in a damage to the third party, if he is a customer of the policyholder and also if he is not. Professional liability insurance is prepared on the basis of claims submission. The coverage of the policy is limited to accidental events and does not cover intentional acts of the policyholder. The main variable that effects the insurance premium is the policyholder's occupation, and also the extent of his activities, the desired liability ceiling, seniority in the profession, number of employees, income turnover, policyholder's claims history and the territorial area of the coverage and judgment, have a considerable effect on the insurance premium tariff.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

1. Description of the insurance products and their embedded risks (Cont.)

(c) Liabilities and others (Cont.)

c.4. Product warranty insurance – an insurance that covers the policyholder’s liability in respect of damage caused by products manufactured by him, after they ceased to be in his possession. This insurance is prepared on the basis of claims submission. The main variable effecting the insurance premium is the policyholder’s occupation, and also the volume of activities, export activities – if any, retroactive period required, desired warranty limit, the policyholder’s claims history and the territorial area in which the coverage is effective, have an affect of on the insurance premium tariff.

c.5. Directors and officeholders’ insurance – this insurance covers directors and officeholders for legal liabilities that were breached by the directors and officeholders during the period of insurance. The insurance is prepared on the basis of claims that were filed. The covered liability is mainly by virtue of the Companies Law, which imposes a personal liability on the officeholders of the Company. The policyholder in this insurance is the group that acquires the coverage for officeholders and directors that are employed and/or were employed in the past and are defined as policyholders.

The insurance fees in the aforementioned liability branches are based on a number of variables depending on the type of coverage, and the main variables are: the desired warranty ceiling, the policyholder’s claims history, the Group's field of business, the shareholder composition, the financial structure and strength of the Group and if the Group is private or public

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

2. Description of the insurance products and their embedded risks (Cont.)

(c) Liabilities and others (Cont.)

c.6. Aircraft and sea craft insurance – insurance that covers damage or loss related to aviation or sea craft risks. Sea craft insurance covers marine hull; aircraft insurance includes aircraft hull and air travel accidents insurance.

c.7. Performance guarantee and financial guarantee insurance: the Group markets performance guarantees which are liabilities for indemnification of the beneficiary in respect of breach of the policyholder's liability towards him. The policies are issued in favor of those ordering work in projects and are designated to guarantee compliance with the commitments of contractors, entrepreneurs and other large entities to carry out projects as agreed between the parties. In addition, the Group markets financial guarantees that form a liability to indemnify the beneficiary as a result of breach of the policyholder's financial liability towards him.

c.8 Sales act guarantee insurance: the Group markets insurance which covers the purchaser's investment in apartment units derived as entailed by the sales act (apartments) 1973 and the Sales Act (Apartments) (Guarantee of Apartment Purchasers' Investments), 1974. This insurance complies with the directives of the Sales Act and the insurance period is usually long (over a year). The risk in these policies diminishes in time as a result of the progress in construction and receipt of holding in the asset. In accordance with the regulator's directives, the recognition of profit from the Group's income from this branch is deferred for the period of five years. The Group issues these policies to contractors, either through direct marketing to the contractor or through banks that provide finance for the construction project.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

2. Description of the insurance products and their embedded risks (Cont.)

(d) Property insurance

d.1. Residential insurance (comprehensive residential insurance) – private dwelling insurance and contents insurance. The Supervision of Insurance Business Regulations (Conditions for Private Dwelling and Contents Insurance Contracts), 1986 (hereunder, for this paragraph: “the Regulations”) define the type of minimum insurance coverage for the private dwelling and contents, as defined in the Regulations (hereunder: “the Standard Dwelling Policy”). In accordance with the Regulations, dwelling insurance includes coverage for the contents and structure against the risks of fire, burglary, natural disaster coverage, earthquake and pipe damages. The insurance company can change the standard comprehensive residential policy only if the change is beneficial to the policyholder. The policyholder is given the possibility to waive the earthquake coverage, in writing. In the majority of cases, claims in respect of these policies are handled close to the date of the insurance event.

d.2. Property loss and comprehensive business premises– insurances that cover property loss that is not comprehensive residential and its contents or a motor vehicle (i.e. merchandise, machines, equipment, factories etc.). Business premises insurance includes coverage for contents and structure against fire risks, burglary, natural disaster and earthquake coverage. In these insurances is possible to purchase a coverage for damage resulting from loss of income.

d.3. Mortgage insurance – includes building insurance for borrowers who take a mortgage for financing the purchase of apartments. These policies are pledged in favor of the loaner. This insurance is usually sold in combination with life assurance (risk) for the coverage of the balance of the loan in the event of death of the policyholder.

d4. Marine insurance – insurance that covers transportation of cargo by sea or by air.

d.5. Cargo in transit – this insurance covers loss or damage to cargo caused during land transportation.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

2. Description of the insurance products and their embedded risks (Cont.)

(d) Property insurance

d.6. Engineering insurance (machinery breakdown insurance) – this insurance covers damage to equipment resulting from its operation, as opposed to damage caused by independent external entities.

d.7. Engineering insurance (work by contracts) – coverage for work by contracts, their equipment and materials, against accidental damage.

d.8 Engineering insurance (construction works) – coverage for construction works of mechanical systems, their equipment and materials, against accidental damage.

d.9. Electronic equipment insurance – coverage for accidental damage, for low voltage systems and coverage for expenses relating to reconstruction of computer data and rental of replacement equipment.

d.10. Terror risk insurance – residual insurance (beyond property tax receipts) which covers physical damage to the property and loss of gross profit due to an act of terrorism.

d.11. Sick pay insurance: coverage for the policyholder's (employer) liability towards his employees for sick pay payments. The employer's liability for payment is subject to legal provisions (legislation, regulations, collective agreements and expansion orders) regarding employee rights.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

2. Manner of measurement of the insurance risk

The Company measures the insurance risks for two main purposes:

- pricing for the insurance products it sells.
- The contribution of the insurance risk to the calculation of the overall required capital.

The measurement of the insurance risks for each product is done by an actuary who analyzes the claims, valuates the foreseeable claims, the deviation the expectation and determines the suitable tariff for each product and the various populations of the potential policyholders.

The measurement of the overall risk (for all the policies together) is performed according to the standard model that was developed in Europe for insurance companies and suited to the products of the insurance branch in Israel. The model is based on parameters of the volume of premiums, volume of reserves (calculated on the basis of the best assumptions – not conservative), loss ratios, standard deviation of group of products with similar characteristic. In addition, the model presumes the effect of an extreme event (earthquake) on the Company's capital according to pre-determined parameters. Finally, the risk measurement takes into account that not all risks are realized at the same time in each branch and therefore there is a correlation between the various insurance branches which reduces the overall risk.

3. Description of actuarial methods for calculating the insurance liabilities

Liabilities in respect of general insurance contracts include the following main components:

- Provision for unearned premium.
- Outstanding claims including provision for indirect expenses.
- Provision for insufficient premium.
- Less – deferred acquisition costs.

The provision for unearned premium and deferred acquisition costs are calculated arithmetically, relatively to the period after the financial statements date and therefore they are not affected by any risk factors. Also see Note 2(f)(2) – Accounting Principles.

In accordance with the Regulator's directives, the outstanding claims are calculated by an actuary, according to the generally accepted actuarial methods that are mainly based on the past experience of the group of risks that is examined and taking into consideration the run-off of payments, claims payments and the run-off of the claims cost (claims payments and individual valuations of outstanding claims). In addition, sometimes the valuation is effected from the change in severity of claims in the relevant risk group. The outstanding claims valuation is done on a gross level and reinsurance level separately. The claims recovery and the deductible that will be collected from the policyholders', is calculated on the basis of past experience which is reflected in the data of the actuarial model.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

3. Description of actuarial methods for calculating the insurance liabilities (Cont.)

In addition, qualitative valuations are included with respect to the change in future trends regarding various risk factors Internal risk factors such as: changes in the portfolio mix, changes in the underwriting policy and changes in the treatment procedures of claims. External risk factors such as: legal ruling, legislation, etc. When the abovementioned changes are not fully expressed in the past experience, the actuary updates the models and/or sets-up specific provisions based on statistical and/or legal estimates, as the case may be.

In branches were there is no appropriate statistical model, the insurance liabilities are determined (gross and on retention) based on the opinion of the Group's experts, and in accordance with the legal consultants' recommendations.

The reinsurers' share in the outstanding claims is estimated taking the type of agreement (relative/non-relative), the actual claims experience and the premium passed on to the reinsurers, into consideration.

The outstanding claims valuation for the Group's share in the Israeli Motor Vehicle Insurance Pool at the Insurance Companies Association in Israel (hereunder – the Pool) is based on the calculation performed by the Pool.

For the valuation of the outstanding claims, the actuarial models detailed below were used, after combining various assumptions. The choice of the appropriate actuarial model for each branch of insurance, type of event and for each event/opening year, is performed according to the judgment based on the extent of compatibility of the method to the event and sometimes various methods were combined. In certain cases the actuary updates the models in respect of trends, legislation, changes in legislation or other factors which are liable to effect the future claims in a different manner than in the past run-off.

NOTE 35:- RISK MANAGEMENT (Cont.)

4. Insurance Risks (Cont.)

c. General insurance (Cont.)

3. Description of actuarial methods for calculating the insurance liabilities (Cont.)

In order to estimate the anticipated run-off in respect of the present and future claims, the outstanding claims were calculated on the basis of standard actuarial methods, as detailed below:

The chain ladder method: is based on the historical claims run-off at various aspects (run-off of payments and/or run-off of the cost of claims, run-off of the amount of claims, etc.).

The averages method: sometimes, when the claims experience in recent periods is insufficient, historical severities are used in the relevant groups while relating to a trend, if there is one. This method is based on the calculation of the average amount per open or closed claim (severity of the claim) and sometimes it also takes into account the time that passes from the opening date of the claim until its settlement/closure.

4. The main assumptions that are used for the calculation of the insurance liabilities:

- The actuarial calculations do not include a deduction due to the capitalization of future claims payments. On the other hand, an addition for a risk margin was not included (standard deviation).

- In liability branches where there is a large portion of uncertainty, mainly due to very little experience, the Group is somewhat prudent in the valuation on the basis of estimates that were obtained from various actuarial methods.

5. Information regarding the significant change in the actuarial assumptions

In the last year no significant changes were made in the actuarial model.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks

a. Breakdown of debt assets according to their location

	December 31, 2010		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	4,010,548	8,923,363	12,933,911
Abroad	445,209	242,782	687,991
Total debt assets	4,455,757	9,166,145	13,621,902

	December 31, 2009		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	3,297,816	8,684,490	11,982,306
Abroad	464,282	181,733	646,015
Total debt assets	3,762,098	8,866,223	12,628,321

*) Quoted debt assets are mainly classified to the available for sale category and are measured at fair value.

Also see the Note details of the assets divided into ratings below.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks

b. Details of the assets divided into ratings

1. Debt assets

	Local rating *)				
	December 31, 2010				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets					
Government bonds	2,084,305	-	-	-	2,084,305
Corporate bonds	808,232	807,572	137,309	173,130	1,926,243
Total quoted debts assets in Israel	2,892,537	807,572	137,309	173,130	4,010,548
Unquoted debt assets					
Government bonds	6,108,845	-	-	-	6,108,845
Corporate bonds	624,213	395,808	34,157	-	1,054,178
Deposits in financial banks and financial institutions	1,093,646	13,538	-	-	1,107,184
Other debt assets according to guarantees:					
Mortgages	40,979	24,939	6,748	6,794	79,460
Loans on policies	33,021	26,368	-	3,350	62,739
Loans with pledge on real estate	27,429	-	-	-	27,429
Other guarantees	219,230	174,721	3,704	42,074	439,729
Not guaranted	2,005	7,737	-	34,057	43,799
Total unquoted debt assets in Israel	8,149,368	643,111	44,609	86,275	8,923,363
Total debt assets in Israel	11,041,905	1,450,683	181,918	259,405	12,933,911
From this debt assets according to internal rating **)	114,040	123,459	23,053	-	260,552

*) Each rating includes all the ranges: for example, rate A includes A- up to A+.

**) All the amounts reported in this line represent assets not rated by an external company and rated by the Group’s internal ratings model.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

b. Details of the assets divided into ratings (Cont.)

1. Debt assets (Cont.)

	International rating *)				
	December 31, 2010				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	14,529	-	-	-	14,529
Corporate bonds	180,333	206,391	42,812	1,144	430,680
Total quoted debt assets abroad	194,862	206,391	42,812	1,144	445,209
Unquoted debt assets					
Other guarantees	-	-	188,440	54,342	242,782
Total debt assets abroad	194,862	206,391	231,252	55,486	687,991

*) Each rating includes all the ranges: for example, rate A includes A- up to A+.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

b. Details of the assets divided into ratings (Cont.)

1. Debt assets (Cont.)

	Local rating *)				
	December 31, 2009				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets					
Government bonds	1,619,252	-	-	-	1,619,252
Corporate bonds	607,591	853,839	71,373	145,761	1,678,564
Total quoted debts assets in Israel	2,226,843	853,839	71,373	145,761	3,297,816
Unquoted debt assets	5,926,916	-	-	-	5,926,916
Government bonds					
Corporate bonds	611,565	448,170	37,876	2,061	1,099,672
Deposits in financial banks and financial institutions	983,016	15,503	-	-	998,519
Other debt assets according to guarantees:					
Mortgages	8,536	30,346	4,573	22,530	65,985
Loans on policies	35,050	6,144	35,932	206	77,332
Loans with pledge on real estate	27,400	1,515	-	-	28,915
Other guarantees	263,003	131,559	4,966	24,375	423,903
Not guaranted	270	2,414	-	60,564	63,248
Total unquoted debt assets in Israel	7,855,756	635,651	83,347	109,736	8,684,490
Total debt assets in Israel	10,082,599	1,489,490	154,720	255,497	11,982,306
From this debt assets according to internal rating **)	90,911	136,703	-	-	227,614

*) Each rating includes all the ranges: for example, rate A includes A- up to A+.

**) All the amounts reported in this line represent assets not rated by an external company and rated by the Group's internal ratings model.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

b. Details of the assets divided into ratings (Cont.)

1. Debt assets (Cont.)

	International rating *)				
	December 31, 2009				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	7,764	-	-	-	7,764
Corporate bonds	199,021	225,207	30,834	1,456	456,518
Total quoted debt assets abroad	206,785	225,207	30,834	1,456	464,282
Unquoted debt assets					
Other guarantees	-	14,483	120,423	46,827	181,733
Total unquoted debt assets abroad	-	14,483	120,423	46,827	181,733
Total debt assets abroad	206,785	239,690	151,257	48,283	646,015

*) Each rating includes all the ranges: for example, rate A includes A- up to A+.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

b. Details of the assets divided into ratings (Cont.)

2 Credit risks in respect of other assets (In Israel)

	Local rating				
	December 31, 2010				
	AA and above	BBB- to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Debtors and receivables except for reinsurers' balances *)	-	-	-	77,810	77,810
Deferred tax assets	556	-	-	-	556
Other financial investments	119,653	-	49,765	380	169,798
Cash and cash equivalents	435,991	-	-	-	435,991
Total	556,200	-	49,765	78,190	684,155

	Local rating				
	December 31, 2009				
	AA and above	BBB- to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Debtors and receivables, except for reinsurers' balances (*)	4,072	70	-	84,825	88,967
Deferred tax assets	484	-	-	-	484
Other financial investments	72,649	-	50,275	-	122,924
Cash and cash equivalents	530,440	-	-	-	530,440
Total credit exposure to other assets	607,645	70	50,275	84,825	742,815

(*) See Reinsurers' Note hereunder in paragraph f1.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

b. Details of the assets divided into ratings (Cont.)

2 Credit risks in respect of other assets (Abroad) (Cont.)

	International rating				
	December 31, 2010				
	A and above	- BBB	Lower than BBB	Not rated	Total
	NIS in thousands				
Other financial investments	34,969	-	15	277	35,261

	International rating				
	December 31, 2009				
	A and above	- BBB	Lower than BBB	Not rated	Total
	NIS in thousands				
Other financial investments	17,718	3,812	1,560	-	23,090

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

a. Additional information regarding credit risk

1) The Group performs credit rating for the unquoted debt assets and not rated by the methodology that it outlined. In order to reflect the methodology, from time to time the Group examines the gaps, if any, between the ratings it performed and the ratings performed by external rating companies. As at the reporting date, the gaps that were in the previous year between the internal and external ratings decreased. The internal ratings tend to reflect the atmosphere in the financial markets. Therefore during the year 2009 the ratings had increased, whereas the rating companies revaluated their ratings due to the financial crisis in 2008, and therefore, the new ratings they published were lower. The data indicates that the average internal rating in each branch is basically similar to the average external rating.

2) The Group performs a valuation of the anticipated comprehensive credit loss in the assets portfolio, on the basis of the valuations of probability of non-repayments and recovery rates.

3) There is a difference in the rating scale between debt assets in Israel and debt assets abroad. The Group plans on using the conversion table to be published by the rating companies according to directives of the Commissioner of the Capital Market, Insurance and Savings. In this financial statement the local ratings are reported separately from the International ratings.

4) Information regarding credit risks in this Note does not include the assets for yield dependent contracts that are reported in 6 below.

5) Regarding the exposure to reinsurers as at December 31, 2010, in the amount of NIS 937 million (previous year NIS 731 million), see paragraph 5f below.

6) Regarding outstanding premium balances as at December 31, 2010 in the amount of NIS 525 million (previous year NIS 528 million), see Note 11.

b. Aging of investments in unquoted financial debt assets:

	December 31	
	2010	**2009**
	NIS in thousands	
Debt assets whose value was not impaired:		
Not in arrears	9,083,007	8,771,768
In arrears(*):		
Below 90 days	12,108	4,251
Between 90 to 180 days	2,180	9,787
Over 180 days	2,319	36,672
Total debt assets whose value was not impaired	9,099,614	8,822,478
Debt assets whose value was impaired:		
Gross assets whose value was impaired	167,397	145,539
Provision for loss	100,866	101,794
Total net debt assets whose value was impaired	66,531	43,745
Total unquoted debt assets	9,166,145	8,866,223

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

e. Details of exposure to economic lines of business for investments in quoted and unquoted financial debt assets

	December 31, 2010		
	Balance sheet credit risk		Off balance sheet risk
	NIS in thousands	% of the total	NIS in thousands
Economic lines of business			
Industry	269,773	1.98	200,121
Construction and real estate	985,206	7.23	249,782
Electricity and water	522,821	3.84	-
Commercial	92,451	0.68	-
Investments and maintenance	381,374	2.80	-
Communication and computer services	205,870	1.51	-
Banks	1,890,199	13.88	-
Financial services	84,973	0.62	-
Other business services	124,199	0.91	35,313
Private individuals	391,859	2.88	-
Other (abroad)	465,498	3.42	-
	5,414,223	39.75	485,216
State bonds / accountant general's deposits	8,207,679	60.25	-
Total	13,621,902	100.00	485,216

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

e. Details of exposure to economic lines of business for investments in quoted and unquoted financial debt assets (Cont.)

	December 31, 2009		
	Balance sheet credit risk		Off balance sheet risk
	NIS in thousands	% Of the total	NIS in thousands
Economic line of business			
Industry	212,185	1.68	174,746
Construction and real estate	964,367	7.63	212,617
Electricity and water	397,272	3.15	-
Commercial	42,640	0.34	-
Investments and maintenance	417,553	3.31	-
Hotels and tourism	4,616	0.04	-
Communication and computer services	237,368	1.88	-
Banks	1,709,030	13.53	-
Financial services	69,379	0.55	-
Other business services	150,815	1.19	22,245
Private individuals	363,019	2.87	-
Other (abroad)	506,145	4.01	-
	5,074,389	40.18	409,608
State bonds / accountant general's deposits	7,553,932	59.82	-
Total	12,628,321	100.00	409,608

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

f. Information regarding credit risks in reinsurance

1. Description of the manner of credit risk management resulting from the exposure to reinsurers

The Group insures part of its business by reinsurance, most of which is done through reinsurers abroad. However, the reinsurance does not release the Group from its commitment towards its policyholders according to the insurance policies.

The Group is exposed to risks resulting from uncertainty regarding the reinsurers' ability to pay their share in the liabilities in respect of insurance contracts (reinsurance assets) and their debts in respect of claims paid.

The Group is exposed to concentrated credit risk to an individual reinsurer, due to the reinsurance market structure and the limited amount of reinsurers with sufficient rating.

In accordance with the Regulator's directives, once a year the Group's Board of Directors determines the limits of the maximum exposure to the reinsurers with whom the Group has engaged and/or will engage, which is mainly based on their international rating. These exposures are managed at the reinsurance contract level. In other words, for each contract a maximum exposure limitation is determined for an individual reinsurer in accordance with his credit rating. If the rating is lower, the exposure limitation per an individual reinsurer will be lower. Through these limitations the Company obtains a high quality and diversified reinsurers' portfolio and thus limits the credit risk.

The Group performs a follow up of the reinsurer's position in the international market, changes in his credit rating, and the fulfillment of his current monetary liabilities. In addition, the Group performs an individual valuation of the financial stability of each reinsurer and his ability to fulfill his liabilities to the Company in the long run.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

f. Information regarding credit risks in reinsurance

2. Information regarding exposure to reinsurers' credit risks

As at December 31, 2010:

			Reinsurance assets						Debts in arrears	
Rating group: *)	**Total reinsurance premiums for 2010**	**Balances in debit (credit) net (b)**	**In life assurance**	**In property insurance**	**In liability insurance**	**Deposits by reinsurers**	**Letters of credit received from reinsurers**	**Total exposure (a)**	**Between half a year and one year**	**Over one year**
	NIS in thousands									
	207,346	(14,258)	177,047	109,734	83,510	86,991	-	269,042	-	-
A+										
Swiss Reinsurance	452,684	(10,464)	180,703	122,368	228,479	212,261	-	308,825	-	-
Other	284,693	(6,026)	6,748	189,196	210,818	82,673	-	318,063	641	389
	737,377	(16,490)	187,451	311,564	439,297	294,934	-	626,888	641	389
BBB	2,770	(103)	-	1,446	123	953	-	513	-	-
Lower than BBB – or unrated	17,436	15,863	511	7,271	19,387	1,433	869	40,730	40	-
Total	964,929	(14,988)	365,009	430,015	542,317	384,311	869	937,173	681	389

*) Each rating group includes all the ranges: for example, rate A includes A- up to A+.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

f. Information regarding credit risks in reinsurance (Cont.)

2. Information regarding exposure to reinsurers' credit risks (Cont.)

As at December 31, 2009:

Rating group: *)	Total reinsurance premiums for 2009	Balances in debit (credit) net (b)	Reinsurance assets: In life assurance	Reinsurance assets: In property insurance	Reinsurance assets: In liability insurance	Deposits by reinsurers	Letters of credit received from reinsurers	Total exposure (a)	Debts in arrears: Between half a year and one year	Debts in arrears: Over one year
	NIS in thousands									
AA and above										
Munich Reinsurance Co.	59,567	(5,423)	104,693	15,200	3,458	33,022	-	84,906	-	-
Others	111,551	(9,194)	57,476	45,123	66,515	33,835	-	126,085	-	-
	171,118	(14,617)	162,169	60,323	69,973	66,857	-	210,991	-	-
A+										
Swiss Reinsurance	359,670	(10,910)	158,610	110,239	84,634	134,701	1,384	206,488	-	-
Other	282,439	(8,241)	6,182	172,712	186,908	78,664	-	278,897	1,378	107
	642,109	(19,151)	164,792	282,951	271,542	213,365	1,384	485,385	1,378	107
BBB	625	(41)	-	154	153	-	-	266	-	-
Lower than BBB – or unrated	13,848	1,812	362	5,265	28,048	1,486	-	34,001	-	110
Total	827,700	(31,997)	327,323	348,693	369,716	281,708	1,384	730,643	1,378	217

*) Each rating group includes all the ranges: for example, rate A includes A- up to A+.

NOTE 35:- RISK MANAGEMENT (Cont.)

5. Credit risks (Cont.)

f. Information regarding credit risks in reinsurance (Cont.)

2. Information regarding exposure to reinsurers' credit risks (Cont.)

(a) The total exposure to reinsurers is: debit (credit) balances, net, reinsurance assets, net of the deposits and credit notes received from reinsurers as a guarantee for their liabilities with the addition (net of) debit (credit) balances, net.

(b) In the year 2010 there was an amortization due to a provision for doubtful debts in the amount of NIS 1,555 thousand (in the previous year there was an amortization in the amount of NIS 2,737 thousand).

(c) The balances do not include insurance companies balances in respect of co-insurance.

(d) The rating of reinsurers is determined mainly according to the S&P rating company. In cases where S&P did not provide a rating, the rating was determined by another rating company and converted in accordance with a special formula as determined pursuant to the Ways of Investment Regulations.

(e) The total exposure of the reinsurers in the event of an earthquake at the feasibility of damage of 0.2% (MPL), (maximum damage rate 2.00%-2.75%) is NIS 2,789 million (compared to NIS 2,732 million in the previous year). Out of this, the portion of the reinsurer who has the most significant part is NIS 517 million (compared to NIS 416 million in the previous year) for Munich Re which is rated at AA-.

(f) In the year 2010 there are no other reinsurers apart from those specified above that the exposure in their respect is higher than 10% of the total exposure of reinsurers, or that the premium in their respect is higher than 10% of the total premiums for reinsurance.

NOTE 35:- RISK MANAGEMENT (Cont.)

6. Information regarding financial investments for yield dependent contracts

1. Composition of investments according to linkage basis

	December 31, 2010				
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non financial items and others	Total
	NIS in thousands				
Cash and cash equivalents	67,575	-	-	-	67,575
Quoted assets	4,158,490	1,515,259	2,282,276	-	7,956,025
Unquoted assets	178,467	2,867,133	803,987	-	3,849,587
Total assets	4,404,532	4,382,392	3,086,263	-	11,873,187

	December 31, 2009				
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non financial items and others	Total
	NIS in thousands				
Cash and cash equivalents	105,295	-	-	-	105,295
Quoted assets	2,981,347	1,636,901	1,785,199	-	6,403,447
Unquoted assets	48,805	2,849,447	639,901	-	3,538,153
Total assets	3,135,447	4,486,348	2,425,100	-	10,046,895

NOTE 35:- RISK MANAGEMENT (Cont.)

6. Information regarding financial investments for yield dependent contracts (Cont.)

   2. Credit risk for assets in Israel

	Local rating *)				
	December 31, 2010				
	AA- and above	BBB- to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	2,026,809	-	-	-	2,026,809
Other debt assets - quoted	575,926	516,622	114,611	108,897	1,316,056
Other debt assets- unquoted	1,882,998	798,201	71,188	64,499	2,816,886
Total debt assets in Israel	4,485,733	1,314,823	185,799	173,396	6,159,751
From this - debt assets at internal rating ***)	274,212	226,407	30,693	64,499	595,811

*) The sources for the level of rating in Israel are the rating companies "Ma'alot" and "Midroog". The data from "Midroog" was transferred to the rating categories according to standard conversion coefficients. Each rating includes all the ranges: for example, rate A includes A- up to A+.

**) The book value forms a proximity to the maximum credit risk. Therefore, the total column represents the maximum credit risk.

***) All the amounts reported in this line represent assets not rated by an external company and rated by the Company's internal ratings model.

NOTE 35:- RISK MANAGEMENT (Cont.)

6. Information regarding financial investments for yield dependent contracts (Cont.)

2. Credit risk for assets in Israel (Cont.)

	Local rating *)				
	December 31, 2009				
	AA- and above	BBB- to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	1,510,463	-	-	-	1,510,463
Other debt assets - quoted	436,873	670,021	75,885	121,726	1,304,505
Other debt assets- unquoted	1,817,381	808,888	106,725	16,934	2,749,928
Total debt assets in Israel	3,764,717	1,478,909	182,610	138,660	5,564,896
From this - debt assets at internal rating ***)	111,779	101,065	14,345	-	227,189

*) The sources for the level of rating in Israel are the rating companies "Ma'alot" and "Midroog". The data from "Midroog" was transferred to the rating categories according to standard conversion coefficients. Each rating includes all the ranges: for example, rate A includes A- up to A+.

**) The book value forms a proximity to the maximum credit risk. Therefore, the total column represents the maximum credit risk.

***) All the amounts reported in this line represent assets not rated by an external company and rated by the Company's internal ratings model.

NOTE 35:- RISK MANAGEMENT (Cont.)

6. Information regarding financial investments for yield dependent contracts (Cont.)

3. Credit risks for assets abroad

	International Rating (*)				
	December 31, 2010				
	A and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	288,524	382,603	129,000	133,012	933,139

*) The sources for the rating level aboard are the rating companies S&P, Moody's and Fitch, which were approved by the Regulator of Insurance. Each rating includes all the ranges: for example, rate A includes A- up to A+.

(**) The book value forms a proximity to the maximum credit risk. Therefore, the total column represents the maximum credit risk.

	International Rating (*)				
	December 31, 2009				
	A and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	258,853	355,420	92,557	134,857	841,687

*) The sources for the rating level aboard are the rating companies S&P, Moody's and Fitch, which were approved by the Regulator of Insurance. Each rating includes all the ranges: for example, rate A includes A- up to A+.

(**) The book value forms a proximity to the maximum credit risk. Therefore, the total column represents the maximum credit risk.

NOTE 36:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. Balances with interested and related parties

Composition:

As at December 31, 2010

	Affiliates (*)	Interested party (**) and other related parties
	NIS in thousands	
Unquoted debt assets	230,908	-
Creditors and payables	-	8,791
Financial liabilities	455	-

As at December 31, 2009

	Affiliates (*)	Interested party and other related parties
	NIS in thousands	
Unquoted debt assets	181,733	205
Creditors and payables	-	24,517

(*) Hereunder is the composition of loans to affiliates:

	% of nominal annual interest	December 31 2010	2009
		NIS in thousands	
Denominated in Euro	Euribor + 3% - 8%	137,363	84,360
Denominated in dollar	6%	51,077	50,546
Denominated in Pound Sterling	5,423%	42,468	46,827
		230,908	181,733

The loans are expected to be settled between a year to eight years from the date of the report.

(**) The highest loans balance and current debts during the year 2010 amounted to NIS 104 thousand (during the year 2009 - NIS 604 thousand).

NOTE 36:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. Transactions with interested and related parties

Year ended as at December 31, 2010

	Affiliates	Interested party and other related parties
	NIS in thousands	
Losses from investments and finance income	(7,356)	-

Year ended as at December 31, 2009

	Affiliates	Interested party and other related parties
	NIS in thousands	
Income from investments and finance income	7,488	-
Income from management fees	62	-
	7,550	-

Year ended as at December 31, 2008

	Affiliates	Interested party and other related parties
	NIS in thousands	
Income from investments and finance income	4,671	106
Income from management fees	346	-
	5,017	106

Officeholders in the Company are likely to acquire, from time to time, insurance contracts, investment contracts or other financial products issued by the Group, at market conditions and during the ordinary course of business.

NOTE 36:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

c. Benefits to key management personnel

	Year ended December 31,					
	2010		2009		2008	
	Number of people	Amount	Number of people	Amount	Number of people	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Short term benefits for employees	8	18,681	13	32,051	13	16,027
Post employment benefits	-	-	1	3,169	1	3,200
Share based payments (see Note 32)	7	1,926	1	2,630	1	3,473
	8	20,607	13	37,850	13	22,700

Remuneration policy for senior officeholders in the Company, in Menorah Insurance and Mivtachim Pension

In December 2010 the Board of Directors of Menorah Insurance and Mivtachim Pension approved a benefit plan for officerholders in the Company, in Menorah Insurance and in Mivtachim Pension, after receiving recommendations from the Remuneration Committee and the Audit Committee, as relevant. The benefit plan includes four levels of remuneration: (1) basic salary, (2) fringe (3) bonus; and (4) long-term benefits (benefit units) (hereunder - the overall remuneration policy) (for additional details see Note 32 above). The remuneration policy shall apply to officeholders who were defined by the Company's Board of Directors and the Board of Directors of Menorah Insurance and Mivtachim Pension and does not include the Company's CEO, Directors of the Company or officeholders who are a related party related to the controlling shareholders of the Company.

The bonus model includes two stages. The first stage is to determine the amount of the total bonus which will be distributed in a certain year (hereunder – the bonus budget) and the second stage is to divide the bonus budget between the officeholders.

NOTE 36:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

Remuneration policy for senior officeholders in the Company, in Menorah Insurance and Mivtachim Pension (Cont.)

1) Stage A – determination of the bonus budget

Each year, Menorah Insurance and Mivtachim Pension's average profit target before tax, will be determined (hereunder - the profit target) or the profit after neutralizing the investment income in Mivtachim Pension. The measurement of obtaining the profit target will be performed by calculating the weighted average of the profits of Menorah Insurance and Mivtachim Pension (on a consolidated basis, before tax) over three years, and each year there will be another profit rate for calculating the profit target.

The initial condition for distributing a bonus during a certain year is the compliance with the target profit of at least 75%. It should be noted that up to the 75% from target profit, no bonus will be paid (excluding a bonus which will be decided by the CEO for excellence, up to 20% of the bonus budget), and above 75% of the profit target will be allocated for distributing a bonus at the percentage that will be determined by Menorah Insurance and Mivtachim Pension from the profit target up to the maximum of 150% of the profit target.

2) Stage B – Distribution of the bonus to officeholders

In order to divide the bonus basket among the officeholders, a bonus potential will be determined for each officeholder (hereunder - target bonus) for a precise compliance (100%) with the targets in connection with the specific officeholder as detailed below, and a maximum bonus, that officer as detailed below, and a maximum bonus, at a derivative of the number of salaries.

The officeholders will be measured according to their performance in various levels – the Company, the Division, the Unit and personal performance, based on the manager's evaluation.

For each officeholder there will be levels of measurement, relevant elements and the significance of each element. It should be noted that not more than five elements will be determined for each officeholder and each element will not weigh less than 10%. Among others, the division of the weight between the Company level, the unit level (business/professional) and the manager's evaluation, will be determined according to the importance and influence of the officeholder on the activities of Menorah Insurance and Mivtachim Pension.

The bonus will be calculated for each component separately, for each component there will be a scale of scores according to which the bonus will be calculated. Total bonuses that will be calculated for each component will constitute the total bonus.

The bonus amounts will not be considered as part of the salary and no social provisions will be performed thereon.

The Boards of Directors of Menorah Insurance and Mivtachim Pension will be responsible for the supervision and control processes of the remuneration policy, and the bonus will be calculated according to the principles that were approved, as mentioned, and will be brought before the CEO and Boards of Directors for their approval. When the Board of Directors approves the said bonus, detailed information regarding the manner of calculation of the bonus budget and its distribution to the various officeholders, will be presented.

NOTE 36:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Benefits for related parties and other interested parties

	Year ended December 31,					
	2010		2009		2008	
	Number of people	Amount	Number of people	Amount	Number of people	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Management fees for those who are not employed by the Company or on its behalf	7	1,669	6	1,346	6	1,279

e. Income and expenses from related and interested parties

Terms of transactions with related parties

Part of the Company's monetary and insurance activities are done with related and interested parties during the ordinary course of business and at market prices. Balances which have not yet been settled by the end of the year are not secured, do not bear interest and they will be settled in cash. No guarantees were received or given in respect of amounts receivable or payable. For the years ended December 31, 2010, 2009 and 2008 the Company did not record any provision for doubtful debts in respect of amounts receivable from related parties.

NOTE 37:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Contingent liabilities and requests to approve claims as class actions

A provision was not included in the financial statements in respect of the class actions and motions for approving claims as class actions detailed in paragraphs 1-26 below in respect of which management of the Company, Menorah Insurance and management of Shomera Insurance (regarding claims in paragraphs 6, 11, 15 and 21 below), based also on legal counsel, estimate that it is more likely than not that the defense arguments of the Company, Menorah Insurance and Shomera's Insurance will be accepted and the motions for class actions will be dismissed. In respect of the motions for approving class actions for which it is more likely than not that Menorah Insurance's arguments will be dismissed with respect to the claim, in whole or in part, provisions were included in the financial statements for covering the exposure estimated by Menorah Insurance and/or Shomera.

According to Menorah Insurance management's estimate, based, among others, on the legal opinion it received, wherever provisions were required, sufficient provisions were included for covering the exposure estimated by Menorah Insurance. The provisions included by Menorah Insurance are in immaterial amounts.

In respect of the motions for approving a claim as a class action, as detailed in paragraph 26 below, which was filed recently, it is impossible at this preliminary stage to assess the chances of the motion therefore no provision was included in its respect in the financial statements.

Following are the details of the motions in respect of class actions and requests to approve claims as class actions:

1. On December 19, 2004, a claim and a motion to approve the claim as a class action were filed with the Tel-Aviv-Jaffa District Court against Menorah Insurance ("the motion") regarding alleged consumer deception in the sale of apartment policy extensions without the policyholder's request and/or consent.

   The principal remedy sought in the claim is to refund the plaintiffs for the insurance fees collected for said extensions in the seven years preceding the date of filing the claim. Menorah Insurance filed a response to the claim. The plaintiff filed a request to amend the claim and the motion. This request was accepted and therefore Menorah Insurance filed an appeal that was dismissed. Accordingly, the plaintiff filed an amended motion and Menorah Insurance filed its response to the amended motion. On May 19, 2008, a hearing was held and the parties filed their written summations. On April 18, 2010, the District Court (Tel Aviv) dismissed the request to approve the claim as a class action and accordingly it struck-off the personal claim.

2. On November 21, 2005, a claim and a motion to approve the claim as a class action were filed against Menorah Insurance ("the motion for approval") regarding the interpretation of an addendum to life assurance policies that relates to insurance coverage of accident disability ("the accident disability addendum"). The main argument in the claim alleges that Menorah Insurance is limiting its liability in respect of accident disability insurance coverage as included in the accident disability addendum by calculating the insurance awards other than as prescribed in the addendum thereby violating the duty of disclosure stipulated by the Supervision Law and the regulations enacted thereunder, an act which is alleged to be deceiving subsequent to the insurance event with respect to the scope of insurance coverage and contrary to the provisions of said Law.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

2. (Cont.)

The remedy requested by the plaintiff is the payment of the difference between the amount of compensation payable to it based on its interpretation of the policy and the amount of compensation actually paid to it based on Menorah Insurance's interpretation of the policy, this for all the policyholders eligible for such compensation according to the accident disability addendum which had been paid in the last seven years. The amount of the personal claim is NIS 17,599 whereas the amount for the rest of group of cannot be determined by the plaintiff due to lack of data for estimating the overall damage. Menorah Insurance filed its response to the motion in April 2006. The argument presented by the plaintiff in the claim filed with the Regulator was found to be justified and according to the decision of the Vice Regulator of May 17, 2006 ("the decision"), Menorah Insurance must calculate the insurance awards in the policy from the date of the decision and onwards based on the manner determined in the decision and not in the previous manner. Menorah Insurance appealed this decision on October 30, 2006. Menorah Insurance filed a motion for stay of proceedings regarding the appeal until the Supreme Court will make its ruling in respect of the permission to appeal as detailed below. On July 29, 2009, the district court stayed the proceedings. The State filed a request to extend the date for filing the request for permission to appeal against this decision.

On January 11, 2009, a decision was rendered approving the request for approval based on the grounds and remedies detailed in the decision. It was also decided that Menorah Insurance would file a statement of defense and publish an announcement in the newspapers. Menorah Insurance submitted to the District Court a request to postpone the date for the hearing of the claim and the District Court dismissed Menorah Insurance's request ("the decision to dismiss"). Menorah Insurance submitted to the Supreme Court a request for permission to appeal against the decision to approve the claim as a class action, as well a the decision to dismiss. The Supreme Court ruled, in its decision on May 13, 2009, that at this stage no defense statements will be submitted and no announcement will be published in the newspaper. The hearing in respect of the request for permission to appeal against the decision that approves the claim as a class action is set for a hearing before a constitution of court.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

3. On April 3, 2006, a claim and a motion to approve the claim as a class action were filed against Menorah Insurance ("the motion") by virtue of the Class Action Act of 2006. The claim and motion pertain to the alleged illegal collection of payments by Menorah Insurance from its policyholders in health insurance or life assurance policies. The plaintiffs argue that when it enters into new policies with policyholders and when it adopts changes and/or extensions of existing policies, Menorah Insurance is in the habit of charging those policyholders, including the plaintiffs, with premium payment from the first of the month of engagement or policy extension (as the case may be) even if the engagement actually took place after the first or sometimes even at the end of the month. The plaintiffs argue that there is not dispute over the fact that for the entire period from the first of the relevant month to the date of engagement, the insurance coverage that is the subject of the new or extended policy is not provided.

   The plaintiffs argue that in its alleged actions, Menorah Insurance has misled its customers by violating the duty of bona fide towards them and that they and the group that they seek to represent are entitled to the recovery of the excess portion of the premium unlawfully collected from them. The personal damage claimed by the plaintiffs amounts to NIS 389. The parties held negotiations for concluding their disputes by way of settlement. On October 16, 2007, the parties signed a settlement that was filed for the Court's approval.

   On November 28, 2007, a preliminary hearing took place in the context of which the Court ordered the parties to produce names of proposed independent experts. On December 12, 2007, the Court appointed an expert who examined the legitimacy of the settlement. The case was scheduled to be heard in June 2008. The parties filed a motion to delay the court hearing until the completion of the expert's work. On October 22, 2008, the parties filed an amended compromise agreement and in the hearing that took place, the expert was asked to submit a supplementary opinion. After submitting the supplementary opinion, the Court ordered the publication of the compromise agreement and the transfer of a copy of the compromise agreement to the Attorney General. On March 19, 2009, the Attorney General rendered his position in the case. Following the hearing and the Court's remarks, the parties submitted a request to approve another amended compromise agreement. On July 4, 2010, the court approved the amended compromise agreement and gave it a validity of a verdict.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

4. On April 25, 2006, a claim and a motion to approve the claim as a class action were filed against Menorah Insurance ("the motion") by virtue of the Class Action Act of 2006. The claim pertains to an occupational disability insurance policy ("the policy" issued by Menorah Insurance. The plaintiffs argue that the policy prescribes a condition regarding a three-month "waiting period" which signifies that any insurance benefits payable for an insurance event during the policy period will be paid only from the end of the waiting period provided that the policyholder is still occupationally disabled at that time and as long as that disability persists. The plaintiffs argue that Menorah Insurance (and three other insurance companies named in the claim as defendants, collectively "the defendants") charges insurance fees also in the last three months prior to the end of the insurance period despite the fact that according to the policy, the policyholders are not entitled to receive insurance benefits if an insurance event takes place in the last three months before the end of the policy period due to said waiting period.

Based on the above, the plaintiffs claim that the defendants misled them, acted without good faith, violated legal duties, were negligent, violated statutory duties and obtained unjust enrichment and that the waiting period stipulation is a discriminating condition in a standard contract.

The remedy requested by the plaintiffs is to approve the class action, grant an order to obligate the defendants to stop collecting insurance fees for the last three months before the end of the policy and to obligate the defendants to return the insurance fees collected from the group members for said period. Based on an opinion attached to the plaintiffs' claim, the plaintiffs initially estimate the overall damage to the group between 1998 and 2004 at NIS 47.6 million for all the defendants, of which, according to the opinion, an amount of NIS 5.4 million against Menorah Insurance. Menorah Insurance filed its response on November 6, 2006. The case was scheduled for written summations which were filed by the parties. On February 3, 2009, a verdict was rendered confirming the motion on the grounds of deceit, breach of statutory duty, violation of good faith, the existence of a discriminating condition in a standard contract and unjust enrichment. Menorah Insurance was also obligated to file a statement of defense. Menorah Insurance filed a motion for deferring the date of the class action hearing, deferring the date of filing a statement of defense and deferring the date of making the public announcement until the Supreme Court decides on the motion for appeal that Menorah Insurance filed on the motion for a class action. At the same time the District Court instructed to postpone the date for hearing of the class action until the decision is made regarding the aforementioned request for permission to appeal. The plaintiff filed a request for permission to appeal against the decision to dismiss. On November 24, 2009, the Supreme Court dismissed the request.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

5. On August 8, 2007, a claim and a motion to approve the claim as a class action ("the motion") were filed against Menorah Insurance pursuant to the Class Action Act, 2006 regarding the reduction of insurance benefits in case of an insurance event of total loss or constructive total loss in motor insurance allegedly committed illegally and against the Regulator's directive whereby the insurer must specify to the policyholder during the proposal stage all the extraordinary variables in the pricelist which might affect the vehicle's value in the calculation of insurance compensation in case of insurance events. The plaintiffs argue that Menorah Insurance's acts were misleading, in violation of the contracts and represented unjust enrichment. The remedy sought in the claim is the recovery of the difference between the insurance compensation without the effect of these variables and the insurance compensation actually paid by Menorah Insurance. The personal damage claimed by the plaintiff is NIS 4,550 thousand and the aggregate damage sustained by all the group members is estimated by the plaintiff at NIS 87 million. Menorah Insurance has not yet filed its response to the motion. Following the plaintiff's request of resignation which he filed, the court ordered on September 16, 2010, to strike-off the request, as well as the dismissal of the plaintiff's personal claim.

6. A claim similar in nature to that described in paragraph 5 above was filed on July 22, 2007 against Shomera Insurance. The aggregate damage sustained by all the group members is estimated by the plaintiff at NIS 60 million. Shomera Insurance has not yet filed its response to the motion. Following the plaintiff's request of resignation which he filed, the court ordered on August 24, 2010, to strike-off the request.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

7. On January 3, 2008, a claim and a motion to approve the claim as a class action ("the motion") were filed against Menorah Insurance and other insurance companies ("the defendants") pursuant to the Class Action Act, 2006. The claim consists of a demand to refund amounts that are claimed to have been illegally overcharged for the policy component known as "sub-annual". According to the claim, the overcharge arises both from collection in a rate exceeding the allowed rate, from the collection of the sub-annual component for parts or payments of the policy that are not subject to fees (such as for the savings component of the policy of for the "policy factor" payment) and from the collection of said component in non-life insurance policies, all in contrast to the Regulator's directives. The principal grounds of the claim are: violation of the provisions of the Supervision Law, the Supervision regulations and the Regulator's circulars, absence of good faith and unjust enrichment. The remedy sought by the plaintiffs is the reimbursement of the sub-annual amount illegally collected as above as well as a mandatory injunction ordering the defendants to change their mode of operation as described above. The personal damage claimed by each of the plaintiffs is estimated at NIS 1,683 (for one insurance year) and the aggregate claim against all the defendants (for the last seven years) is estimated at approximately NIS 2.3 billion, of which an overall amount of approximately NIS 229 million attributed to Menorah Insurance, all based on assumptions and estimates made by the plaintiffs in this respect. Menorah Insurance has not yet filed its response to the motion.

8. On January 3, 2008, a claim and a motion to approve the claim as a class action ("the motion") were filed against Menorah Insurance and other insurance companies ("the defendants") pursuant to the Class Action Act, 2006. The claim consists of a demand to refund amounts that are claimed to have been illegally overcharged for the management fee component in life assurance policies known as "participating" contrary to the Supervision of Insurance Business (Conditions in Insurance Contracts) Regulations, 1981 ("the Supervision regulations"). According to the claim, the illegal collection was done in two ways: (a) collection of fixed management fees at a higher rate than allowed (over 0.05% a month of the revalued investment portfolio) and (b) collection of variable monthly management fees instead of collecting the management fees at year end. The grounds of the claims are: deceit and misrepresentation, violation of the Supervision Law, the Supervision regulations and the Regulator's circulars, absence of good faith and unjust enrichment. The remedy sought by the plaintiffs is the reimbursement of the excessive management fees that were allegedly illegally collected as above or the lost returns as described in the claim as well as a mandatory injunction ordering the defendants to change their mode of operation as described above. The personal damage claimed by the plaintiff who is a customer of Menorah Insurance is estimated at NIS 5.45 (for one insurance year) whereas the aggregate claim against all the defendants (for the last seven years) is estimated at approximately NIS 244 million, of which an overall amount of approximately NIS 18 million attributed to Menorah Insurance, all based on assumptions and estimates made by the plaintiffs in this respect. Menorah Insurance has not yet filed its response to the motion. On March 27, 2011, the court approved the representative plaintiff's request to resign from his claim and accordingly it struck-off the request and dismissed his personal claim.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

9. On February 18, 2008, a claim and a motion to approve the claim as a class action ("the motion") were filed against Menorah Insurance and other insurance companies ("the other insurance companies" and collectively, "the defendants") pursuant to the Class Action Act, 2006. According to the claim, as part of the insurance compensation in motor casco and comprehensive motor insurance policies, the defendants allegedly fail to pay to policyholders or injured parties that are "dealers" pursuant to the VAT Law the VAT component in respect of the cost of auto repairs, vehicle depreciation and the cost of appraisals borne by the plaintiffs illegally such that the insurance compensation was allegedly paid short since, as the plaintiffs argue, the owners of commercial vehicles are legally prohibited from full deducting the VAT receipts they had paid. The plaintiffs also argue (against the other insurance companies only) that the latter omit the VAT component from the calculation of auto depreciation although VAT regulations effective July 2005 prohibit a "dealer" from deducting the VAT component for input tax purposes in respect of the purchase or import of a "private vehicle", even if it is used or designed to be used by the dealer only for its business needs. The personal damage claimed by plaintiff No. 2 for the event attributed to the company to Menorah Insurance is estimated by it at NIS 108 plus linkage differences and interest. The plaintiffs assess the overall amount of the class action against all the defendants on behalf of the entire group they seek to represent at NIS 100 million.

   The group that the plaintiffs wish to represent is any person and/or corporation that did not receive a VAT refund (in full or in part) from the defendants in the context of the insurance awards (for auto repairs, appraisal and depreciation) in the seven years preceding the date of filing the claim and/or any other person and/or corporation whose compensation from the defendants for the vehicle's depreciation did not take into consideration the VAT component for the value of the vehicle on the relevant date of making such calculation starting July 10, 2005 and onwards. The plaintiffs mention that at this stage, they are unable to know the exact number of the represented group members. The grounds of the claim are: deceit and breach of duty of disclosure according to the Consumer Protection Law, violation of statutory duty, including the insurance contract law, failure to act in good faith and contrary to the contract law (general part) and unjust enrichment. The remedies requested by the plaintiffs are: granting a mandatory/declaratory injunction whereby the defendants must take into consideration the VAT component in calculating the vehicle's depreciation, granting a mandatory/declaratory injunction whereby each of the defendants must pay the VAT component for the auto repairs, appraisal and depreciation in the context of the insurance compensation that cannot be deducted by input tax; ordering each of the defendants to pay each member of the represented group (including the plaintiffs) the VAT for the insurance compensation on auto repairs, inspection and appraisal (and the depreciation of the vehicle from July 10, 2005 and onwards) at the rate of the VAT component that is non deductible by input tax pursuant to the law in the seven years preceding the date of filing the motion with the addition of special interest pursuant to article 28a to the insurance contract law, or linkage differences and interest by law. Menorah Insurance filed a response to this motion. The request to resign the case was filed to the court on July 13, 2010, and accordingly, on July 18, 2010, the court order to strike-off the request to approve the claim as a class action.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

10. On April 14, 2008, a claim and a motion to approve the claim as a class action ("the motion") were filed against Menorah Insurance ("the defendant") with the Labor Court pursuant to the Class Action Act, 2006. The claim involves the alleged discrimination against women in the context of "executive insurance" policies issued prior to 2001. According to the claim, when reaching retirement age, the defendant awards women who are insured by such policies lower monthly pensions than those of insured men with the same data under the reasoning that women's life expectancy is higher. However, according to the claim, the defendant charges the insured women the same risk premium as the men although female mortality rates are much lower, thereby illegally discriminating against women by distinguishing between genders to its own advantage.

The group which the plaintiffs seek to represent consists of all the women who had purchased from the defendant "executive insurance" policies which discriminated against women in the matter of paying pensions but not in the matter of paying the risk premium. The plaintiff does not mention the personal damage caused to it according to the claim. The plaintiff argues that in view of the scale of the group (estimated by it as tens of thousands of women), the damage caused to the entire group is valued at hundreds of millions of NIS. The grounds for the claim are: discrimination pursuant to the Anti-Discrimination Act of products, services, entrance to places of pastime and public places ("the Anti-Discrimination Act"); the violation of the provisions of the Supervision Law; unjust enrichment; violation of the Consumer Protection Law and establishing a "discriminatory condition" in a standard contract as defined in the standard contracts law. The principal remedies sought in the claim are that the Court establish and/or instruct that: (a) the discrimination practiced by the defendant is against the law and all provisions in the policy and/or acts by virtue of this discrimination are null and void; (b) the plaintiff and other group members have the right to opt for either (1) matching the pensions paid to a female policyholder to those paid to a male policyholder of the same age and ordering that in the event of a one-time fee instead of monthly pension, the fee paid to a female policyholder will be increased based on the proportion between the pension coefficient and the male recipient to the pension coefficient of a female recipient of the relevant age, or (2) a retroactive and prospective write down of the risk amounts collected from the plaintiff in the policy that is the subject of the claim and other similar policyholders to the appropriate risk amounts for a female policyholder and adding the amounts written down to cumulative savings by the plaintiff. The plaintiff is also asking the Court to allow the split of remedies in order to separately claim the compensation without proof of damage as stipulated in the Anti-Discrimination Act. Menorah Insurance has filed a motion to dismiss the claim in limine due to the Labor Court's lack of material jurisdiction for discussing the case. The Court allowed Menorah Insurance not to file its response to the body of the claim and the motion until the motion for dismissal is discussed. On October 2, 2008, the Court granted said motion for dismissal. This decision was appealed to the National Labor Court and in January 2009, summations were filed on behalf of Menorah Insurance regarding this appeal.

On September 17, 2009, the National Court approved the appeal and determined that the Regional Court has the authority to conduct a hearing in respect of this claim, except for the damage causes. On December 15, 2009 the defendant (together with other defendant insurance companies) a plea to the High Court of Justice regarding the material jurisdiction issue. On January 3, 2010 the Regional Court instructed to postpone the date of the hearing and the date for submitting responses on behalf of the defendants, until and according to the High Court of Justice's ruling regarding the plea. On October 11, 2010, the Attorney General submitted his opinion in respect of the plea.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

11. On July 30, 2008, a claim and a motion to approve the claim as a class action pursuant to the Class Action Act, 2006 were filed against Shomera Insurance ("the motion"). The claim pertains to the alleged violation of articles 65, 67, 56(a) and 56(c) to the insurance contract law, 1981, article 12(a) to the addendum to the Supervision of Insurance Business (Private Vehicle Insurance Contract Terms) Regulations, 1986 and a directive of the Regulator of the Insurance that prescribe that if a third party claim for insurance benefits is filed, the insurer must pay that third party the full amounts paid by the policyholder for the insurance event, including the appraiser's fee. The plaintiff argues that Shomera Insurance refused to pay and/or recover to a third party the appraiser's entire fee. The group sought to be represented by the plaintiff is anyone who was entitled as a third party to receive funds and/or insurance awards from Shomera Insurance due to damages caused to an automobile in the last seven years and did not receive a full and/or partial refund for the amount paid by it as appraiser's fee from Shomera Insurance. The plaintiff estimates its personal damage at NIS 150 and the aggregate damage to the group at approximately NIS 6.8 million. The grounds of the claim are violation of statutory duty and unjust enrichment. Shomera Insurance has yet to file its response to the motion.

12. On August 3, 2008, a claim and a motion to approve the claim as a class action pursuant to the Class Action Act, 2006 were filed against Menorah Insurance ("the motion"). The claim involves the alleged non payment of indemnification to the defendant's holders of motor insurance policies for the damage caused to the vehicle's protective gear installed in the vehicle at the defendant's demand while violating the provisions of article 1 to the addendum to the Supervision of Insurance Business (Private Vehicle Insurance Contract Terms) Regulations, 1986 ("the standard policy"). The group which the plaintiffs wish to represent is any policyholder who as of April 1, 2004 received from Menorah Insurance, insurance compensation for damages sustained to a private automobile or commercial automobile of up to 4 tons, including for total loss, constructive total loss or theft, while insured by Menorah Insurance by standard policy chapter A insurance and did not receive all and/or some of the insurance benefits for the loss or damage sustained to said protective gear.

    The personal amount claimed by the plaintiff is NIS 550 and based on data from Menorah Insurance's financial statements and on calculations made by the plaintiff, the estimated overall damage to the group is approximately NIS 23 million. The grounds for the claims are violation of statutory duty and unjust enrichment. Menorah Insurance has filed a response to the motion.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

13. A claim similar in nature to the claim discussed in paragraph 16 above was filed on November 2, 2008 against Menorah Insurance. The personal damage claimed by the plaintiff is NIS 1,350 and the total damage to the group is estimated at NIS 20 million. Menorah Insurance has not yet filed a response to the motion.

14. On November 9, 2008, a claim and a motion to approve the claim as a class action pursuant to the Class Action Act, 2006 were filed against Menorah Insurance ("the motion"). The motion consists of the alleged violation of various provisions in the insurance contract law, 1981, in the addendum to the Supervision of Insurance Business (Private Vehicle Insurance Contract Terms) Regulations, 1986 and the Regulator's directives regarding the motor insurance appraisal mechanism, which prescribe that if a third party claim for insurance compensation is filed, the insurer must pay that third party the full amounts paid by the policyholder for the insurance event up to the amount set forth in the policy. The plaintiff argues that the defendant refuses to pay the full amounts that the policyholder had to pay to the injured third party for the insurance event for the vehicle's depreciation. The group that the plaintiff wishes to represent is any person and/or other legal entity that was entitled to receive from the defendant as a third party funds and/or insurance compensation for vehicle depreciation in the seven years preceding the date of filing the claim and did not receive the full amounts payable to it for the vehicle's depreciation. The grounds of the claim are violation of statutory duty and unjust enrichment. The plaintiff estimates its personal damage at NIS 1,500 and the aggregate damage to the entire group at approximately NIS 50 million. Menorah Insurance has yet to file its response to the motion. On August 2, 2010, a request for resignation from the case was filed to the court and accordingly, on August 3, 2010, the court ordered to strikc-off the request to approve the claim as a class action.

15. A claim similar in nature to the claim discussed in paragraph 16 above was filed on January 25, 2009 against Shomera. The personal damage claimed by the plaintiff is NIS 1,012 and the total damage to the group is estimated at NIS 11 million. Shomera filed a response to the motion. On August 2, 2010 the request for resignation from the case was filed, and accordingly on August 3, 2010, the court ordered to strike-off the request to approve the claim as a class action.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

16. On April 1, 2009, a claim and a request to approve the claim as a class action pursuant to the Class Action Law, 2006 (hereunder - "the claim" and "the request for approval") were filed against Menorah Insurance. The grounds for the claim is health insurance policies that include the right to receive half of the cost of "Form 17" from the Sick Fund, in cases where the insurer did not participate in financing a surgery that is covered by the policy. The main allegation in this claim is that in connection to the above coverage the defendant calculates the insurance benefits in a manner that reduces the amount of benefits that is due to the plaintiff and the group members according to her understanding, while misleading the policyholders and breaching the insurance contract in contradiction to legal provisions. The group the plaintiff wishes to represent in anyone who is insured by a health insurance policy that includes a coverage as mentioned above and who had a surgery that was not financed by the defendant during the 7 years prior to filing the claim, and alternatively, during the 3 years prior to filing the claim (hereunder - the group members). The grounds for the claim are misleading and breach of insurance contract. The main remedies that are requested are to obligate the defendant to refund the entire group members the sum equal to half of the value of the Sick Fund's Form of Liability to cover the cost of surgery and/or treatment that was provided, as well as a decree ordering the defendant to calculate from now on the amount that is due to the policyholders in this respect according to the plaintiff's stand point and to provide a declarative remedy that determines that the defendant breached the relevant instructions under the policy, or alternatively, it misleads that group members as detailed in the claim. According to the plaintiff her personal damage amounts to NIS 2,420 and she estimates the damage to the entire group at over NIS 10 million. Menorah Insurance submitted its response to the request for approval.

17. On July 14, 2009, a claim was received in the offices of Menorah Insurance, against it, as well as against other insurance companies (hereunder - "the defendant and "the defendants", respectively), together with a request to approve it as a class action pursuant to the Class Actions Law, 2006 (hereunder - "the claim" or "the request"). The grounds for the claim, as alleged by the plaintiff, is that the defendants pay deficient compensation to taxi drivers with respect to motor vehicles (third party) for the days the taxis were immobile (lockout) since they were damaged as a result of a road accident. The group the plaintiff wishes to represent is all the taxi drivers whose motor vehicle was involved in a road accident and as a result they filed, during the seven years prior to the date the claim was filed, third party claims against the defendants, and by the virtue of the claims the defendants paid them money (as a "compromise" and not within a judgment) for the "days of immobility" due to property damage (hereunder - the group members). The alleged causes for the claim are negligence, breach of legislated duties and mala fides during negotiations. The main remedies that are requested by the plaintiff are: to order the defendants to refund the difference in the amounts they refrained from paying unlawfully; to order the defendants to pay the group members, from now on, for the days of immobility, sums of money that will reflect the group members actual damages; not to allow the respondents to set a condition that rest of the components of damage as a result of the accident, with respect to which there is no disagreement between the parties, will be paid only if the group members will sign a statement of "receipt and release", and to order any other remedy in favour of the group members, if the Court thinks it will be appropriate. According to the plaintiff his personal damage (on the grounds of his personal claim against the defendant) amounts to NIS 470, and he estimates that the total damage to the entire group and against all the defendants amounts to about NIS 132 million. The plaintiff did not estimate the defendant's share in the total damage to the group. Menorah Insurance filed its response to the request. Following the request for resignation that was filed by the plaintiff, the court ordered on September 6, 2010, to strike-off the request as well as the pleader's personal claim.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

18. On September 8, 2009, a claim and a request to approve the claim as a class action pursuant to the Class Action Law, 2006 (hereunder - "the claim" or "the request for approval") were filed against Menorah Insurance. The grounds for the claim, as alleged, are loans that were granted by Menorah Insurance, with the mediation of two main insurance agencies, without any guarantees at the time the loan was granted, while risking the money of Menorah Insurance's life assurance policyholders. The pleader is a life assurance policyholder of Menorah Insurance and in the framework of his claim he wishes to represent a group of policyholders who hold "profit participating life assurance policies" of Menorah Insurance during the period between October 2004 up to the end of March 2007. The maid remedy that is requested is to order Menorah Insurance to refund the sums of the above loans which total about NIS 153 million, or the sum of loans that Menorah Insurance declared as a doubtful debts in the sum of about NIS 62 million, or any other sum that apparently will not be returned. It is also requested to order Menorah Insurance to compensate the group members for the profits that would have been accumulated in their favour in respect of the above loans if they would not have been granted to its customers. Menorah Insurance submitted its response to the request.

19. On September 10, 2009, a claim was received in the offices of Menorah Insurance against it and against other insurance companies and also against management companies of pension and provident funds (hereunder - "the defendant" and "the defendants", respectively), together with a request to approve the claim as a class action, pursuant to the Class Actions Law, 2006 (hereunder - "the claim" or "the request"). According to the claim, the defendants invest part of the group members' monies in basket certificates and they impose various costs and payments (such as management fees), that are involved in the investment in basket certificates (hereunder, as defined in the claim - "effective cost") on the group members, as alleged, unlawfully and without disclosing this to the members. The group the plaintiffs wish to represent is anyone who is (or was) a member or a policyholder of any of the management companies or the insurers, which part of the monies they manage were invested in basket certificates during the period from November 10, 2005 up to the date the request was submitted (above and hereunder - "the group members" and "the period of the claim"). The alleged grounds for claims are the breach of the provisions of the Supervision of Financial Services Law (Provident Funds), 2005, the breach of the provisions of the Supervision of Financial Services Law (Insurance), 1981, the breach of the duty of caution and the breach of the Consumer Protection Law, 1981. The main remedies that are requested by the plaintiffs are to instruct the defendants to refund the group members the total effective costs, that were deducted, as they allege, unlawfully from the monies of the group members, and which is generated from their investment in basket certificates, during the period of the claim. In addition, to determine that the defendants will not be permitted to deduct from the group members' pension money, the effective cost in respect of the investment of their money in basket certificates, also in the future, subject to legal provisions. The alleged damage to the entire group was set at about NIS 214 million, out of which the sum of about NIS 6.3 million was attributed to the defendant. Menorah Insurance submitted its response to the request. On May 2, 2010 the court validated plaintiff's request to strike-off the request for approval, together with the dismissal of their personal claim, as a ruling.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

20. On February 17, 2010, a request to approve the filing of a derivative claim pursuant to Section 194 to the Corporate Law, 1999, was received in the Company's offices (hereunder - the request for approval), as well as a copy of the derivative claim that were filed by a shareholder of the Company. The grounds for the request, as alleged, was the actions and/or the omissions of senior officeholders in Menorah Mivtachim Insurance Ltd. (a subsidiary of the Company) in respect of loans that Menorah Insurance has allegedly granted without any security. The plaintiff contends that as a results of these actions and/or omissions, Menorah Insurance had suffered the damage of about NIS 65 million (the amount of provision for doubtful debts in respect of the above loans). The Company has not yet submitted its response to the request for approval. On February 6, 2011, and following the court's comments, the court ruled to strike-off the request for approval, without affecting the parties' allegations as presented in the request.

21. A claim similar to the one detailed in paragraph 14 above, was filed on January 24, 2010, against Shomera Insurance. According to the plaintiff his personal damage amounts to NIS 6,500, and he estimates the total damage to the entire group at about NIS 29 million. Shomera Insurance submitted its response to the request.

22. On March 24, 2010, a claim was filed against Menorah Insurance, as well as four other insurance companies (hereunder - "the defendants"), together with a request to approve the claim as a class action (hereunder - "the request"). The grounds for the claim is the allegation according to which the defendants allegedly ignore the provisions of the Regulator of Insurance which set forth that when a policyholder pays insurance premiums at monthly installments, the sum of the monthly "policy factor" will be benchmarked once each quarter and not once a month as performed allegedly, by the defendants, hence they, allegedly, overcharge the policyholders for the aforementioned "policy factor" component. The group the plaintiffs wish to represent is - whoever is and/or was insured with any of the defendants commencing from 1982. To the best of the plaintiffs' knowledge, this issue relates to about 3 million active policies. The allegations in this case are, among others, a breach of an agreement, the breach of the Supervision of Financial Statements Law (Insurance), 1981, a breach of the Regulator's circulars, mala fide, misleading and misrepresentation, and unlawful enrichment. The remedy that the plaintiffs request is the refund of the extra amount that was allegedly collected from the group members unlawfully, and to issue a mandatory injunction instructing the defendants to change the form of collection of the abovementioned "policy factor" component. The personal damage of the plaintiff, who is insured by Menorah Insurance, is set at NIS 0.35 (in respect of the insurance year 2005), and the total claim against all the defendants was calculated and estimated by the plaintiffs at about NIS 114 million, of which 8.8%, namely about NIS 10 million, was attributed to Menorah Insurance, based on valuations and assumptions assumed by the plaintiffs in this respect. Menorah Insurance submitted its response to the request. On March 3, 2011 and following the declaration of the representative plaintiffs' attorneys that after their thorough examination there is no point in pursuing the claim, the court approved the plaintiffs' request to resign the case and accordingly it instructed to strike off the request and dismiss the plaintiffs' personal claim.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

23. On April 11, 2010, a claim was filed against Menorah Insurance, as well as three other insurance companies (hereunder - "the defendants"), together with a request to approve the claim as a class action (hereunder - "the request"). The grounds for the claim is the allegation according to which the defendants hold money that was not claimed by the rightful holders of the money (policyholders, beneficiaries and/or heirs), they allegedly breach their duty to locate those rightful holders and they also do not transfer the monies to the administrator general on the due date, as well as unlawful enrichment due to overcharging management fees or from yields generated by unclaimed monies. The group the plaintiffs wish to represent is - all the rightful owners of assets held by the defendants, under their responsibility or control, and the defendants did not notify them that they are the owners of those assets. The grounds for the claim are, among others, the allegations of breach of legislated duty, breach of the directives of the Regulator of Insurance, misleading, mala fide, breach of contract, negligence, breach of the duty of fidelity and unlawful enrichment. The remedy demanded by the plaintiffs is to issue to relevant decrees that will require the defendants to fulfill the directives of the Regulator of Insurance in respect of locating the aforementioned rightful owners, refund of monies that were collected unlawfully, and appointment of a functionary for the purpose of enforcing the aforementioned requested decrees, or to provide an other remedy for the group. The amount of the claim according to the lawsuit cannot be estimated. Menorah Insurance submitted its response to the request.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

24. On April 14, 2010, a claim was filed against Menorah Insurance, as well as four other insurance companies (hereunder - "the defendants"), together with a request to approve the claim as a class action (hereunder - "the request"). The grounds for the claim is the allegation that when an insurance ends, for any reason whatsoever (such as the policyholder's notification about cancelling the policy, an occurrence of an insurance event, or any other event under which the insurance policy is expired), it happens mostly after the premium has been collected for the current month, although the policyholder is entitled, as alleged, to receive a refund in respect of the proportional part of the month. The defendants either do not refund the policyholders for the proportional part of the monthly premium, or they make a refund in nominal values. The group the plaintiffs wish to represent is - whoever is and/or was insured with any of the defendants under any insurance policy (except for property insurance policy) or the heir of such a policyholder and the insurance policy was discontinued for any reason whatsoever, whether as a result of its cancellation by the policyholder, or as a result of an insurance event. The plaintiffs estimate that there are about 2 million policyholders in the group. The alleged contentions under the claim are, among others, the breach of the Supervision of Financial Services Law (Insurance), 1981, as well as the Insurance Contract Law, 1981, mala fide, misleading and misrepresentation, and unlawful enrichment. The remedy requested by the plaintiffs is the refund of the excess premiums that were collected unlawfully and/or were not refunded unlawfully and/or the revaluation differences that allegedly were not paid to the group members, as well as a mandatory injunction instructing the defendants to change their manner of operation as described in the claim. The personal damage of the plaintiffs with respect to the entire plaintiffs is set at about NIS 3,047, whereas the overall claim all the plaintiffs was calculated and estimated at about NIS 225 million. Menorah Insurance has not yet submitted its response to the request.

25. On August 18, 2010, a claim was received in the Company's offices, against the Company and against Menorah Insurance, as well as a request to approve the claim as a class action, pursuant to the Class Actions Law, 2006 (hereunder - the claim). As contended in the claim, Menorah Insurance deducted, unlawfully, monies from the managers insurance policy of the defendant, by way of omitting deposits that were transferred to Menorah Insurance. The plaintiff contends that a liability should also be imposed on the Company, since it has an effective control on the activities of Menorah Insurance, as entailed by its annual financial statements. The group the plaintiff wishes to represent, as specified in the claim, is all the policyholders and/or the holders of life assurance policies managed and/or operated by Menorah Insurance, which, as she contends, were deducted unlawfully from the balance of the policy monies that were deposited with Menorah Insurance (hereunder - the group members). The plaintiff estimates that there are about 75,000 policyholders in the group. The main allegations that are contended under the claim are; a breach of an engagement agreement, breach of the duty of fidelity, the injustice of plunder, the injustice of negligence and mala fide. The alleged damage to the group, as estimated by the plaintiff, amounts to about NIS 110 million. Menorah Insurance has not yet submitted its response to the request.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

26. After the reported date, on March 6, 2011, a claim was received at Menorah Insurance's offices, together with a request to approve the claim as a class action, pursuant to the Class Actions Law, 2006 (hereunder - the request). As contended in the request, there was an error in the calculation of the amount of accruals in the managers insurance policy (Fund J) of the representative plaintiff (hereunder - the plaintiff) which might have occurred (as contended) also with respect to other policyholders as mentioned. The group the representative plaintiff wishes to represent, as specified in the request, is - "all the members and/or policyholders of life assurance and/or managers insurance policies and/or any other policy under Fund J, which was operated in the past by Manolife (which was acquired by the respondent), wherein the actual accrual does not match the accrual that should have been" (hereunder - the represented group). The main allegations under the claim according to the request, are; the breach of an engagement agreement; breach of the duty of fidelity; injustice of plunder and negligence and mala fide. The personal damage of the plaintiff was estimated by him at the total amount of NIS 70 thousand, whereas the alleged aggregate damage to the entire represented group was estimated by the plaintiff at NIS 50 million. The remedies requested by the plaintiff are: the approval of the request; to order to find ways to prove the damage of individuals in the group; to order overall compensation according to the estimated damage as estimated above; to order a compensation to the representative plaintiff and fees to the representing attorneys. Menorah Insurance has not yet submitted its response to the request.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

a. Contingent liabilities and requests to approve claims as class actions (Cont.)

Summary table

	Number of claims	Claimed amount
		NIS in thousands
Claims approved as class actions:		
Amount related to the Group was stated	1	5,400
The claims relates to a number of companies and no specific amount was attributed to the Company	-	-
The claim amount was not stated	1	-
Pending requests to approve Claims as class actions:		
Amount related to the Company was stated *)	8	522,000
The claims relates to a number of companies and no specific amount was attributed to the Company	2	225,000
The claim amount was not stated	1	-
Other material claims	-	-
Total	13	

The overall provision for claims that were filed against the Company and Menorah Insurance as detailed above, amounts to NIS 20,000 thousand (as at December 31, 2009 about NIS 11,715 thousand).

*) On March 27, 2011, the court approved the withdrawal from the class action and the dismissal of the personal claim of the representative plaintiff. The claim attributed to Menorah Insurance amounted to about NIS 18,000 million.

b. Guarantees provided

Menorah Insurance has placed guarantees in favor of the members of the "Yeter", "Peles" and "Amir" pension funds (managed by Menorah Mivtachim Pension Ltd., a related company) in order to secure the Fund's undertaking towards them regarding a guaranteed rate of return. The scope of the related accumulated guarantees as of the date of the financial statements aggregates NIS 4,342 million. It should be noted that the Accountant General at the Ministry of Defense committed toward the funds to receive most of the members' deposited funds with a guaranteed return exceeding the members' guaranteed rate of return. In addition to the above, Menorah Insurance provided similar guarantees to secure the members' investment fund under a non yielding track in favor of members who joined the Fund by 1994 and in respect of their nominal deposits - until January 2009. The scope of accumulated guarantees as of the date of the financial statements aggregates NIS 205 million.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

c. Commitments

1. In 2003, the Group entered into a project for developing a comprehensive life assurance management system (Topaz Life) with Sapiens Israel Software Systems Ltd. ("Sapiens"). Following the acquisition of Menorah Mivtachim Pension in 2004 and Regulatory changes enacted in the Group's area of activity as well as the Group's business development, in 2004 and 2005, the Group entered into another project for developing a pension and provident management system (Topaz Pension and Providence) (Topaz Life and Topaz Pension and Providence collectively, "the Topaz system") with Sapiens. As at the financial statements date the Topaz system reached an operational stage. In addition, Sapiens performs additional projects for the Company, as well as ongoing upkeep of the systems, including occasional necessary updates. During the years 2008 - 2009 the Group paid Sapiens the sum of about NIS 157 million.

2. The Group has the following future investment commitments:

   a. Commitments to invest in investment funds totaling approximately NIS 323,403 thousand, as of December 31,2010, of which the sum of NIS 255,136 thousand is in respect of yield dependant contracts (the sum of NIS 345,210 thousand as of December 31, 2009, of which an amount of NIS 335,027 thousand in respect of yield dependent contracts),

   b. Commitments to extend loans to various companies in a total of NIS 99,427 thousand as of December 31, 2010, of which NIS 53,2380 thousand are in respect of yield dependant contracts (as of December 31, 2009 - NIS 11,212 thousand).

3. On July 27, 2010, a sub-subsidiary, Menorah Mivtachim Provident Ltd. - a managing company (hereunder - Mivtachim Provident) signed an agreement with Lehava Educational Fund Management Ltd. and Lahav Self-Employed and Business Bureau in Israel (hereunder - the Sellers), for the acquisition of the management rights in the educational fund "Lehave Educational Fund for Self-Employed and Employees" (hereunder - Lehava). The managed assets of the fund amount to about NIS 420 million for about 12,000 members.

   The proceeds include three elements:

   a. A one time sum of NIS 11.5 million which will be paid to the sellers prior to the transfer of Lehava to Mivtachim Provident.

   b. An amount contingent to the volume of Lehava's assets. Commencing from the sixth year from the date of transfer of the management rights up to the tenth year, Mivtachim Provident will pay the seller 0.75% of the total assets of the fund on the date of payment. In the event that the distribution and/or operating commission for the fund will increase during the abovementioned period, the payment rate will be reduced by half of the increase in the distribution and/or operating commission, as mentioned. However, from the sixth year up to the tenth year the aforementioned payment will not be less than NIS 1.3 million per annum.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

c. Commitments

3. (Cont.)

c. At the end of the tenth year from the date of transfer of the management rights, Mivtachim Provident will pay the Seller a one time payment of 0.3% of Lehava's assets on the date of payment, capitalized at an annual interest of 7%, for the period of six and a half years.

On January 1, 2011, Lehava began to manage Mivtachim Provident, after receiving all the necessary approvals.

d. Leases

Operating leases with the Group as lessee:

The Group has entered into several commercial lease agreements with respect to real estate owned by it which include some of the Group's offices. These leases cannot be canceled and have a life of 1-5 years.

A subsidiary, Mivtachim Pension, has entered into operating lease agreements for vehicles it owns. The lease agreements are for a period of three years with no extension option mentioned in the lease.

NOTE 37:- CONTINGENT LIABILITIES (Cont.)

d. Leases (Cont.)

Hereunder are the future minimum lease fees to be paid for operating lease agreements under non-cancelable terms as of December 31:

	2010	2009	2008
	NIS in thousands		
First year	13,743	10,882	8,661
Second to fifth years	22,794	16,678	7,495
More than five years	=	1,389	-
	36,537	28,949	16,156

The amounts carried to the statement of profit and loss:

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Minimum leasing fees	12,610	10,740	8,083

The Group leases several buildings (investment properties) to external entities. The lease periods are between one and five years and are non-cancelable. The renewal of the contracts at the end of the period is subject to the consent of both parties.

Hereunder are the future minimum lease fees to be received for non-cancelable lease contracts as of December 31:

	2010	2009	2008
	NIS in thousands		
First year	4,105	3,055	4,027
Second to fifth year	3,304	2,129	4,791
	7,409	5,184	8,818

For additional details regarding income recognized in respect of investment property, see Note 26.

NOTE 38:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. In September 2009, the Regulator notified the management of Menorah Insurance of his intention to hold an audit regarding retroactive transfers between investment tracks that were performed during the year 2008 and in respect of loans granted by Menorah Insurance a few years ago, without sufficient collateral at the time the loans were granted, including the mode of operation of the relevant organ.

It should be noted that with respect to the issue of retroactive transfers that was discovered the policies of some employees and/or agents, the amounts were insignificant. As for the financial implications relating to the loans that were examined and following the Company's reports in the periodic report for the year 2009, it should be noted that as at December 31, 2010 the balance of the loans in the Group was about NIS 98 million before the provision for doubtful debts; surrender values in the policies were accumulated against the loans in the amount of about NIS 13 million; and the balance of the provison for doubtful debts in respect of the loans as at the said date was in the amount of about NIS 60 million.

In July 2010 the audit report on behalf of the Regulator, regarding the above loans was received in the offices of Menorah Insurance. In the above report there were guidelines whose objective was, among others, to improve the audit and to improve the information flow processes between the various departments in Menorah Insurance and the Financial Division. In addition, the Regulator imposed on Menorah Insurance monetary sanctions as well as a civil fine in the overall amount of about NIS 14 million and instructed it to restore about NIS 10 million to Menorah Insurance's profit participating portfolio, while postponing the restoring until the court makes its decision regarding the question of the existence and volume of the damage that was caused, if any, to Menorah Insurance's policyholders, in the framework of a class action that was filed in respect of this issue.

b. In May 2010 the Securities and Exchange Commission opened an investigation against a sub-subsidiary – Menorah Mivtachim Mutual Funds Ltd. (hereunder – Mutual Funds) and/or one of its officeholders. At this stage it is not possible to estimate the nature and the results of the investigation. Therefore, Mutual Funds did not set up a provision in its financial statements in respect of this event.

NOTE 39:- SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

a. On January 4, 2011, a subsidiary Sinai Insurance Underwriting Agency (1989) Ltd. (hereunder – Underwriting Agency) signed an agreement for the acquisition of an insurance agency's activities, which is not a corporation, which is known in its commercial name "Arnon and Weinstock Insurance Planning and Management" (hereunder – Arnon and Weinstock), including the insurance portfolios, assets and goodwill of Arnon and Weinstock. All Arnon and Weinstock's activities were passed on to Underwriting Agency. In addition, Underwriting Agency acquired the activities and goodwill of "Arnon and Weinstock Insurance Planning and Management Ltd. which is owned by the agents. On February 21, 2011, the Registrar of Companies approved the Underwriting Agency's change of name to "Arnon and Weinstock Insurance Agencies (1989) Ltd."

NOTE 39:- SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

b. On February 27, 2011, the Company's Board of Directors decided on the expansion of the existing investment in Menorah Real Estate at the total amount of about $ 60 million, in the volume of up to an additional € 14 million, in order to continue to develop the investment in real estate, the existing and the new.

c. On March 24, 2011, the Company's Board of Directors approved holding negotiations with Direct Insurance Financial Investments Ltd. (hereunder – Direct Insurance Investments) for joining the project for the establishment of a Direct insurance company in Brazil (hereunder – the project/the joint company). The anticipated investment in this project is about Brazilian Real R$ 400 million (about NIS 850 million), and the Company received an offer to join at a holding rate of about 15% of the joint company's equity. It should be noted that as far as the Company knows, another investor in the project is the investment arm of the World Bank. The Company intends to examine the transaction and according to the results of the negotiations it will decide whether to enter into a binding agreement in respect of this activity.

d. On March 24, 2011 the Board of Directors of Menorah Insurance ("the purchaser") approved the completion of the negotiations with B.G.I. Investments (1961) Ltd. and its subsidiary B.G.I. Alfa Ltd. ("the seller") regarding the acquisition of 100% of the issued and paid up capital of The Bank for Industry Development in Israel Ltd. ("the Bank") which is owned by the seller, and to authorize the management to sign an acquisition agreement in accordance with the transaction outline presented to them. The estimated proceeds in respect of the bank shares comprises two principal components: (a) the amount of about NIS 125 million and (b) with the addition of a cash amount which will be in the bank's fund on the date of completion of the transaction, which is estimated at this stage at the amount of about NIS 226 million. In addition, the purchaser will be entitled to a reduction in the consideration if at the end of an agreed period that will be determined in the sale agreement, the bank will not collect all or part of the loans included in the bank's credit portfolio, subject to various conditions which will be determined in the purchase agreement. It should be noted that if and insofar as the purchase agreement will be signed, Menorah Insurance intends to merge the bank within it. It should also be noted that the agreement will be subject to various suspending conditions, among others, receipt of regulatory approvals according to law and receiving the approval of the Tax Authorities (Ruling), among others, regarding the merger of the bank as mentioned, and receipt of the approval from the court which can authorize the merger. On March 29, 2011 and after concluding the negotiations the parties signed the agreement which is subject to various suspending conditions, as mentioned above.

APPENDIX – DETAILS OF OTHER FINANCAIL INVESTMENTS OF THE CONSOLIDATED INSURANCE COMPANY

a. Quoted debt assets

	December 31, 2010	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds		
Measured at fair value through profit and loss:		
designated at the time of initial recognition	228,233	220,003
Available for sale	1,773,136	1,698,591
Total government bonds	2,001,369	1,918,594
Other debt assets:		
Unconvertible		
Measured at fair value through profit and loss:		
designated at the time of initial recognition	119,782	114,207
Available for sale	1,848,472	1,773,072
Total other unconvertible debt assets	1,968,254	1,887,279
Other convertible debt assets		
Measured at fair value through profit and loss:		
designated at the time of initial recognition	4,130	4,408
Total quoted debt assets	3,973,753	3,810,281
Fixed impairments allocated to profit and loss (accumulated)	30,688	

	December 31, 2009	
	Carrying amount	Amortized cost
	NIS in thousands	
Government bonds		
Measured at fair value through profit and loss:		
designated at the time of initial recognition	201,978	197,917
Available for sale	1,387,969	1,329,893
Total government bonds	1,589,947	1,527,810
Other debt assets:		
Unconvertible		
Measured at fair value through profit and loss:		
designated at the time of initial recognition	81,265	60,781
Available for sale	1,690,365	1,632,856
Total other unconvertible debt assets	1,771,630	1,693,637
Other convertible debt assets		
Measured at fair value through profit and loss:		
designated at the time of initial recognition	21,376	17,990
Total quoted debt assets	3,382,953	3,239,437
Fixed impairments allocated to profit and loss (accumulated)	44,942	

APPENDIX – DETAILS OF OTHER FINANCAIL INVESTMENTS OF THE CONSOLIDATED INSURANCE COMPANY

b. Shares

	December 31, 2010	
	Carrying amount	Cost
	NIS in thousands	
Quoted		
Measured at fair value through profit and loss designated at the time of initial recognition	21,104	17,957
Available for sale	240,096	213,492
Total quoted shares	261,200	231,449
Unquoted		
Measured at fair value through profit and loss designated at the time of initial recognition	251	166
Available for sale	10,406	10,248
Total unquoted shares	10,657	10,414
Total shares	271,857	241,863
Fixed impairments allocated to profit and loss (accumulated)	43,209	

	December 31, 2009	
	Carrying amount	Cost
	NIS in thousands	
Quoted		
Measured at fair value through profit and loss designated at the time of initial recognition	20,416	15,852
Available for sale	220,079	191,937
Total quoted shares	240,495	207,789
Unquoted		
Available for sale	5,216	5,996
Total shares	245,711	213,785
Fixed impairments allocated to profit and loss (accumulated)	47,847	

APPENDIX – DETAILS OF OTHER FINANCAIL INVESTMENTS OF THE CONSOLIDATED INSURANCE COMPANY

c. Other financial investments

	December 31, 2010	
	Carrying amount	Cost
	NIS in thousands	
Quoted		
Measured at fair value through profit and loss designated at the time of initial recognition	209,037	193,574
Available for sale	77,443	73,142
Derivative instruments	3,482	197
Total other quoted financial investments	289,962	266,913
Unquoted		
Measured at fair value through profit and loss designated at the time of initial recognition	45,350	61,540
Available for sale	64,827	74,392
Derivative instruments	17,063	550
Total other unquoted financial investments	127,240	136,482
Total other financial investments	417,202	403,395
Fixed impairments allocated to profit and loss (accumulated)	16,294	

	December 31, 2009	
	Carrying amount	Cost
	NIS in thousands	
Quoted		
Measured at fair value through profit and loss designated at the time of initial recognition	182,750	174,446
Available for sale	47,803	47,708
Derivative instruments	2,684	145
Total other quoted financial investments	233,237	222,299
Unquoted		
Measured at fair value through profit and loss designated at the time of initial recognition	26,622	49,768
Available for sale	53,011	53,146
Derivative instruments	2,862	20
Total other unquoted financial investments	82,495	102,934
Total other financial investments	315,732	325,233
Fixed impairments allocated to profit and loss (accumulated)	13,493	

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Translated from the Hebrew original

MENOROAH MIVTACHIM HOLDINGS LTD.

SEPARATE FINANCIAL DATA OF THE COMPANY FROM THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

<u>REGULATION 9C</u>

MENORAH MIVTACHIM HOLDINGS LTD.

SEPARATE FINANCIAL DATA OF THE COMPANY FROM THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

REGULATION 9C

INDEX

Ernst & Young (Israel) Ltd
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To:
The shareholders of Menorah Mivtachim Holdings Ltd.

Dear Sirs,

Subject: <u>Special auditors' report on separate financial data pursuant to Regulation 9C to the Securities Regulations (Periodic and Immediate Reports) – 1970</u>

We have audited the separate financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Menorah Mivtachim Holdings Ltd. (hereunder – the Company) as at December 31, 2010 and 2009 and for each of the three years, the last of which ended as at December 31, 2010, and is included in the Company's periodic report. The separate financial data is the responsibility of the Company's Board of Directors and its Management. Our responsibility is to express an opinion on the separate financial data in accordance with the provisions of Regulation 9c' based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the separate financial data are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes an examination of the accounting principles that were applied in preparing the separate financial data and the significant estimates made by the Board of Directors and by Management, as well as evaluating the adequacy of presentation of the separate financial data. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the separate financial data has been prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Tel-Aviv, Israel
March 30, 2011

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Additional information	December 31, 2010	December 31, 2009
		NIS in thousands	
CURRENT ASSETS			
Cash and cash equivalents	b	8,551	47,143
Financial investments	c	279,641	224,625
Current taxes receivable		1,545	4,066
Debtors and receivables		715	4,224
Current balance with investee	f(1)	11,942	5,681
Total current assets		302,394	285,739
NON-CURRENT ASSETS			
Loans	c	9,581	7,119
Assets less liabilities attributed to investees, net including goodwill	f(1)	2,768,070	2,226,435
Investment property		102,856	88,419
Total non-current assets		2,880,507	2,321,973
		3,182,901	2,607,712
CURRENT LIABILITIES			
Current maturities of loan from banking institution	d	3,972	3,883
Current maturities of debentures	d	69,526	-
Creditors and payables	d(1)	20,266	12,779
Total current liabilities		93,764	16,662
NON-CURRENT LIABILITIES			
Loan from banking institution	d	-	3,883
Bonds	d	813,331	610,260
Liabilities for employee benefits, net		798	664
Deferred taxes	e	22,369	26,275
Total non-current liabilities		836,498	641,082
Equity attributable to shareholders of the Company			
Share capital		99,429	99,429
Share premium		332,985	332,985
Capital reserves		192,506	171,451
Retained earnings		1,627,719	1,346,103
Total equity		2,252,639	1,949,968
		3,182,901	2,607,712

March 30, 2011			
Date of approval of the financial statements	Menahem Gurevitch Chairman of the Board	Ari Kalman General Manager	Shai Kompel Chief Financial Officer

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Additional information	Year ended December 31, 2010	2009	2008
		NIS in thousands		
INCOME				
Income (loss) from investees		257,428	323,004	(221,516)
Income (losses) from investments and finance		56,067	115,703	(3,475)
Finance income in respect of loans to investees	f(3)	10,896	15,894	34,128
Increase in value investment property		14,167	16,224	4,248
Income from lease of assets		669	664	595
Income from management fees and others		(283)	1,967	587
Income from management fees from investees	f(2)	2,083	2,655	3,259
Total income		341,027	476,111	(182,174)
EXPENSES				
Finance expenses		51,617	50,068	53,261
Administration and general expenses		3,404	3,703	2,724
Total expenses		55,021	53,771	55,985
Income (loss) before taxes on income		286,006	422,340	(238,159)
Taxes on income (tax benefit)	e	4,390	19,542	(6,375)
Net income (loss)		281,616	402,798	(231,784)

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
Net profit (loss) attributed to the Company	281,616	402,798	(231,784)
Other comprehensive income (loss) attributed to investees, net	19,109	269,577	(168,762)
Total comprehensive income (loss) attributed to the Company	300,725	672,375	(400,546)

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income (loss)	281,616	402,798	(231,784)
Adjustments required to present the cash flows from current activities:			
Adjustment to profit and loss items:			
Net finance expense (income)	(10,049)	(66,253)	57,324
Increase in the fair value of investment property	(14,167)	(16,224)	(4,248)
Losses (income) in respect of investees	(257,428)	(323,004)	221,516
Taxes on income (tax benefit)	4,390	19,542	(6,375)
	(277,254)	(385,939)	268,217
Changes in assets and liabilities items:			
Change in liabilities for employee benefits, net	134	664	-
Decrease (increase) in debtors and receivables	3,509	(3,857)	3,379
Increase (decrease) in creditors and payables	7,487	(7,205)	6,216
	11,130	(10,398)	9,595
Cash paid and received during the year for:			
Interest paid	(26,671)	(26,208)	(27,669)
Interest received	17,988	13,331	542
Taxes paid	(7,617)	(2,566)	(1,830)
Taxes received	1,830	2,139	-
Dividend received	376	636	1,446
	(14,094)	(12,668)	(27,511)
Net cash provided by (used in) current activities attributed to the Company as a parent company	1,398	(6,207)	18,517
Net cash used in current activities in respect of transactions with investees	(10,309)	(17,978)	(34,579)
Net cash used in current activities	(8,911)	(24,185)	(16,062)

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Acquisition of investment property	(270)	(3,845)	(497)
Proceeds from realization (acquisition) of securities measured at fair value through profit and loss, net	(18,097)	54,810	49,652
Grant (refund) of long term loans	(2,055)	520	(11,765)
Net cash provided by (used in) investment activities attributed to the Company as a parent company	(20,422)	51,485	37,390
Net cash provided by (used in) investment activities in respect of transactions with investees	(259,104)	(88,584)	51,473
Net cash provided by (used in) investment activities	(279,526)	(37,099)	88,863
CASH FLOWS FROM FINANCE ACTIVITIES			
Issue of bonds (net of issue expenses)	253,820	-	-
Settlement of long term loan from banking institution	(3,957)	(3,865)	(3,758)
Net cash provided by (used in) finance activities	249,863	(3,865)	(3,758)
Exchange rate differences in respect of balances of cash and cash equivalents	(18)	271	(81)
Increase (decrease) in cash and cash equivalents	(38,592)	(64,878)	68,962
Balance of cash and cash equivalents as at beginning of the year	47,143	112,021	43,059
Balance of cash and cash equivalents as at end of the year	8,551	47,143	112,021
SIGNIFICANT NON-CASH ACTIVITIES			
Increase in investment in investee against share issue	-	-	42,217
Settlement of loan granted to the investee by receipt of financial assets	-	-	214,057

A – MANNER OF PREPARATION OF THE FINANCIAL DATA FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR 2010

1. Definitions

The Company	-	Menorah Mivtachim Holdings Ltd.
Investee companies	-	subsidiaries, and companies in which the Company's investment is included, directly or indirectly, in the financial statements on an equity basis.
Israeli CPI	-	The Consumer Price Index published by the Central Bureau of Statistics in Israel.

2. Manner of preparation of the financial data

The separate financial information is prepared in accordance with Regulation 9C to the Securities Regulations (Periodic and Immediate Reports) – 1970 (hereunder – Regulation 9C) including the details provided in the tenth addendum to the said regulations (hereunder – the addendum), and subject to the clarifications provided in the “Clarification regarding the Separate Financial Report of a Corporation” that was published on the website of the Securities Authority on January 24, 2010 and relates to the manner of implementing the aforementioned regulation and addendum (hereunder – the clarification of the Securities Staff).

The separate financial information does not constitute financial statements, including separate financial statements, prepared and presented in accordance with International Financial Reporting Standards (hereunder – IFRS) in general, and in accordance with the provisions of IAS 27 – “Consolidated and Separate Financial Statements”, in particular. Nevertheless, the accounting policy detailed in Note 2 to the consolidated financial statements, were implemented for the purpose of presenting the separate financial information, with the required changes as stated below.

In the framework of the additional information below, disclosures are included in respect of additional material information, in accordance with the disclosure requirements provided in Regulation 9C and as specified in the addendum and subject to the clarification of the Securities Staff, insofar as the said information was not included in the consolidated financial statements in a manner relating explicitly to the Company itself.

a. Assets and liabilities included in the consolidated financial statements and attributed to the Company

Amounts of assets and liabilities included in the consolidated financial statements that are attributable to the Company itself and are specified according to types of assets and liabilities, are presented. This data was classified in accordance with Regulation 9C. In addition, information regarding the assets net of liabilities attributed to investee companies, including goodwill, is also presented. As a result of this manner of presentation, the equity attributable to the Company’s owners, in the consolidated financial statements, is the same as the equity of the Company according to the separate financial information.

A – MANNER OF PREPARATION OF THE FINANCIAL DATA FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR 2010

2. Manner of preparation of the financial data (Cont.)

b. Income and expenses included in the consolidated financial statements that are attributable to the Company itself

The amounts of income and expenses included in the consolidated financial statements that are attributable to the Company itself are presented. This data was classified in accordance with Regulation 9C. In addition, information regarding the Company's share in the profits (losses) of the investees is presented. As a result of this presentation the total profit for the year that is attributable to the Company's owners and the total comprehensive income for the year that is attributable to the Company's owners based on the consolidated financial statements, is the same as the total profit for the year that is attributable to the Company's owners and the total comprehensive income for the year that is attributable to the Company's owners, according to the separate financial information.

c. Cash flows included in the consolidated financial statements attributable to the Company

The cash flow amounts included in the consolidated financial statements and attributed to the Company, are reported based on the consolidated financial statements of the cash flows, classified according to the cash flows from current activities, investment activities and cash flows from financing activities while specifying their composition. This data was classified in accordance with Regulation 9C.

B – CASH AND CASH EQUIVALENTS

As at December 31, 2010

	In foreign currency or linked thereto			
	USD	Euro	Unlinked	Total
	NIS in thousands			
Cash	4	2	8,543	8,549
Cash equivalents	-	-	2	2
	4	2	8,545	8,551

As at December 31, 2009

	In foreign currency or linked thereto			
	USD	Euro	Unlinked	Total
	NIS in thousands			
Cash	4	2	8,543	8,549
Cash equivalents	-	-	2	2
	4	2	8,545	8,551

C – DISCLOSURE REGARDING THE FINANICAL ASSETS

1. Details of the significant investments in the financial assets groups in accordance with Standard IAS 39:

	December 31	
	2010	2009
	NIS in thousands	
Financial assets measured at fair value through profit and loss:		
Shares	15,198	9,924
Bonds	252,433	211,717
Derivatives and structured products	12,010	2,984
	279,641	224,625
Loans and debtors – measured at amortized cost	9,581	7,119
	289,222	231,744

C – DISCLOSURE REGARDING THE FINANICAL ASSETS (Cont.)

2. The forecasted realization dates of the significant investments according to the financial assets groups in accordance with Standard IAS 39:

As at December 31, 2010

	Up to 1 year	From 1 year up to 2 years	From 2 years up to 3 years	From 3 years up to 4 years	From 4 years up to 5 years	Over 5 years	Total
	NIS in thousands						
Financial assets measured at fair value through profit and loss:							
Shares	-	-	15,198	-	-	-	15,198
Bonds	13,709	45,643	109,606	29,657	15,555	38,263	252,433
Derivates and structured products	12,010	-	-	-	-	-	12,010
Loans and debtors – measured at amortized cost	2,311	1,680	2,390	1,053	883	1,264	9,581
	28,030	47,323	127,194	30,710	16,438	39,527	289,222

C – DISCLOSURE REGARDING THE FINANICAL ASSETS (Cont.)

2. The forecasted realization dates of the significant investments according to the financial assets groups in accordance with Standard IAS 39: (Cont.)

As at December 31, 2009

	Up to 1 year	From 1 year up to 2 years	From 2 years up to 3 years	From 3 years up to 4 years	From 4 years up to 5 years	Over 5 years	Total
	NIS in thousands						
Financial assets measured at fair value through profit and loss:							
Shares	-	-	9,924	-	-	-	9,924
Bonds	15,966	36,604	57,197	78,791	12,172	10,987	211,717
Derivates	2,984	-	-	-	-	-	2,984
Loans and debtors – measured at amortized cost	2,053	2,251	1,075	668	137	935	7,119
	21,003	38,855	68,196	79,459	12,309	11,922	231,744

C – DISCLOSURE REGARDING THE FINANICAL ASSETS (Cont.)

3. Linkage conditions for the financial assets according to the financial instruments groups in accordance with Standard IAS 39:

As at December 31, 2010

	In foreign currency or linked thereto		Linked to		
	USD	Euro	CPI	Unlinked	Total
	NIS in thousands				
Financial assets measured at fair value through profit and loss	6,973	340	166,834	105,494	279,641
Loans and debtors – measured at amortized cost	-	-	9,581	-	9,581
	6,973	340	176,415	105,494	289,222

As at December 31, 2009

	In foreign currency or linked thereto		Linked to		
	USD	Euro	CPI	Unlinked	Total
	NIS in thousands				
Financial assets measured at fair value through profit and loss	6,295	1,979	174,111	42,240	224,625
Loans and debtors – measured at amortized cost	-	-	7,119	-	7,119
	6,295	1,979	181,230	42,240	231,744

D – DISCLOSURE REGARDING THE FINANICAL LIABILITIES

1. Creditors and payables

	December 31	
	2010	2009
	NIS in thousands	
Investees	1,466	-
Expenses payable (including interest payable in respect of bonds)	18,662	12,641
Liabilities to employees and other liabilities in respect of salary and wages	42	35
Institutions	88	95
Others	8	8
	20,266	12,779

D – DISCLOSURE REGARDING THE FINANICAL LIABILITIES (Cont.)

2. Liquidity risk

The table below presents the repayment dates of the Company's financial liabilities according to the contractual conditions in undiscounted amounts (including payments in respect of interest):

As at December 31, 2010

	Up to 1 year	From 1 year up to 2 years	From 2 years up to 3 years	From 3 years up to 4 years	From 4 years up to 5 years	Over 5 years	Total
	NIS in thousands						
Loan from banking institution	4,167	-	-	-	-	-	4,167
Creditors and payables	2,027	-	-	-	-	-	2,027
Bonds	107,771	104,860	101,819	98,843	95,868	619,946	1,129,107
	113,965	104,860	101,819	98,843	95,868	619,946	1,135,301

As at December 31, 2009

	Up to 1 year	From 1 year up to 2 years	From 2 years up to 3 years	From 3 years up to 4 years	From 4 years up to 5 years	Over 5 years	Total
	NIS in thousands						
Loan from banking institution	4,264	4,073	-	-	-	-	8,337
Creditors and payables	516	-	-	-	-	-	516
Bonds	26,184	94,159	91,314	88,340	85,430	383,551	768,978
	30,964	98,232	91,314	88,340	85,430	383,551	777,831

D – DISCLOSURE REGARDING THE FINANICAL LIABILITIES

3. Linkage conditions of the financial liabilities according to the financial instruments groups in accordance with Standard IAS 39

As at December 31, 2010

	Linked to the CPI	Unlinked	Total
	NIS in thousands		
Financial liabilities measured at amortized cost	906,534	561	907,095

As at December 31, 2009

	Linked to the CPI	Unlinked	Total
	NIS in thousands		
Financial liabilities measured at amortized cost	630,289	516	630,805

4. Issue of bonds during the reporting year

In July 2010 the Company completed a private collection of a debt from institutional investors in the amount of NIS 170 million. In this private collection the Company allotted NIS 170 million nominal value bonds (Series B) to the institutional investors, which bear interest at the rate of 4.5% per annum, paid once a year on June 30 beginning from the year 2011 up to the year 2022. The bonds' principal will be settled in five equal annual payments beginning from June 2018 up to June 2022. The principal and the interest are linked to the index. The Company undertook not to pledge its assets without prior written consent from the trustee, except for a pledge on an asset which will be acquired by the Company in favor of an entity who will finance its acquisition. It was determined that in certain cases the bonds can be settled immediately, such as an appointment of a Receiver, stay of proceedings order, etc. In addition, a right was determined for immediate settlement in the event that the Company sells most of its assets or most of its activities.

In September 2010 the Company issued to an institutional investor additional bonds in the amount of NIS 80 million nominal value (Series B). The proceeds from the issue amounted to about NIS 84.6 million, which includes a premium of about 3.98% above par. This issue completes the collection of Series B bonds in the overall amount of NIS 250 million nominal value bonds, whose terms were described above.

The bonds were rated Aa3 by Midroog Ltd. The rating was given to the series and/or to the loans from banking institutions in the total amount of NIS 250 million. The Company invested all of the issue monies in Menorah Insurance by way of issuance of deferred capital notes.

E – DISCLOSURE REGARDING DEFERRED TAX ASSETS AND DEFERRED TAX LIAIBILITIES BALANCES AND DISCLOSURE REGARDING TAX INCOME OR TAX EXPENSES

Taxes on income

1. Tax laws applicable to the Company

   Income Tax Law (Inflationary Adjustments), 1985 (hereunder – the Law)

   According to the law, up to the end of the year 2007 the results for tax purposes in Israel were measured after adjustment to the changes in the CPI.

   In February 2008, the Knesset (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Beginning from 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the CPI in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until realization. The amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation in respect of acquisitions from the year 2008.

2. The tax rates applicable to the Company

   The rate of the Israeli corporate tax is as follows: 2008 - 27%, 2009 - 26%, 2010 - 25%. Tax at a reduced rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the Knesset (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting from 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

   The effect of the abovementioned change on the deferred taxes has been an increase in net income for the year ended as at December 31, 2009 in the amount of about NIS 4,593 thousand, which was allocated to the item taxes on income.

3. Tax assessments

   The Company received final tax assessments up to and including the tax year 2005.

E – DISCLOSURE REGARDING DEFERRED TAX ASSETS AND DEFERRED TAX LIAIBILITIES BALANCES AND DISCLOSURE REGARDING TAX INCOME OR TAX EXPENSES (Cont.)

4. Deferred taxes

The composition

	Statements of financial position		Statement of profit and loss		
	December 31		Year ended as at December 31		
	2010	2009	2010	2009	2008
	NIS in thousands				
Deferred tax liabilities					
Investment property measured at fair value	12,864	10,333	(2,531)	(388)	(1,120)
Securities measured at fair value through profit and loss	10,865	19,507	8,642	(19,507)	-
Loans to investees	-	-	-	-	4,759
	23,729	29,840			
Deferred tax assets					
Losses transferred for tax purposes	-	2,289	(2,289)	901	1,388
Provision for doubtful debts	1,208	1,150	58	121	1,029
Securities measured at fair value through profit and loss	-	-	-	(796)	796
Benefits to employees	152	126	26	126	(2)
	1,360	3,565			
Deferred taxes income (expenses)			3,906	(19,543)	6,850
Deferred tax liabilities, net	(22,369)	(26,275)			

The deferred taxes are reported in the statement of the financial position as follows:

	December 31	
	2010	2009
	NIS in thousands	
Non-current liabilities	22,369	26,275

The deferred taxes are calculated according to the average tax rate of 19.3% (2009 – 21.1%) based on the anticipated tax rates applicable at the time of realization.

5. Taxes on income (tax benefit) included in the statements of profit and loss

	Year ended as at December 31		
	2010	2009	2008
	NIS in thousands		
Current taxes	8,296	-	-
Deferred taxes	(3,906)	24,159	(6,850)
Taxes in respect of previous years (current and deferred)	-	(24)	475
Adjustment of the deferred tax balances following change in the tax rates	-	(4,593)	-
	4,390	19,542	(6,375)

E – DISCLOSURE REGARDING DEFERRED TAX ASSETS AND DEFERRED TAX LIAIBILITIES BALANCES AND DISCLOSURE REGARDING TAX INCOME OR TAX EXPENSES (Cont.)

6. Theoretical tax

Hereunder is the reconciliation between the theoretical tax amount applicable, had all the income and expenses, profits and losses in the statement of profit and loss been liable to tax at the statutory tax rate, and that of the income tax amount (tax benefit) allocated in the statement of profit and loss:

	Year ended December 31		
	2010	**2009**	**2008**
	NIS in thousands		
Profit (loss) before taxes on income	286,006	422,340	(238,159)
Profit (loss) from investees	257,428	323,004	(221,516)
Profit (loss) before taxes on income (tax benefit) without results of investees	28,578	99,336	(16,643)
Statutory tax rate	25%	26%	27%
Tax (tax saving) computed at the statutory tax rate	7,145	25,827	(4,494)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses	-	1	-
Exempt income	(82)	(61)	(213)
Differences in measurement basis	(2,158)	(1,433)	-
Temporary differences for which no deferred taxes were allocated	86	(97)	-
Utilization of losses for tax purposes from previous years, for which no deferred taxes were recognized in the past	-	(78)	(870)
Update of deferred taxes in respect of changes in the tax rates	(601)	(4,593)	(1,273)
Taxes in respect of previous years	-	(24)	475
Taxes on income (tax benefit)	4,390	19,542	(6,375)
Average effective tax rate	15.36%	19.67%	38.30%

F – LOANS, BALANCES AND MATERIAL AGREEMENTS WITH INVESTEES

1. Balances with investees

	December 31	
	2010	2009
	NIS in thousands	
Current assets		
Current balance with investee	11,942	5,681
Non-current assets		
Loans and capital notes to investees - see paragraph 5 below	664,504	401,116

2. Transactions with investees

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Income from management fees from investee (see paragraph 4 below)	2,083	2,655	3,259

3. Finance income from investees

	Year ended December 31		
	2010	2009	2008
	NIS in thousands		
Finance income	10,896	15,894	34,128

4. Agreements

The Company entered into an agreement with a subsidiary – Menorah Mivtachim Insurance Ltd. (hereunder – Menorah Insurance), according to which the Company will provide Menorah Insurance with management and IT services for granting loans and mortgages by Menorah Insurance to its customers.

In consideration for the abovementioned services the Company provides, Menorah Insurance pays the Company quarterly management fees at the rate of 0.175% of the loan portfolio balance based on the balance at the end of the month prior to the payment date.

F – LOANS, BALANCES AND MATERIAL COMMITMENTS WITH INVESTEES (Cont.)

5. Loans and capital notes

a. Loan to a subsidiary - Menorah Insurance

In July 2007 the Company granted Menorah Insurance a loan in the amount of NIS 400 million. The loan was linked to the CPI and bore interest at the rate of 4.78% per annum up to March 6, 2008. Beginning from this date the loan bore the interest rate of 4.28% per annum. During the year 2008 Menorah Insurance settled the loan in full.

b. Deferred capital notes - Menorah Insurance

In July 2010 Menorah Insurance issued to the Company a deferred capital note in the amount of NIS 170 million nominal value in consideration for its nominal value. The capital note was issued for the period of forty nine years, and Menorah Insurance has the option of early settlement after ten years and then every five years. The interest paid on the note is at the rate of 5.3% linked to the CPI. As part of the conditions of the note, there are mechanisms to cancel interest, and under certain conditions, to convert the principal into share capital. In September 2010, Menorah Insurance issued the Company an additional deferred capital note in the amount of NIS 80 million nominal value. The capital note was issued at a premium of about NIS 3 million, under identical conditions to the capital note issued in July 2010. The deferred capital notes were approved by the Regulator of Insurance as hybrid first tier capital in Menorah Insurance.

c. Loans to a subsidiary – Menorah Mivtachim Real Estate Ltd.

	Interest rate	December 31 2010	December 31 2009
		NIS in thousands	
Dollar	Libor for 3 months + 2%	76,032	78,097
Euro	Euribor for 3 months + 2%	119,182	67,145
Shekel Linked to the CPI	-	5,337	5,200
Shekel unlinked	3%	6,878	314
		207,429	150,756

The above loans are expected to be settled between 3 – 8 years from the financial statements date.

F – LOANS, BALANCES AND MATERIAL COMMITMENTS WITH INVESTEES (Cont.)

1. Commitments (Cont.)

d. Loans and capital notes to a subsidiary – Menorah Mivtachim Finance Ltd.

	Interest rate	December 31	
		2010	2009
	%	NIS in thousands	
Loans:			
Linked to the CPI	5	52,843	76,694
Linked to the CPI	-	-	1,910
Unlinked	Prime – 0.75%	19,970	30,464
Unlinked	Prime – 0.25%	115,253	129,465
		188,066	238,533
Capital notes:			
Unlinked	-	10,613	10,609
		198,679	249,142

No settlement date was determined for the loans.

The settlement dates for the capital notes will be not before December 31, 2011. After the said date, the capital notes will automatically renewed for the period of one year each time.

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Menora Mivtachim Holdings Ltd.

Chapter F:

Additional information about the corporation

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1. Summary of statements of total profit of the corporation for each quarter in 2010 (regulation 10(A))

Summary of reports of the total profit of the corporation for each of the quarters (in thousands of NIS)

	January-September	April-June	July-September	October-December	Year 2010
Gross earned premiums	1,028,318	1,062,797	1,046,212	1,132,935	4,270,262
Premiums earned by reinsurers	214,550	222,682	225,576	242,010	904,818
Premiums earned in retention	813,768	840,115	820,636	890,925	3,365,444
Earnings (losses) from investments, net and financing income	628,110	14,295	930,613	736,794	2,309,812
Revenues from management fees	196,197	67,067	190,674	189,855	643,793
Revenues from fees					
Other revenues	61,672	55,688	53,961	58,810	230,131
Total revenues	**1,699,747**	**977,165**	**1,995,884**	**1,876,384**	**6,549,180**
Payments and change of liabilities for insurance contracts and gross investment contracts	1,353,892	745,514	1,560,549	1,505,335	5,165,290
The share of reinsurers in payments and change of liabilities for insurance contracts and investment contracts in retention	(227,448)	(148,891)	(119,254)	(184,156)	(679,749)
Payments and change of liabilities for insurance contracts and investment contract in retention	**1,126,444**	**596,623**	**1,441,295**	**1,321,179**	**4,485,541**
Fees, marketing expenses and other acquisition expenses	226,807	222,831	228,608	236,591	914,837
Administration and general expenses	121,668	138,599	138,188	163,044	561,499
Amortization of intangible assets	7,672	7,695	7,708	7,760	30,835
Financing expenses	3,423	36,875	46,677	34,899	121,874
Total expenses	**1,486,014**	**1,002,623**	**1,862,476**	**1,763,473**	**6,114,586**

Share in earnings (losses) of held companies handled according to book value method	(987)	(40)	289	859	121
Earnings (loss) before taxes on income	212,746	(25,498)	133,697	113,770	434,715
Taxes on income	72,250	(2,382)	47,872	35,028	152,768
Earnings (loss)	**140,496**	**(23,116)**	**85,825**	**78,742**	**281,947**
Attributed to:					
Company shareholders	140,459	(23,225)	85,741	78,642	281,616
Minority rights	37	109	84	101	331
Earnings (loss) per period	**140,496**	**(23,116)**	**85,825**	**78,742**	**281,947**

	January-March	April-June	July-September	October-December	Year 2010
Earnings (loss) per period	140,496	(23,116)	85,825	78,742	281,947
Other earnings (loss):					
Adjustments from translation of financial statements of overseas activities	610	(447)	(1,424)	(771)	(2,032)
Net change in the fair value of financial assets classified as available for sale attributed to capital reserve	118,173	(38,814)	65,841	2,205	147,405
Net earnings (loss) from realization of financial assets classified as available for sale transferred to profit and loss statement	(61,827)	(1,099)	(30,324)	(37,499)	(130,749)
Loss from depreciation of financial assets classified as available for sale transferred to profit and loss statement	730	4,238	(3,173)	10,127	11,922
Tax benefit (taxes on income) relating to other earnings (loss) components	(19,755)	12,352	(9,768)	9,733	(7,437)
Other total earnings for the period, net	37,931	(23,770)	21,152	(16,205)	19,109
Total earnings per period	178,427	(46,885)	106,977	62,537	301,056

Total earnings attributed to:

Company shareholders	178,390	(46,995)	106,893	62,437	300,725
Minority interest	37	109	84	101	331
Total earnings for period	178,427	(46,885)	106,977	62,537	301,056

2. Using securities proceeds while including proceeds' objectives according to prospectus (Regulation 10(C))

The net proceeds the company received for appropriation of bonds (class A) registered for trade according to the prospectus dated 27 February 2008, served and serves the company according to its needs from time to time, including financing the current operations of the Company and according to the resolutions made by the Company board of directors from time to time.

3. Investment in subsidiary companies and related companies on the date of the balance (Regulation 11)

3.1 Subsidiary companies and related companies of the Company (data in table is correct as of the date of balance sheet):

The company	Class of share	No. of shares	Total nominal value (NIS)	Value in separate financial statement of the corporation (thousand NIS)	Rate of holding (%)	Loans and bonds				
						Balance on the date of balance sheet(NIS)	Maturity date	Rate of interest	Basis of linkage	Notes
Menora Mivtachim Insurance Ltd.	Ordinary	230,868,288	230,868,288	2,048,845	100	257,146	2059	5.3%	Consumer price index	Capital note renewable once a year with the parties' consent
Menora Mivtachim Finance Ltd.	Ordinary	1,000	1,000	33,657	100	63,096	No maturity date	Prime + 0.25%	No linkage	shareholders' loan payable at all times with the parties' consent
						28,284	No maturity date	Prime + 0.25%	No linkage	shareholders' loan payable at all times with the parties' consent
						23,873	No maturity date	Prime + 0.25%	No linkage	shareholders' loan payable at all times with the parties' consent

						19,970	No maturity date	Prime + 0.75%	No linkage	shareholders' loan payable at all times with the parties' consent
						14,673	No maturity date	5%	Consumer price index	shareholders' loan payable at all times with the parties' consent
						23,150	No maturity date	5%	Consumer price index	shareholders' loan payable at all times with the parties' consent
						15,020	No maturity date	5%	Consumer price index	shareholders' loan payable at all times with the parties' consent
						10,613	No maturity date	No interest	No linkage	Capital note renewable once a year with the parties' consent
Menora Mivtachim Real Estate Ltd.	Ordinary	1,000	1,000	12,007	100	119,182	No maturity date	LIBOR + 2.00%	Euro	----
						76,032	No maturity date	LIBOR + 2.00%	Dollar	---
						5,337	No maturity date	---	Index	---
						6,878	No maturity date	3%	No linkage	---
Menora Agents Services (1994) Ltd.**	Ordinary	100	100	282	100	---	---	---	---	---
Menora Provident Fund Management Ltd.**	Ordinary	2,000,000	2,000,000	1,169	100	---	---	---	---	---

Dorot Customer Relations Management Company Ltd.**	Ordinary	180,001	180,001	1,205	100	---	---	---	---	---
Menora Capital Markets Ltd.**	Ordinary	1,000	1,000	0	100					
Nachlat Menora Housing and Development Company (1950) Ltd.	Ordinary	1,700	[1]0.17	0	100	---	---	---	---	---
Menora Mivtachim Meshalemet Ltd.	Ordinary	1,000	1,000	(1,205)	100	1,251	No maturity date	Prime - 0.5%	No linkage	The higher of the aforesaid interest to the linkage to the consumer price index

[1] The nominal value of the Company's shares is 0.0001 NIS (old).

3.2 Subsidiary companies and related companies of Menora Mivtachim Insurance Ltd.

Data in the table is correct as of the date of balance sheet:

Company	Class of share	No. of shares	Total nominal value (NIS)	Value in separate financial statement of the corporation (thousand NIS)	Rate of holding (%)	Loans and bonds				
						Balance on the date of balance sheet (NIS)	Maturity date	Rate of interest	Basis of linkage	Notes
Menora Mivtachim Pensions Ltd.	Ordinary	328,000	328,000	389,151	100	---	---	---	---	---
Menora Mivtachim Capital Raising Ltd.	Ordinary	1,000	1,000	1	100	---	---	---	---	---
Orot Life Insurance Agency (2005) Ltd.	Ordinary	1,000	1,000	2,170	80	---	---	---	---	---
Shomera Insurance Company LTD.	Ordinary	64,941,016	64,941,016	179,005	100	5,328	31.2012	---	Consumer price index	Capital note
						10,263	9.2013	---	Consumer price index	Capital note
						5,013	10.2013	---	Consumer price index	Capital note
						4,762	1.2013	---	Consumer price index	Capital note
						9,541	4.2013	---	Consumer price index	Capital note
Menora Assets and Investments Ltd.	Ordinary	14,001	14,001	20,269	100	122,402	No maturity date	4.00%	Consumer price index	---

Menorah surrey street company 1 ltd.	Ordinary	50	276	13,178	50.31	---	---	---	---	---
Menorah surrey street company (nostro) ltd.	Ordinary	100	549	2,994	100	---	---	---	---	---
Menorah surrey street company 2 ltd.	Ordinary	100	549	2,227	100	---	---	---	---	---

3.3 Subsidiary companies and related companies of Menora Mivtachim Pensions Ltd.

Data in the table is correct as of the date of balance sheet:

Company	**Class of share**	**No. of shares**	**Total nominal value (NIS)**	**Value in separate financial statement of the corporation (thousand NIS)**	**Rate of holding (%)**	**Loans and bonds**				
						Balance on the date of balance sheet (NIS)	**Maturity date**	**Rate of interest**	**Basis of linkage**	**Notes**
Menora Mivtachim Pensions Ltd.**	Ordinary	1,000	1,000	1	100	---	---	---	---	---

3.4 Subsidiary companies and related companies of Shomera Insurance Co. Ltd.

Data in the table is correct as of the date of the report of balance sheet

Company	Class of share	No. of shares	Total nominal value (NIS)	Value in separate financial statement of the corporation (thousand NIS)	Rate of holding (%)	Loans and bonds				
						Balance on the date of balance sheet (NIS)	Maturity date	Rate of interest	Basis of linkage	Notes
Shomera Real Estate LTD.	Ordinary	204	204	6,656	100	21,433	-	-	-	-
Sinai Insurance Agency Ltd.	Ordinary A	4,000	4[2]	8,697	100	-	-	-	-	-
	Ordinary	990	0.99		100					
	Management	10	0.01		100					
Arnon & Weinstock Insurance Agency (1989) Ltd[3]	Ordinary	11,600	11,600	(6,708)	100	9,366	No maturity date	Prime + 0.25%	Not linked	

[2] The nominal value of the Company's shares is 0.0001 NIS (old).

[3] Previously "Sinai Underwriting Insurance Company (1989) Ltd.

3.5 Subsidiary companies and related companies of Menorah Assets and Investments Ltd.

Data in the table is true as of the date of the report of balance sheet

Company	Class of share	No. of shares	Total nominal value (NIS)	Value in separate financial statement of the corporation (thousand NIS)	Rate of holding (%)	Loans and bonds				Notes
						Balance on the date of balance sheet (NIS)	Maturity date	Rate of interest	Basis of linkage	
Chetzron Investment Company Ltd.	Ordinary	1,005,000	100,500[4]	0	66.6	-	-	-	-	-
Allenby 115 Parking Lot Ltd.	Ordinary	100	0.1[5]	-	58	-	-	-	-	-
Buildings for Lease Ltd.	Ordinary A	2,502	0.2502[6]	0	0	-	-	-	-	-
	Ordinary	8	0.0008		100					

[4] The nominal value of the share is 0.1 NIS.

[5] The nominal value of the Company's shares is 0.001 NIS (old).

[6] The nominal value of the Company's shares is 0.0001 NIS (old).

3.6 Subsidiary companies and related companies of Menora Mivtachim Finance Ltd.

Data in the table is true as of the date of the report of balance sheet

Company	Class of share	No. of shares	Total nominal value (NIS)	Value in separate financial statement of the corporation (thousand NIS)	Rate of holding* (%)	Loans and bonds				
						Balance on the date of balance sheet (NIS)	Maturity date	Rate of interest	Basis of linkage	Notes
Menora Mivtachim Gemel Ltd.	Ordinary	26,550,001	26,550,001	64,674	100	5,155	No maturity date	Prime + 0.75%	No linkage	Shareholders' loan payable at all times with the parties' consent
Menora Mivtachim Mutual Funds Ltd.	Ordinary	30,400,000	30,400,000	11,303	100	79,094	No maturity date	5%	Consumer price index	Shareholders' loan payable at all times with the parties' consent
						6,155	No maturity date	Prime - 0.4%	No linkage	Shareholders' loan payable at all times with the parties' consent
						23,633	No maturity date	Prime + 0.5%	No linkage	Shareholders' loan payable at all times with the parties' consent
Menora Mivtachim Investment Portfolio Management Ltd.	Ordinary	2,250,000	2,250,000	719	100	-	-	-	-	-

Menora Mivtachim Underwriting and Management Ltd.	Ordinary	1,000	1,000	12,784	100	2,300	No maturity date	No interest	No linkage	Perpetual capital note no maturity date
Menora Mivtachim Financial Products (2006) Ltd.	Ordinary	10,000	10,000		100	-	-	-	-	-
Engineers Study Fund Ltd.	Management Ordinary Deferred	120 5 1	0.011[7] 0.0005 0.0001	827	60 0 0	-	-	-	-	-

* Rate of holding in securities, capital, voting rights and authority to appoint directors.

** Inactive company

[7] The nominal value of the Company's shares is 0.0001 NIS (old).

4. Changes in investments in subsidiary companies and related companies in the period of the report (Regulation 12)

4.1. Menora Mivtachim Insurance Ltd.

(hereinafter: Menorah Insurance)

Nature of change: granting shareholders' loan (capital note) in a total amount of 250 million NIS nominal value.

Date of change: July and September 2010.

4.2. Menora Mivtachim Finance Ltd.

(hereinafter: Menorah Finance)

Nature of change: paying shareholders' loan in a total amount of 56 million NIS.

Date of change: different dates in 2010.

4.3. Menora Mivtachim Real Estate Ltd.

(hereinafter: Menorah Real Estate)

Nature of change: granting shareholders' loan to Menorah Real Estate in a total amount of 67 million NIS.

Date of change: different dates during 2010.

4.4. Menorah Assets and Investments Ltd.

(hereinafter: Menorah Assets and Investments)

Nature of change: granting shareholders' loan in the amount of 25 million NIS and redeeming shareholders' loan in the total amount of 7 million NIS.

Date of change: May 2010 (payments - during 2010).

4.5. Buildings for Lease Ltd.

(hereinafter: Buildings for Lease)

Nature of change: purchasing 50% of the Company's shares.

Date of change: May 2010

5. Revenues of subsidiary companies and related companies and revenues therefrom (Regulation 13)

In thousand NIS reported

Subsidiaries	**Earnings (net) per period**	**Other total earnings (loss) per period**	**Total earnings (loss) per period**	**Dividend until date of statement**	**Dividend after date of statement**	**Interest received for year of statement**	**Interest received for the period following the year of statement and time of payment**	**Management fees received until the date of balance sheet**	**Management fees received after the date of balance sheet and time of payment**
Menora Mivtachim Insurance Ltd.	225,402	17,170	242,572	-	-	10,496	-	2,083	-
Menora Mivtachim Finance Ltd.	40,869	40,869	-	-	-	10,931	-	-	-
Menora Mivtachim Real Estate Ltd. (*)	(5,137)	51	(5,086)	-	-	(10,561)	-	-	-
Dorot Customer Relations Management Company Ltd. (**)	21	-	21	-	-	-	-	-	-
Menora Agents Services (1994) Ltd.(**) In liquidation.	4	-	4	-	-	-	-	-	-
Menora Mivtachim Meshalemet Ltd.	(33)	-	33	-	-	(32)	-	-	-
Menora Provident Funds Management Ltd. (**) - in liquidation	21	-	21	-	-	-	-	-	-
Menora Capital Markets Ltd.(**)	-	-	-	-	-		-	-	-
Nachlat Menora Housing and Development Company (1950) Ltd. (**)	-	-	-	-	-	-	-	-	-

(*) Including the Company's share in the net performance of held companies.

(**) Inactive companies.

6. Loan balances granted on the date of balance sheet, if granting loans was one of the main lines of business of the corporation (Regulation 14)

	Amount in NIS			No. of Borrowers
From	0	to	50,000	0
From	50,001	to	100,000	0
From	100,001	to	250,000	1
From	250,001	to	500,000	2
From	500,001	to	1,000,000	1
From	1,000,001	to	2,000,000	0
From	2,000,001	to	10,000,000	4
From	10,000,001	to	15,000,000	0
From	15,000,001	to	40,000,000	0
From	40,000,001	to	70,000,000	0
From	70,000,001	to	150,000,000	0
From	150,000,001	to	300,000,000	3

7. Trade in stock exchange - securities registered for trade - dates and reasons of termination of trade (Regulation 20)

During the period of the report corporate securities were not registered and no termination of trade occurred.

8. Benefits to stakeholders and senior office holders (Regulation 21(a))

The following table specifies benefits paid to senior office holders in the Company and corporations under its control in the year 2010 as specified in the financial statements in 2010 (in thousand NIS)

Details of person receiving benefits				Benefits for services							Other Benefits			
Name	**Position**	**Type of position**	**Rate of holding corporate capital**	**Salary ****	**Bonus**	**Payment based on shares*****	**Management fees**	**Consultation fees**	**Fee**	**Other**	**Interest**	**Rent**	**Other**	**Total**
Ari Kalman (1)	CEO	Full	2.72%	2, 238	1,654	1,921	-	-	-	-	-	-	-	5,813
Gil Kalderon (2)	CEO Sub-subsidiary company	Full	None	695	1,690	-	-	-	-	-	-	-	-	2,385
Menahem Harpaz (3)	Deputy CEO of subsidiary	Full	None	1,600	2,000	-	-	-	-	-	-	-	-	3,600
Yacov Rozen (4)	CEO of Sub-subsidiary company	Full	None	-		-	3,769	-	-	-	-	-	-	3,769
Yoni Tal (5)	Chief Investments Manager	Full	None	1,309	1,700	-	-	-	-	-	-	-	-	3,009
Shai Kompel	CFO	Full	None	1,108	750	-	-	-	-	-	-	-	-	1,858
Menahem Gurevitch (7)	Chairman of board of directors	Full	61.86%	1,689	-	-	-	-	-	-	-	-	-	1,689

* Amounts of benefits in terms of corporate cost.

** Salary component specified hereinabove includes the following components (as the case may be): gross monthly salary linked to the consumer price index (including salary 13), social benefits (including contribution for termination of employer-employee relationship), study fund and incapacity to work as customary, vehicle, reimbursement for different expenses including living expenses, stationary and mobile phone, leave, sickness and convalescence days, exclusive of payroll tax.

*** It should be noted that in light of the new benefits policy approved by the group as of 2011, and that includes, among other things, appropriation of phantom units appropriated in actuality during December 2010, there is marginal cost in the appropriation to the entire office holders in the group in the amount of NIS 5,000. In light of the foregoing, this cost was not attributed to executives in 2010.

(1) Mr. Kalman serves as the Company's CEO as of 19.9.10 and as chairman of the board of directors of Menora Mivtachim Insurance as of 17.10.10. Previously he served as deputy CEO and CEO of Menora Mivtachim Insurance. His current employment contract is for a period of 15 years as of August 2003 with 12 months advance notice. Following the aforesaid date, the contract shall be renewed for one year unless either party notified the other as to non-renewal. Mr. Kalman's salary was paid by Menora Mivtachim Insurance. Concurrently, and in addition to employment contract, a stock plan was approved for Mr. Kalman, appropriating 4% of the shares of Menora Mivtachim Insurance that can be converted to company's shares in a period of 10 years in equal installments. For additional information concerning the employment contract and the stock plan including the amendment to the stock plan approved on August 2008 and focusing mainly on a change in the tax liability due to transition from revenue expenditure to capital expenditure plan and converting all the stock of Menorah Insurance to the Company's stock, see note 32 to the financial statements and immediate report published by the Company on 31.07.08. Bonus for stock recorded in the table presented hereinabove as an expense in the year of report reflects the relative share of the stock that matured in this year. According to the employment contract Mr. Kalman is entitled to receive, beyond salary as specified in the table hereinabove, a fixed annual bonus of 561 thousand NIS (linked to consumer price index), reimbursement of expenditures while staying overseas and $6,000 per year (grossed up) for private travels, and, concerning leave days, using leave days accrued to his benefit at the end of his employment. In addition, in the event of termination of employer-employee relationship (not under exempting circumstances), Mr. Kalman shall be entitled to receive an addition of 50% to the severance pay component accrued to his benefit in his senior employees insurance and a bonus in an amount equal to the amount of the dividend that was accrued for shares in respect of which his entitlement has not matured, yet in accordance with the provisions set forth in the plan, and with the deduction of any applicable tax.

(2) As of November 2005 Mr. Kalderon has served as CEO of Menora Mivtachim Underwriters & Management Ltd. (a sub-subsidiary company of the company). According to the his employment contract, Mr. Kalderon is entitled to receive an annual bonus in the amount that equals 21% of the company's earnings in a certain calendric year, in addition to the salary specified in the table hereinabove. For the purpose of this matter, "the company's

earnings" - the company's profit before tax, and before profit drawing and/or management fees in accordance with audited financial statements with a deduction of financing expenses for providing the equity of the company while making a distinction between minimal equity required from an underwriter pursuant to the provisions set forth by law and the equity provided to the company by its shareholders (as specified in the agreement) and as to equity that was provided by the shareholders with a deduction of a dividend that was distributed, if distributed. Mr. Kalderon is entitled to receive an advance on account of the bonus in an amount equal to 7% of the company's earnings according to reviewed financial statements in the end of the second quarter of each year. In the event of termination of the agreement during the year, he shall be entitled to receive a relative share of the bonus, while distinguishing between circumstances in which termination of the agreement occurred before a half of a quarter ,in which he shall not be entitled to receive a relative share from the quarter's earnings, and termination that occurred after the half of the quarter in which he shall be entitled to a relative share as said. In the event of dismissal (not under exempting circumstances) Mr. Kalderon is entitled to receive 3 months advance notice and/or 2 months in the event of resignation.

(3) Mr. Harpaz serves as deputy CEO and Director of General Insurance Division in Menora Insurance as well as chairman of the board of directors of Shomera Insurance Co. Ltd. (subsidiaries of the company). His employment contract is in force as of February 2002. The salary of Mr. Harpaz is paid by Menora Mivtachim Insurance. According to the employment contract Mr. Harpaz is entitled to receive a minimal annual bonus in the amount of 3 salaries, beyond the salary specified in the table hereinabove, following the recommendation of the CEO and with the approval of the board of directors. Mr. Harpaz is entitled to receive an adaptation grant of 3 months in the event of dismissal.

(4) Mr. Rozen served as CEO of Mivtachim Menorah Pension Funds Ltd. (a sub-subsidiary of the company) as of July 2008 and until his retirement on 31.12.10 and was employed through a company under his control. In consideration for his services Mivtachim Menorah Pension Funds Ltd. contributed pension as management fees to the aforesaid company and also included the social benefits component. In addition, Mr. Rozen was entitled to receive a one-time signing bonus in the amount of 2 million NIS provided that he served as CEO for a period of 12 months at least. As of his second year of service he is entitled to receive bonus according to the recommendation of the CEO Menora Mivtachim Insurance and with the approval of the board of directors of Mivtachim Menorah Pension Funds Ltd. The agreement was in force for two years (first term of agreement) and subsequently the agreement was renewed for an unlimited period subject to 6 months advance notice by one of the parties. Mr. Rozen is subject to non-competition for a period of one year as of termination of his contract.

(5) Mr. Tal Cohen serves as CIO in the company and deputy CEO and head of investments division in Menora Mivtachim Insurance. His employment contract is in force as of May 2002. Mr. Tal's salary is paid by Menora Mivtachim Insurance. According to the employment contract, Mr. Tal is entitled

to receive an annual bonus, beyond the salary specified in the table hereinabove, at the discretion of the CEO and following approval of the board of directors. In the event of dismissal (not under exempting circumstances), Mr. Tal is entitled to receive 5 months of adaptation.

(6) Mr. Kompel serves as CFO in the company and deputy CEO and director of accounting and finances in Menora Mivtachim Insurance (subsidiary of the company). His employment contract is in force since December 2006. Mr. Kompel's salary is paid by Menora Mivtachim Insurance. According to the employment contract, Mr. Kompel is entitled to receive an annual bonus in the amount of 5 minimum salaries, beyond the salary specified in the table hereinabove, at the discretion of the CEO and following approval of the board of directors. In the event of dismissal (not under exempting circumstances) Mr. Kompel is entitled to receive 6 months advance notice and/or 3 months in the event of resignation.

(7) Mr. Gurevitch served during most of the year of the report as CEO of the company and chairman of Menora Insurance, and as of 19.09.10 as the chairman of the board of directors of the company. His employment contract was recently renewed in October 2010 for the period of 5 years (see additional information in section 11 hereunder (Regulation 22)). The salary of Mr. Gurevitch was paid by Menora Mivtachim Insurance. Holding of the company's shares in the rate specified hereinabove is by foreign corporations held in trust for him as sole beneficiary.

(8) In addition to the foregoing, the total remuneration and related expenses all directors in the company received (excluding the chairman Mr. Gurevitch with whom an employer contract was signed) amounted to 538 thousand NIS.

9. Rewards to senior office holders granted after the year of report and prior to submission thereof, in connection with their office or their employment in the year of report and that were not recognized in the financial statements in the year of report (regulation 21(B)).

None.

10. Holder of controlling interest in the corporation (Regulation 21(A))

Holders of controlling interest in the company are Najaden Establishment and Palamas Establishment, foreign corporations held in trust for Mr. Menahem Gurevitch and sole beneficiary.

11. Transactions with holder of controlling interest (regulation 22)

The following is a description, to the best of the company's knowledge, of the transactions between the company and its holder of controlling interest or that the holder of controlling interest thereof had personal interest in their approval, in which the company entered in the year of report and/or until the date of submitting the report and/or transactions that are in force until the date of submission of this report:

11.1. Transactions specified in Section 270(4) to the Companies Law, 5759-1999

11.2.11 On 22 January 2007, the general meeting of the company (after receiving the approval of the audit committee and the board of directors) approved the renewal of the employment contract of Mr. Gurevitch as CEO of the company and chairman of the board of directors according to the provisions set forth in his previous contract with linkage to the index only without real addition. According to the renewed contract of that time, Mr. Gurevitch is entitled to receive annual salary (including incentive, in the framework of the annual salary) whose cost to the company shall not exceed NIS 1,383,448 (linked to the index published on January 2007) (hereinafter: the Annual Salary) in addition to vehicle and vehicle expenses, reimbursement of living expenses, entertainment, cellular phone and telephone maintenance beyond the Annual Salary. The employment contract was renewed and it is in force from January 1 2007 for a period of 5 years. In continuation of the resolution made by the board of directors and audit committee, on 20 October 2010 the general meeting of the company approved to enter into agreement with Mr. Gurevitch and to amend his employment contract concerning updating the definitions of his position as chairman of the board of directors and discontinuing his office as CEO, as well as extension of the aforesaid employment contract so that it would expire following 5 years from the date of approval of the general meeting as said. The cost of Mr. Gurevitch salary in 2010 amounted to 1,689 thousand NIS. Mr. Gurevitch has personal interest in the transaction since he is a party to the transaction. For additional details see immediate report of the company dated 20 September and 28 October (respectively).

11.2.12 On October 6 2008, after receiving approval of the audit committee and the board of directors) the general meeting of the company approved an update of the employment contract of Mr. Eran Griffel (the son in law of the holder of controlling interest), as CEO of the subsidiary Menora Mivtachim Real Estate Ltd. (hereinafter: Menora Real Estate). Mr. Griffel is entitled to receive monthly salary linked to the index (13 salaries), social benefits as customary, a yearly bonus at the rate of 5% of the earnings of Menora Real Estate before tax (with deduction of gross cumulative loss) and no less than 4 monthly salaries provided that the company would be profitable in that year, maintenance of vehicle under his ownership (including full grossing up), living expenses as customary in the company, cellular phone and telephone expenses as customary. The agreement is in force as of 1 July 2008 for a period of 5 years. He is entitled to a 6 months advance notice. The cost of Mr. Griffel's salary in 2010 is 1,266 thousand NIS. For additional information concerning the transaction see immediate report published by the company on August 28 2008. Mr. Griffel and the CEO Mr. Gurevitch had personal interest in the transaction due to the personal interest of Mr. Griffel's relative who is a party to the transaction.

11.2.13 On November 24 2005, and on January 22 2007 after receiving approval of the audit committee and the board of directors) the general meeting of the company approved granting a letter of exemption and undertaking to indemnify directors and office holders in the company, including Mr. Gurevitch and his relatives as well as granting letter of exemption and indemnification as said in Menora Mivtachim Insurance and Menora Mivtachim Finances, subsidiaries of the company, where they serve as office holders. The letter of exemption granted by the company is in accordance with the restrictions set forth concerning this matter in the Companies Law while the undertaking of indemnification is limited to an amount of 25 million dollars per office holder and 30 million dollars for all the persons receiving indemnification in a single event and, in any event, cumulatively per different events, indemnification shall not exceed 25% of the company's equity in accordance with its financial statement on the eve of granting the aforesaid indemnification. For additional information concerning the terms and conditions of the letters of exemption and undertaking of the aforesaid indemnification see immediate reports issued by the company on 1 November 2005 and on 12 December 2006 respectively.

11.2.14 Menora Insurance (a subsidiary of the company), employs Mr. G. Gurevitch (brother of the holder of controlling interest) since 1994. In 2005 he was appointed as deputy CEO in Menora Insurance. According to his employment contract, Mr. Gurevitch is entitled to receive monthly salary (13 salaries) and an annual bonus in the amount of 3 salaries, social benefits as customary, vehicle, telephone expenses, living expenses, days of sickness, convalescence and annual leave. In addition, he is entitled to a 3 months advance notice. Mr. Gurevitch terms of employment as specified hereinabove were approved in January 2005 by the CEO of Menora Insurance. On May 16 2010 the general meeting of the company approved, having receiving the approval of the company's board of directors dated March 25 2010, to change the terms and conditions of the employment contract with Mr. Gurevitch as of January 1 2005, so that as of January 1 2010, Mr. G. Gurevitch is entitled to receive a monthly salary of NIS 40,000 gross (instead of NIS 29,000, as of December 31 2009). The remaining terms and conditions of the employment contract of Mr. Gurevitch were not modified and they are as specified hereinabove. Mr. Gurevitch, the holder of controlling interest, has personal interest in the transaction due to the personal interest of his relative Mr. G. Gurevitch who is a party to the transaction. The cost of salary of Mr. G. Gurevitch in 2010 amounted to 1,162 thousand NIS. For additional information see immediate report of the company dated May 5 2010.

11.2. Other transactions that are not specified in section 270(4) to the Companies Law 5759-1999.

11.2.1 On August 29, 2010, the board of directors of the company approved the renewal of directors and officers insurance to the year 2010-2011 (1.8.2010 - 31.7.2011) in the company and its subsidiaries that are not separate companies (hereinafter: Menora Mivtachim Holdings Division), including for the holder of controlling interest and his relatives as well as renewal of the aforesaid policies as said in additional divisions in the group for the holder of controlling interest and his relatives in office or that were in office in the group (see also section 22 hereunder (Regulation 29(A)). For further information see the company's immediate report dated August 29, 2010. In addition, during 2010 different insurance transactions were held in Menora Insurance for Mr. Gurevitch and his relatives. All of the aforesaid transactions were carried out during regular course of business and under customary conditions for employees of the group and fall under the category of negligible transactions in accordance with the criteria set by the board of directors concerning this matter and as specified in the section "negligible transactions" in the board of directors report attached to the financial statements.

11.2.2 On March 24, 2011 the board of directors approved the purchase of an additional umbrella policy in a liability limit of 30 million additional dollars for a period starting on 22.02.2011 and until 21.02.2012 in the company and its subsidiaries that are not separate divisions, including for the holder of controlling interest and his relatives in office or that will be office holders in the company (see also section 22 hereunder (Regulation 29(A)). For further information see the company's immediate report dated 27 March, 2011.

11.2.3 On May 16, 2010, the general meeting of the company approved the renewed appointment of the directors in office in the company, including Mr. Gurevitch. For further details see immediate reports of the company dated May 5 2010 and 16 May, 2010 respectively. For details concerning the salary paid to Mr. Gurevitch for his office see section 11.1.1 hereinabove.

The company estimates that remuneration for office holders as specified in section 8 hereinabove (Regulation 21) and to Mr. Gurevitch (the chairman) and his relatives as specified in this section hereunder (regulation 22) constitute a reasonable a fair consideration in relation to the complexity of their position and its responsibilities.

12. Stock and securities held by stakeholders in the corporation, in a held company* (Regulation 24)

Stakeholder	ID No. Company no.	No. of security in stock exchange	1 NIS Shares as of 30 March 2011	% of capital	% of vote	% of capital in full dilution	% of vote in full dilution
Palamas Establishment (**)	**Foreign corporation**	**566018**	**19,570,833**	**30.93%**	**30.93%**	**30.93%**	**30.93%**
Najaden Establishment (**)	**Foreign corporation**	**566018**	**19,570,833**	**30.93%**	**30.93%**	**30.93%**	**30.93%**
Menora Mivtachim Mutual Funds Ltd. (***)	**513722397**	**566018**	**22,494**	**0.04%**	**0.04%**	**0.04%**	**0.04%**
Trust Workers Company for Mr. A. Kalman (****)		**566018**	**1,719,034**	**2.72%**	**2.72%**	**2.72%**	**2.72%**

* To the best of the company's knowledge as of March 30, 2010.
* Foreign corporations that are holder of controlling interest, held in trust for Mr. Menahem Gurevitch and sole beneficiary.
* Sub-subsidiary of the company.
* By virtue of stock plan in favor of Mr. Kalman who is a senior office holder in the company (CEO) and serves as chairman of the board of directors of Menora Mivtachim Insurance (subsidiary of the company).

13. Registered capital, issued stock and convertible securities of the corporation (regulation 24a)

The registered capital of the company as of 31.12.2010 amounts to NIS 88,000,000 that are comprised of 88,000,000 ordinary shares, 1 NIS each.

The company's issued stock as of 31.12.2010 amounts to NIS 63,271,931 that are comprised of 63,271,931 ordinary shares, 1 NIS each.

14. Corporation stockholder register (regulation 24b)

Name of registered stockholder	Type and identification number	Address	Class of stock	Amount of stock
David Hirschfeld	Passport 701878806	Yefe Nof 2, Tel Aviv	Ordinary share NIS 1, nominal value	740.00
David Reiner	ID No. 50521467	Nitzanim 18d Haifa 34354	Ordinary share NIS 1, nominal value	560.00
Ruth Givoni	Passport 70118880	HaMaagal 32, Savion	Ordinary share NIS 1, nominal value	290.00
Yehuda Bar-Lev	ID No. 64837123	Bergson 18, Tel Aviv	Ordinary share NIS 1, nominal value	34.00
Shomron Insurance and Investments Ltd.	Private company 510050362ח	Allenby 115, Tel Aviv	Ordinary share NIS 1, nominal value	12.00
Yehuda Rotenberg	---	Unknown	Ordinary share NIS 1, nominal value	468.00
Others (unknown)	---	---	Ordinary share NIS 1, nominal value	114.00
Bank Leumi Le-Israel Ltd Nominee Company	Private Company 510098064	Lilienblum 4 Tel Aviv	Ordinary share NIS 1, nominal value	63,269,713.00
Total according to stock register				**63,271,931.00**

15. Registered address (Regulation 25(A))

The registered address of the corporation is: Allenby 115 Street, Tel Aviv.

Email: sherut@menora.co.il

Telephone no.: 03-7107801

Fax: 03-7107633

16. Corporate directors (Regulation 26)

Name	**Menahem Gurevitch**
ID No.	7969504
Date of birth	2.12.1942
Address	Pinkas 62, Tel Aviv
Nationality	Israeli
Membership in board of directors committees	No.
External director/independent/With financial and accounting expertise	No.
Employee of the corporation, subsidiary, related company or a stakeholder's	No.
Date of commencement of office as director	28.3.1985
Education and activities in the past five years and description of corporations where he serves as director:	High school education. Serves as chairman of the board of directors as of 19.9.2010 and a director in Menora Assets & Investments Ltd. Served as CEO of the company since 1998 until 19.9.2010, served as chairman of the board of directors in Menora Mivtachim Insurance Ltd.[8], Menora Mivtachim Pensions Ltd.[9] and Menora Mivtachim Real Estate Ltd.
Is he a family member of another stakeholder in the corporation:	No.
Is he a director with accounting and financial expertise or professional skills in order to meet the minimal number set by the board of directors	No.

Name	**Gedalya Doron**
ID No.	7751100
Date of birth	14.11.1929

[8] Retired from office as chairman of the board of directors of Menora Mivtachim Insurance Ltd. On 17.10.2010.

[9] Retired from office as chairman of the board of directors of Menora Mivtachim Pensions Ltd. On 7.11.2010

Address	Uri 4, Tel Aviv
Nationality	Israeli
Membership in board of directors committees	Balance committee[10].
External director/independent/With financial and accounting expertise	With accounting and financial expertise.
Employee of the corporation, subsidiary, related company or a stakeholder's	No.
Date of commencement of office as director	24.10.1989
Education and activities in the past five years and description of corporations where he serves as director:	MBA - Harvard School of Business, director of the company and in the period between 1.1.2009 until 19.9.2010. Served as chairman of the board of directors. Served as director in subsidiary companies Menora Mivtachim Pensions Ltd.[11], Menora Mivtachim Insurance Ltd.[12], and Menora Mivtachim Finance Ltd.
Is he a family member of another stakeholder in the corporation:	No.
Is he a director with accounting and financial expertise or professional skills in order to meet the minimal number set by the board of directors	Yes.

Name	**Bar Cochva Ben Gera**
ID No.	1577220
Date of birth	4.5.1942
Address	Keren HaYesod 16, Rishon LeZion
Nationality	Israeli
Membership in board of directors committees	Audit committee, balance committee (chairman).
External director/independent/With financial and accounting expertise	External director with financial and accounting expertise.

[10] Retired from office in balance committee on 10.3.2011.

[11] Retired from office as director in Menora Mivtachim Pensions Ltd. On 1.11.2010.

[12] Retired from office as director in Menora Mivtachim Insurance Ltd. On 1.11.2010

Employee of the corporation, subsidiary, related company or a stakeholder's	No.
Date of commencement of office as director	10.7.2007
Education and activities in the past five years and description of corporations where he serves as director:	BA in political science with interdisciplinary studies in Hebrew University, Jerusalem, and Training studies in administration - Telem - insurance track, Tel Aviv University. Serves as director (external director) in the company and external director in Menora Mivtachim Insurance Ltd. and Shomera Insurance Co. Ltd. Served as CEO of Phoenix Insurance Co. and CEO and chairman of other insurers in the Phoenix Group, and a director in Mehadrin Ltd. Until December 2009
Is he a family member of another stakeholder in the corporation:	No.
Is he a director with accounting and financial expertise or professional skills in order to meet the minimal number set by the board of directors	Yes.

Name	**Shlomo Milo**
ID No.	07559669
Date of birth	29.8.1942
Address	Tzamarot 14, Herzliya.
Nationality	Israeli
Membership in board of directors committees	Audit committee.
External director/independent/With financial and accounting expertise	Has financial and accounting expertise.
Employee of the corporation, subsidiary, related company or a stakeholder's	No.
Date of commencement of office as director	26.6.1995
Education and activities in the past five years and description of corporations where he serves as director:	MBA in industrial engineering from the Technion - Israel Institute of Technology. A director of the company. Serves as director in the subsidiary Menora Mivtachim Insurance Ltd. Serves as CEO of Kinetic

	Energies Ltd. In the past served as CEO of Delek Infrastructures Ltd., CEO of Israel Military Industries, chairman of I.D.E technologies (desalination engineering) Ashot Ashkelon Industries Ltd. (public), and CEO of Tzion Cables (public).
Is he a family member of another stakeholder in the corporation:	No.
Is he a director with accounting and financial expertise or professional skills in order to meet the minimal number set by the board of directors	Yes.

Name	**Orly Yarkoni**
ID No.	53664595
Date of birth	18.1.1956
Address	Dov Hoz 2, Tel Aviv.
Nationality	Israeli
Membership in board of directors committees	Balance committee.
External director/independent/With financial and accounting expertise	Has financial and accounting expertise.
Employee of the corporation, subsidiary, related company or a stakeholder's	No.
Date of commencement of office as director	23.5.2010
Education and activities in the past five years and description of corporations where he serves as director:	Actuary studies in Haifa University, M.Sc. in Performance Studies in the School of Mathematics, Tel Aviv University, B.Sc. in Mathematics from Hebrew University in Jerusalem. Served as CEO of IDI Israel Direct Insurance, former deputy CEO and Head of General Insurance and Health in Migdal Group. Serves as director in Menora Mivtachim Insurance Ltd., Peninsula Finance Ltd., Mey Eden Ltd. (external director), Plasto-Sac Ltd. (external director), Amot Investments Ltd., and BioCancell Therapeutics, Inc.
Is he a family member of another stakeholder in the	No.

corporation:	
Is he a director with accounting and financial expertise or professional skills in order to meet the minimal number set by the board of directors	Yes.

Name	**Israel (Izzy) Tapuchi**
ID No.	626010
Date of birth	2.3.1946
Address	Emeq Refaim 13/3 Jerusalem.
Nationality	Israeli, Australian.
Membership in board of directors committees	Audit committee (chairman), balance committee.
External director/independent/With financial and accounting expertise	External director with financial and accounting expertise.
Employee of the corporation, subsidiary, related company or a stakeholder's	No.
Date of commencement of office as director	23.8.2010
Education and activities in the past five years and description of corporations where he serves as director:	B.Com From Melbourne University, Australia, CPA In Australia Since 1977, CPA In Israel Since 1981. Director In Paz Oil Company Ltd. Paz Ashdod Refinery Ltd. Shikun & Binui Ltd., Hanan Mor Group, Tel-Aviv Centennial Properties Limited., Tapy Investment Ltd., And Labriz Holdings Ltd.
Is he a family member of another stakeholder in the corporation:	No.
Is he a director with accounting and financial expertise or professional skills in order to meet the minimal number set by the board of directors	Yes.

* Mr. Yaakov Segal of blessed memory ceased to serve as external director in the company on May 30 2010.

17. Senior office holders in the corporation (Regulation 26(A))

Name	**Ari Kalman**
ID No.	50898501
Date of birth	21.10.1951
Office in the corporation, subsidiary, related company or stakeholder therein.	Serves as CEO of the company as of 19.9.2010, chairman of Menora Mivtachim Insurance Ltd.[13] And director in subsidiaries and related companies.
Education	Professional.
Business experience in the past five years	Chairman of the board of directors of Menora Mivtachim insurance Ltd.[14], deputy CEO until 18.09.2010, served as CEO and director in the subsidiary Menora Mivtachim insurance Ltd. Until 16.10.2010. Serves as chairman of the board of directors in Menora Mivtachim Real Estate Ltd. And Menora Mivtachim Finance Ltd.[15] And director in other companies in the group.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	Yes[16].
Date of commencement of office	7.1.2008

Name	**Shai Kompel**
ID No.	059696443
Date of birth	28.7.1965
Office in the corporation, subsidiary, related company or stakeholder therein.	CFO, director in subsidiaries and related companies.

[13] Serves as chairman of the board of directors of Menora Mivtachim Insurance Ltd. As of 17.10.2010.

[14] See footnote 11 hereinabove.

[15] Serves as chairman of the board of directors of Menora Mivtachim Finance Ltd. as of 24.11.2010.

[16] Starting from the date of his appointment as CEO.

Education	CPA. BA in Accounting and Economics, Hebrew University Jerusalem, MA in Economics, Hebrew University.
Business experience in the past five years	Serves as deputy CEO and head of Accounting and Finance in the subsidiary Menora Mivtachim Insurance Ltd. Serves as director in other companies in the group. Served as CFO in Clal Finance Ltd. and VP in Clal Holdings Insurance Ltd. Served as Senior deputy of the Commissioner of the Capital Market, Insurance and Saving in the Ministry of Finance.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	No.
Date of commencement of office	1.12.2006

Name	**Yoni Tal**
ID No.	53343331
Date of birth	18.6.1955
Office in the corporation, subsidiary, related company or stakeholder therein.	CIO. Director in subsidiary and related companies.
Education	BA in Economics and Business Administration from Bar-Ilan University, MA in Economics from Bar-Ilan University.
Business experience in the past five years	Serves as deputy CEO and head of Investments division in the subsidiary Menora Mivtachim Insurance Ltd. Director in other companies in the group.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	No.

Date of commencement of office	1.4.2000

Name	**Shmuel Schwartz**
ID No.	030767032
Date of birth	1.1.1950
Office in the corporation, subsidiary, related company or stakeholder therein.	Internal auditor in the company and chief internal auditor in subsidiaries and related companies.
Education	CPA. BA in Economics, Sociology and Accounting from Haifa University, MBA from Tel Aviv University.
Business experience in the past five years	Serves as deputy CEO and chief internal auditor in Menora Mivtachim Insurance Ltd., and internal auditor in the company and subsidiaries in the group excluding Menora Mivtachim Pensions Ltd., Menora Mivtachim Gemel Ltd., and Shomera Insurance Co. Ltd. Former company treasurer and head of risk management and deputy CEO and head of treasury and finance division in the subsidiary Menora Mivtachim Insurance Ltd., and director in other companies in the group.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	No.
Date of commencement of office	8.1.2007

Name	**Menahem Harpaz***
ID No.	008396673
Date of birth	29.8.1948
Office in the corporation, subsidiary, related company or stakeholder therein.	Deputy CEO in subsidiary Menora Mivtachim Insurance Ltd. And head of General Insurance Division. Also serves as director in other companies in the group and chairman of the board of directors of Shomera Insurance Company LTD.

Education	B.S.C in Industrial Engineering and Administration from the Technion - Israel Institute of Technology in Haifa. MBA from Tel Aviv University.
Business experience in the past five years	Deputy CEO and head of General Insurance Division.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	No.
Date of commencement of office	30.3.2009

Name	**Yacov Rozen***
ID No.	51255842
Date of birth	9.7.1952
Office in the corporation, subsidiary, related company or stakeholder therein.	CEO of Menora Mivtachim Pensions Ltd[17], director in subsidiary companies.
Education	Academic, BA in Economics.
Business experience in the past five years	Deputy CEO of Bank Hapoalim Ltd., head of Finance Division and head of Customer Asset Management Division in Bank Hapoalim.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	No.
Date of commencement of office	30.3.2009

Name	**Yehuda Ben Assayag***
ID No.	057455081
Date of birth	20.3.1962
Office in the corporation, subsidiary, related company or	Deputy CEO and head of Life and Health Insurance in

[17] Mr. Yacov Rozen retired from office as CEO of Menora Mivtachim Pensions Ltd. on 1.1.2011.

stakeholder therein.	the subsidiary Menora Mivtachim Insurance Ltd. As of 1.5.2009 and until 31.12.2010[18]. Also serves as director in other companies in the group.
Education	BA in Economics and Political Science from Tel Aviv University, MBA (Finance and Marketing), Tel Aviv University, graduate AMP Program, Harvard University.
Business experience in the past five years	Chairman of the board of directors of Menora Mivtachim Finance Ltd.[19], chairman of the board of directors of Menora Mivtachim Investment Portfolio Management Ltd., chairman of the board of directors of Menora Mivtachim Gemel Ltd. And chairman of the board of directors of Menora Mivtachim and the Engineers Association, Management of Provident Funds Ltd., director in Halamish - a municipal government company, director in Dan - Public Transportation Ltd., director in Y.B.A. Finance and Investments, former CEO of Menora Mivtachim Finance Ltd.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	No.
Date of commencement of office	30.3.2009

Name	**Shimon Irshai***
ID No.	055922918
Date of birth	24.6.1959
Office in the corporation, subsidiary, related company or stakeholder therein.	Legal counsel and secretary of the company and the subsidiary Menora Mivtachim Insurance Ltd.
Education	Advocate. BA in Law, Hebrew University.
Business experience in the past five years	Serves as legal counsel and secretary of the company

[18] As of 1.1.2011 serves as CEO of Menora Mivtachim Pensions Ltd..

[19] Retired from office as chairman of the board of directors of Menora Mivtachim Finance Ltd. on 24.11.2010.

	and subsidiary Menora Mivtachim Insurance Ltd. Former deputy legal counsel in the Ministry of Finance.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	No.
Date of commencement of office	1.7.2002

Name	**Motti Rozen***
ID No.	054664271
Date of birth	26.11.1956
Office in the corporation, subsidiary, related company or stakeholder therein.	CEO Menora Mivtachim Insurance Ltd. Also serves as director in subsidiaries of Menora Mivtachim Holdings Ltd.
Education	Academic, BA in Economics and Accounting, Tel Aviv University.
Business experience in the past five years	CEO Harel Insurance Co. Ltd. And deputy CEO of Harel Investment in Insurance and Financial Services Ltd.
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	No.
Date of commencement of office	17.10.2010

* Senior office holder in a corporation controlled with material influence on the corporation.

** Defined as senior office holder in the corporation as of 30.3.2009.

18. Corporate authorized signatories (Regulation 26(B))

The company does not have independent authorized signatories.

19. Corporate accountant (Regulation 27)

Kost Forer Gabbay & Kasierer, Accounting Firm, Aminadav 3, Tel Aviv.

20. Changes in the corporate memorandum or articles of association (Regulation 28)

None.

21. Recommendations and resolutions by the directors

(a). Recommendations of the directors before the general meeting and resolutions made that do not require the approval of the general meeting concerning:

1. **Payment of dividend and distribution of bonus stock**: none.
2. **Changes in the registered or issued capital of the corporation**: none.
3. **Changes in memorandum or articles of association**: none.
4. **Redemption of redeemable securities within their meaning in Section 312 to the Companies Law**: none.
5. **Early redemption of securities**: none.
6. **Transactions that are not in line with the market conditions between the corporation and stakeholder therein excluding transaction with subsidiary**: none.

(b). **Resolutions of the general meeting concerning subjects specified hereinabove resolved contrary to the recommendations of the board of directors**: none.

(c). Special resolutions by the general meeting:

1. On May 16 2010 the company's general meeting approved, among other things, modification in the terms of employment of Mr. G. Gurevitch as specified in Section 11.1.4 hereinabove.
2. On August 23 2010 the general meeting of the company approved the appointment of Bar Cochva Ben Gera as an external director of the company for an additional period, and the appointment of Israel (Izzy) Tapuchi as an external director of the company. For further information see the company's immediate report dated 23 August 2010.
3. On October 28 2010 the company's general meeting approved an update to the employment agreement of Mr. Menahem Gurevitch in connection with the definition of the position of Mr. Gurevitch in the company, as specified in Section 11.1.1 hereinabove.

22. Company resolutions (Regulation 29(A))

(a). **Approval of actions pursuant to Section 255 to the Companies Law**: none.

(b). **Action pursuant to Section 254(a) to the Companies Law that was not approved**: none.

(c). Exceptional transactions that require special approvals pursuant to Section 270(1) to the Companies Law:

1. On 25 March 2010 the board of directors of the company made a resolution, after receiving the approval of the audit committee on March 22 2010, to approve payment of bonuses to office holders in the company (serving at the same time as office holders in Menora Insurance) to the year 2009, that, for the sake of caution, were considered as exceptional transactions with office holders. Pursuant to the approval granted by the board of directors and the audit committee as said, a grant in the amount of 1,278 thousand NIS was given to Mr. Ari Kalman, a grant in the amount of 1,500 thousand NIS was granted to Mr. Yoni Tal, a grant in

the amount of 850 thousand NIS was granted to Mr. Shai Kompel, and a grant in the amount of 320 thousand NIS was granted to Mr. Shmuel Schwartz further information appears in the company's immediate report dated March 28 2010.

2. On August 29 2010, in continuation to the approval granted by the general meeting of the appointment of the external directors in the company, as specified in Section 21(c)(1) hereinabove, the company's board of directors and the audit committee approved an update of the honorarium for meetings for directors in the company (who are not external directors or directors employed or that will be employed in the future in accordance with an employment contract) to the maximum amount as specified in the Companies Regulations (Rules on Honorarium and Expenses of External Directors), 5760-2000.

(d). Exemption, insurance or undertaking of indemnification of an office holder in effect on the date of the report:

1. In continuation to the resolution of the company's audit committee dated August 29 2010, the company's board of directors approved on August 29 2010 the renewal of the directors and officers insurance to the year 2010-2011 (1.8.2010 - 31.7.2011) in the company and its subsidiaries that are not separate divisions (hereinafter: Menora Mivtachim Holdings Division), including for the holder of controlling interest and his relatives, the honorable gentlemen Menahem Gurevitch, Eran Griffel, and Gershon Gurevitch, as the case may be (hereinabove and hereinafter: Holder of Controlling Interest and his Relatives) in a liability limit of 15 million dollars (hereinafter: the Basic Policy) in addition to joint cover with umbrella policy to all the divisions in the company with a liability limit of 30 million dollars (hereinafter: the Umbrella Policy). In addition, the audit committee and the board of directors approved as said the renewal of policy as said for the Holder of Controlling Interest and his Relatives in the different divisions of the subsidiaries - Menora Mivtachim

Insurance Ltd., Menora Mivtachim Finance Ltd., and Menora Mivtachim Pensions Ltd. - in liability limits as specified in connection with Menora Mivtachim Holdings Ltd. Insurance terms and conditions to the Holder of Controlling Interest and his Relatives are identical to the insurance terms and conditions of the remaining office holders in the group. The audit committee and the board of directors decided that the renewal of the aforesaid policies as said would be done under the renewal terms and conditions that were decided in the resolution of the company's general meeting dated July 10 2007.

2. In continuation to the approval of the company's audit committee dated March 22 2011, the company's board of directors approved, on March 24 2011, the purchase of an additional directors and officers insurance policy with a liability limit of additional 30 million dollars to the period between 22.02.2011 and until the date 21.02.2012, in return for an annual premium of $50,000 (hereinabove and hereinafter: the Additional Umbrella Policy) in the company and its subsidiaries that are not separate divisions, including for the Holder of Controlling Interest and his Relatives as well as renewal of policies as said in additional divisions in the group for directors and office holders, including for the Holder of Controlling Interest and his Relatives, as the case may be, in the different divisions of subsidiary companies where they serve in office - Menora Mivtachim Insurance Ltd., Menora Mivtachim Finance Ltd., and Menora Mivtachim Pensions Ltd. The share of each company in the premium will be set according to its relative share in the group. The insurance conditions of the Holder of Controlling Interest and his Relatives are identical to the insurance conditions of the remaining office holders in the group. The audit committee and the board of directors decided that the renewal of the policies as said was carried out under renewal conditions ("master agreement") that were set in a resolution of the general meeting dated July 10 2007.

3. On November 24 2005 the general meeting of the company approved granting letters of exemption and letters of undertaking intended to indemnify directors and other office holders that served, serve and will serve in the company in the past, present and future, including the Holder of Controlling Interest and his Relatives, according to the format approved by the board of directors, provided that the amount of indemnification shall not cumulatively exceed of 25% of the company's equity for different events according to its financial statement on the eve of granting indemnification. For further information concerning the terms and conditions of the letter of exemption and indemnification see immediate report published by the company on November 1, 2005.

Tel Aviv, March 30 2011

Menora Mivtachim Holdings Ltd.

Menahem Gurevitch
Chairman of the board of directors

Ari Kalman
CEO

Menora Mivtachim

Experts in management of Insurance/Pension/Finance

Actuarial Opinion in Life Assurance

Chapter A - Identity of Actuary

I was asked by Menora Mivtachim Insurance Company Ltd to evaluate the provisions specified in Chapter B hereunder for Life Assurance for the financial statements of the insurer (hereinafter: the provisions) of Menora Mivtachim Insurance Company Ltd as of 31.12.2010 as specified hereunder.

I am an employee of Menora Mivtachim Insurance Ltd and I serve as Chief Actuary since 2001. To the best of my knowledge, I do not maintain any other business relations with the insurer or with a family member of any party with interests in the insurer, or with a related company or any other entity that provides services to the insurer.

Chapter B - Scope of actuarial opinion

1. Scope of the Actuarial opinion

a. For the purpose of calculating the insurer's provisions, I relied on data furnished to me by the insurer. My requests to receive information and data were granted satisfactorily for the purpose of assessing the provisions for the purpose of financial statements. I reviewed the reasonableness and adequacy of the data and compared the aforesaid data to the figures of the year to which the statement refers and to figures of previous years.

b. When necessary, I relied in my assessment on figures obtained from other reliable sources. I reviewed the applicability of data and their relevance.

c. The actuarial assumptions that I used during my work as well as the methods of evaluating the provisions specified in Section 2 hereunder, were set by me, to the best of my judgment and professional knowledge, and subject to the provisions, rules and guidelines set forth in Section 1 in Chapter C hereunder.

d. For the purpose of calculating the retention, I requested information from authorized individuals responsible for reinsurance affairs regarding the insurer's reinsurance arrangements, ability to collect claim liabilities and the existence of difficulties emanating from the payment policy of the reinsurers. Based upon the information I received I reviewed the implications and influence of reinsurance arrangements on the provisions.

e. My opinion also took into account the following matter:

The provision that was calculated in respect of co-insurance in which the company is not leading - was calculated as the proportional share of Menorah Mivtachim in the provision that was calculated by the leading insurers.

2. **<u>Data attached to actuarial opinion</u>**

A. Appendix B (Form 12A and Form 12B) specifies amounts of provisions in thousand of NIS, at the gross and net retention levels, respectively.

1. Allocation for outstanding claims (claims incurred but not fully paid whether approved or not, excluding claims paid as annuities such as long term care, disability income insurance and income per family), and direct and indirect expenses deriving therefrom (including the reserve for unpaid losses (incurred but unpaid claims) and unpaid allocated and unallocated loss adjustment expenses (including IBNR).

2. Separately, a provision (reserve) deriving from life assurance contract provisions, including -

   A. Reserve for plans with accrual values;

   B. Provision required when part of the premium collected in the early years of the contract is intended to provide future cover in a later period such as provision for fixed premium coverages, insurance options, and the group continuation clause.

3. The portion of the reserve for claims in payment, including claims paid as monthly installments such as long term care, disability income insurance and family income benefits.

4. Provision for participation in profits.

5. Complementary amount deriving from review of adequacy of reserve.

6. Other - additional provisions in accordance with the provisions set forth by the Regulator of Insurance such as the reserve emanating from the test for DAC recoverability, amounts as determined by the circular covering annuity benefit premium shortfalls.

B. The effect of the changes specified below on the reserve provisions (in thousands of NIS) at both gross and net retention levels.

   A. For policies that came into force after the end of the period of the previous annual financial statement - the effect on the reserve deriving from differences between the premium basis assumptions of and the reserve basis.assumptions

   B. For policies that came into force before the end of the period of the previous annual financial statement - the effect on the reserve deriving from changes in assumptions, methods or level of premium expected to be received and other amendments.

Chapter C - Opinion

I declare and certify that in the life assurance line:

1. I assessed the insurer's provisions specified in Chapter B according to the instructions, guidance and rules specified hereunder, as they were in force on the date of the financial statements:
    a. Provisions set forth in the Supervision of Financial Services (Insurance) Law 5741-1981 and regulations thereof;
    b. Instructions and rules prescribed by the Insurance Regulator;
    c. Accepted actuarial rules and practices.
2. Having reviewed the figures specified in Chapter B, I reached the conclusion that the data is reasonable and adequate and can be relied upon for the purpose of my evaluation.
3. The assumptions and methods for assessing the provisions were set by me, according to my best professional judgment and in accordance with instructions, rules and guidelines specified hereinabove.
4. The Provisions specified in Chapter B constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for life insurance contracts effective on the date of the financial statement.

Chapter D - Notes and Clarifications

1. Specification of types of insurance reserves and the methods of establishing them appear in the risk management note in the financial statements.

    The tables in attached appendices were prepared in accordance with the provisions set forth by the Regulator of Insurance and grouping of data therein does not necessarily comply with the grouping of data specified in the financial statements and the company's notes.

The provision for the participation in profits item refers to collective policies. This provision is recorded in the balance sheet under receivable items and not in the life assurance reserves.

2. Material modifications and adjustments

Updating of parameters and changes in the reserve for long term care coverages.

In the special reserve for annuity coverages we update the different rates of interest according to risk-free interest rates that change constantly.

17/03/2011	Chief Actuary	Avraham Levenglick	
Date	Position	Name of Actuary	Signature

Form 12A Outstanding claims, reserve and reserve for extraordinary risks - Gross (Thousand NIS)

As of 31.12.2010

			Total	Savings and death risk (classic, traditional)		Pure savings or savings component in policies (Adif, track)		Pure death risk or death risk component in policy		Disability income insurance	Long term care		Other covers
				Yielding	Participating	Yielding	Participating	Individual	Collective		Individual	Collective	
				1A	1B	2A	2B	3A	3B	4	5A	5B	6
1	Outstanding claims		131,859	9,918	3,364	1,188	9,496	37,312	7,061	0	0	0	63,520
2	Reserve (Total lines 2A1 to 6)		16,769,334	2,459,814	1,498,039	1,403,159	10,243,938	22,662	8,863	708,716	418,972	4,572	602
2A1	Policies including savings component (including riders), by date of issuance of policy:	Policies issued until 1990	3,645,129	2,213,655	0	1,355,693	52,707	2,331	0	19,925	618	0	198
2A2		Policies issued between the years 1991-2003	8,479,364	0	1,405,855	0	6,996,619	3,133	0	68,179	5,579	0	0
2A3		Policies issued after 2004	3,261,111	0	79	2,792	3,097,116	7,585	0	153,537	0	0	2
2A4		Total (2A1 to 2A3)	15,385,604	2,213,655	1,405,934	1,358,486	10,146,441	13,049	0	241,641	6,197	0	200
2B	Policies not including a savings component		434,492	481	0	0	0	9,612	6,977	47,683	367,538	1,799	402
3	Share of reserve for claims in payment		793,438	238,173	88,049	0	0	0	0	419,223	45,237	2,756	0
4	Profit participation		2,071	0	0	0	0	0	1,886	169	0	17	0
5	Supplement as a result of the reserve adequacy test		0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0
6	Other		153,730	7,505	4,055	44,673	97,496	0	0	0	0	0	0
7	Reserve for extraordinary risks		0	0	0	0	0	0	0	0	0	0	0
1)	Other covers, including: disabilities, double accident, etc.												
1)	Effect of adjustment of provisions for new businesses		0	0	0	0	0	0	0	0	0	0	0
	Effect of adjustment of provisions for existing businesses	Changes in assumptions	30,811	0	0	0	0	0	0	0	30,811	0	0
		Changes in method	0	0	0	0	0	0	0	0	0	0	0
		Changes in expected premium	0	0	0	0	0	0	0	0	0	0	0
		Other cha nges	0	0	0	0	0	0	0	0	0	0	0

Date: 17/03/2011 Position 1: Chief Actuary Name of Actuary 1: Avraham Levenglick

Form 12B

Outstanding claims, reserve and reserve for extraordinary risks - Net Retention (Thousand NIS)
As of 31.12.2010

			Total	Savings and death risk (classic, traditional)		Pure savings or savings component in policies (Adif, track)		Pure death risk or death risk component in policy		disability income insurance	Long term care		Other covers
				Yielding	Participating	Yielding	Participating	Individual	Collective		Individual	Collective	
				1A	1B	2A	2B	3A	3B	4	5A	5B	6
1	**Outstanding claims**		112,848	8,496	2,922	1,188	9,496	33,020	6,656	0	0	0	51,069
2	**Reserve (Total lines 2A1 to 6)**		16,508,599	2,459,628	1,497,921	1,403,045	10,243,345	22,662	8,863	632,050	236,379	4,106	602
2A1	**Policies including savings component (including riders), by date of issuance of policy:**	**Policies issued until 1990**	3,644,166	2,213,469	0	1,355,579	52,702	2,331	0	19,560	325	0	198
2A2		**Policies issued between the years 1991-2003**	8,470,081	0	1,405,737	0	6,996,031	3,133	0	62,884	2,296	0	0
2A3		**Policies issued after 2004**	3,257,961	0	79	2,792	3,097,116	7,585	0	150,388	0	0	2
2A4		**Total (2A1 to 2A3)**	15,372,208	2,213,469	1,405,816	1,358,372	10,145,849	13,049	0	232,831	2,621	0	200
2B	**Policies not including savings component**		279,068	481	0	0	0	9,612	6,977	42,805	217,120	1,671	402
3	**Share of reserve for claims in** payment		701,522	238,173	88,049	0	0	0	0	356,245	16,637	2,417	0
4	**Profit participation**		2,071	0	0	0	0	0	1,886	169	0	17	9
5	**Supplement** as a result of the reserve **adequacy test**		0	0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0	0
6	**Other**		153,730	7,505	4,055	44,673	97,496	0	0	0	0	0	0
7	**Reserve for extraordinary risks**		0	0	0	0	0	0	0	0	0	0	0
1)	**etc.**												
8A	Effect **of adjustment of provisions for new businesses**		0	0	0	0	0	0	0	0	0	0	0
8B1	Effect **of adjustment of allocations for existing businesses**	**Changes in assumptions**	12,244	0	0	0	0	0	0	0	12,244	0	0
8B2		**Changes in method**	0	0	0	0	0	0	0	0	0	0	0
8B3		**Changes in expected premium**	0	0	0	0	0	0	0	0	0	0	0
8B4		**Other changes**	0	0	0	0	0	0	0	0	0	0	0

Menora Mivtachim

Experts in Insurance - Pension - Finance

Actuarial Opinion in General Insurance Lines

Chapter A - Identity of the Actuary

I was asked by Menora Mivtachim Insurance Company Ltd to evaluate the provisions specified in Chapter B hereunder for General Insurance for the financial statements of the insurer (hereinafter: the provisions) of Menora Mivtachim Insurance Company Ltd as of 31.12.2010 as specified hereunder.

I am an employee of Menora Mivtachim Insurance Ltd and I serve as Chief Actuary since 2001. To the best of my knowledge I do not maintain any other business relations with the insurer or with a family member of any party with interests in the insurer, or with a related company , or any other entity that provides services to the insurer.

Chapter B - Scope of actuarial opinion

1. Scope of the Actuarial opinion

a. For the purpose of calculating the insurer's provisions, I relied on data furnished to me by the insurer. My requests to receive information and data were granted satisfactorily for the purpose of assessing the provisions for the purpose of financial statements. I reviewed the reasonableness and adequacy of the data and compared the aforesaid data to the figures of the year to which the statement refers and to figures of previous years.

b. When necessary, I relied in my assessment on figures obtained from other reliable sources. I reviewed the applicability and relevance of the data.

c. The actuarial assumptions that I used during my work as well as the methods of evaluating the provisions specified in Section 2 hereunder, were set by me, to the best of my judgment and professional knowledge, and subject to the provisions, rules and guidelines set forth in Section 1 in Chapter C hereunder.

d. For the purpose of calculating the retention, I requested information from authorized individuals responsible for reinsurance affairs regarding the insurer's reinsurance arrangements, the ability to collect claim liabilities and the existence of difficulties emanating from the payment policy of the reinsurers. Based upon the information I received I reviewed the implications and influence of reinsurance arrangements on the provisions.

e. My opinion also took into account the following matters:

1) The provision calculated for residual insurance arrangement (the pool) was based on the Pool's calculations.

2) Provisions that were calculated for all co-insurance in which the company is not a main insurer were performed by me, based on our experience in respect of this business.

3) There is no reduction in the provisions in respect to lack of correlation between different lines of business.

2. Data attached to the actuarial opinion

a. Amounts in thousands of NIS

	As of 31 December 2010	
1) Provision for outstanding claims and direct expenses thereof	Gross	Retention
a) Statistical lines		
Loss of property	60,795	2,699
Comprehensive residential	31,956	13,230
Mortgage banks	2,648	1,157
Business premises	23,690	12,663
Motor casco	135,173	76,258
Engineering insurance	53,481	11,577
Motor act insurance	1,303,323	1,202,130
Employer's liability	196,625	180,922
Third party	136,652	118,656
Professional liability except for directors and officers liability	71,030	57,568
Product liability	22,987	20,605
Air and sea craft and cargo in conveyance	41,548	1,385
Total statistical lines	**2,079,908**	**1,698,850**
b) Non-statistical insurance lines(1)	2,776	2,001
Total statistical and non-statistical lines	**2,082,684**	**1,700,851**
2) Indirect expenses(2)	**67,740**	**67,740**
Provision for premium deficiency: (net retention level)		
Motor act		0
Motor casco		4,419
Comprehensive residential		0
Total outstanding claims and provision for premium deficiency calculated according to actuarial assessment	2,150,424	1,773,010

(1) Non-statistical insurance lines: special risks and sickness benefits

Insurance lines that were not included in the actuarial assessment: officers and directors liability insurance

(2) Except for mortgage banks and air and sea craft: claims are not handled by the Company.

Chapter C - Opinion

I declare and certify that in the following insurance lines except for officers and directors liability insurance:

1. I assessed the insurer's provisions specified in Chapter B according to the instructions, guidance and rules specified hereunder, as they were in force on the date of the financial statement:
   a. Provisions set forth in the Supervision of Insurance Business Law 5741-1981 and regulations thereof;
   b. Instructions and rules prescribed by the Regulator of Insurance;
   c. Accepted actuarial rules and practices.
2. Having reviewed the figures specified in Chapter B, I reached the conclusion that the data is reasonable and adequate and can be relied upon for the purpose of my evaluation.
3. The assumptions and methods for assessing the provisions were set by me, according to my best professional judgment and in accordance with instructions, rules and guidelines specified hereinabove.
4. The provisions specified in Chapter B Section 2.A.1).a) for statistical lines: loss of property, comprehensive residential, business premises, motor casco, engineering insurance, motor act, employers liability, third party liability, professional liability except for officers and directors, product liability, aircraft, sea craft, cargo in conveyance - constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for outstanding claims, specified hereinabove, in each statistical line specified separately, effective on the date of the financial statement.
5. The total provisions specified in Chapter B Section 2.A.1).b) constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the

insurer's liabilities for outstanding claims in statistical and non-statistical lines together, effective on the date of the financial statements.

6. The provision specified in Chapter B Section 2.A.2) constitutes, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for indirect expenses to settle claims for policies for all underwriting years as effective on the date of the financial statement.

7. The provisions specified in Chapter B Section 2.A.3) constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for premium deficiency at the net retention level (to the extent that premium deficiency exists) in the lines that were specified effective on the date of the financial statement.

Chapter D - Notes and Clarifications

1. Actuarial assessments, by nature, are uncertain since they are conditional upon contingent future events. Furthermore, estimates of reserves for contingent claims and expense of settlement thereof derive, usually, from analysis of historical data, whereas events or future environments are often different from the past. Even when appropriate actuarial techniques and assumptions demonstrate that the amount of the reserves is reasonable, the actual amount required to settle the outstanding claims may differ significantly from the specific amount of the reserve. Recently, the Israel Association of Actuaries published a standard of practice regarding outstanding claims reserves, including principles and guidelines for the assessment of outstanding claims, with references to discounting, documentation, disclosure and actuarial declarations concerning these reserves. My actuarial assessments are based upon these principles and guidelines.

2. I did not assess the insurance line of officers and directors liability insurance since the experience is not suitable for establishing an actuarial assessment.

3. In the aircraft a diamonds insurance line Provisions were made for IBNR only.

17/03/2011	Chief Actuary	Avraham Levenglick	
Date	Position	Name of Actuary	Signature

Menora Mivtachim

Experts in Insurance - Pension - Finance

Actuarial Opinion in Health Insurance

Chapter A - Identity of the Actuary

I was asked by Menora Mivtachim Insurance Company Ltd to evaluate the provisions specified in Chapter B hereunder for Health Assurance lines for the financial statements of the insurer (hereinafter: the Provisions) Menora Mivtachim Insurance Company Ltd as of 31.12.2010 as specified hereunder.

I am an employee of Menora Mivtachim Insurance Ltd and I serve as Chief Actuary since 2001. To the best of my knowledge I do not maintain any other business relations with the insurer or with a family member of any party with interests in the insurer, or with a related company , or any other entity that provides services to the insurer.

Chapter B - Scope of actuarial opinion

1. Actuarial opinion

a. For the purpose of calculating the insurer's Provisions, I relied on data furnished to me by the insurer. My requests to receive information and data were granted satisfactorily for the purpose of assessing the Provisions for the purpose of financial statements. I reviewed the reasonableness and adequacy of the data and compared the aforesaid data to the figures of the year to which the statement refers and to figures of previous years.

b. When necessary, I relied in my assessment on figures obtained from other reliable sources. I reviewed the applicability of and relevance of the data.

c. The actuarial assumptions that I used during my work as well as the methods of evaluating the provisions specified hereunder, were set by me, to the best of my judgment and professional knowledge, and subject to the provisions, rules and guidelines set forth in Section 1 in Chapter C hereunder.

d. For the purpose of calculating the retention, I requested information from authorized individuals responsible for reinsurance affairs regarding the insurer's reinsurance arrangements, the ability to collect claim liabilities and the existence of difficulties emanating from the payment policy of the reinsurers. Based upon the information I received I reviewed the implications and influence of re-insurance arrangements on Provisions.

e. My opinion also took into account the following matters:

1) Provisions for assumed business from Direct Insurance I.D.I. Insurance Company Ltd. assessed by the actuary of this company. For the purpose of this Section "assumed business" is as defined pursuant to the Supervision of Insurance Business Regulations (Ways of Calculating Provisions for Future Claims in General Insurance) 5745-1984.

2) Co-insurances in which the Company is not a main insurer - there are no co-insurances in which the Company is not a main insurer in the sublines that were evaluated.

2. Data attached to the actuarial opinion

Subline	Individual policies		Collective policies	
	Gross	Retention	Gross	Retention
1. Provision for outstanding claims and direct expenses thereof in thousand NIS				
Business reported in life assurance				
Medical expenses	540	159	-	-
Dread disease	23,391	8,540	316	316
Total	23,931	8,699	316	316
Businesses reported in general insurance				
Medical expenses	28,473	9,930	4,151	3,875
Dental	183	183	4,125	4,125
Personal accidents	7,393	1,162	Included in individual	Included in individual
Travel abroad	1,904	201	Included in individual	Included in individual
Total	37,954	11,476	8,277	8,001

Subline	Individual policies		Collective policies	
	Gross	Retention	Gross	Retention
2. Provision for indirect expenses for settling claims in thousand NIS				
Business reported in life assurance:				
Medical expenses	9	9	0	0
Dread disease	213	213	3	3
Total	221	221	3	3
Businesses reported in general insurance				
Medical expenses	745	745	92	92
Dental	4	4	75	75
Personal accidents	57	57	Included in individual	Included in individual
Travel abroad	59	59	Included in	Included in

			individual	individual
Total	865	865	167	167

3. Provision deriving from policy obligations (contract reserve)

Businesses reported in life assurance				
Medical expenses	34,362	34,362	0	0
Dread disease	21,969	21,969	9	9
Total	56,332	56,332	9	9
Businesses reported in general insurance				
Medical expenses	79,637	25,226	1,602	1,602
Dental	2	2	1,339	1,339
Personal accidents	322	125	Included in individual	Included in individual
Travel abroad	0	0	Included in individual	Included in individual
Total	79,961	25,353	2,941	2,941

4. Provision for profit participation

Businesses reported in life assurance				
Dread disease	-	-	196	196
Total	-	-	196	196
Businesses reported in general insurance				
Medical expenses	-	-	96	96
Dental	-	-	81	81
Personal accidents	-	-	Included in individual	Included in individual
Travel abroad	-	-	Included in individual	Included in individual
Total	-	-	177	177

B. **Details of the effect of changes specified hereinabove on the amounts of Provisions**:

Chapter C - Opinion

I declare and certify that in the following health insurance sublines:

A. Medical expenses.

B. Dread disease.

C. Dental.

D. Personal accidents.

E. Travel abroad.

1. I assessed the insurer's provisions specified in Chapter B according to the instructions, guidance and rules specified hereunder, as they were in force on the date of the financial statement:
   a. Provisions set forth pursuant to the Supervision of Insurance Business Law 5741-1981 and regulations thereof;
   b. Instructions and rules prescribed by the Regulator of Insurance;
   c. Accepted actuarial rules and practices.
2. Having reviewed the figures specified in Chapter B, I reached the conclusion that the data is reasonable and adequate and can be relied upon for the purpose of my evaluation.
3. The assumptions and methods for assessing the provisions were set by me, according to my best professional knowledge and in accordance with instructions, rules and guidelines specified hereinabove.
4. The Provisions specified in Chapter B Section constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for health insurance policies within the health sublines specified hereinabove effective on the date of the financial statement.

Chapter D - Notes and Clarifications

1. **Notes**

1. Actuarial assessments, by nature, are uncertain since they are conditional upon contingent future events. Even when appropriate actuarial techniques and

assumptions demonstrate that the amount of the reserves is reasonable, the actual amount required to settle the obligations may differ significantly from the specific amount of the reserve.

2. The scarcity of the data in the foreign workers subline did not allow for an actuarial assessment of reserves. The outstanding claims are the responsibility of the claims division. In the Travel abroad sublines, actuarial provision was made for IBNR only.

3. It was not possible to separate between collective and individual policies in the Personal accidents and Travel abroad sublines, and all data is included in the individual policies column.

4. Even though according to the requirements of IFRS accounting when there is no separate health insurance sector, health insurances are to be reported in the life insurance sector, this report relates to the health insurance sublines as in previous years, in accordance with the Supervisory requirements.

Date	Position	Name of Actuary	Signature
17/03/2011	Chief Actuary	Avraham Levenglick	

Actuaries declarations

Actuary declaration in general insurance lines (excluding motor act line)

Attached is an actuarial declaration including an opinion concerning assessment of provisions for outstanding claims.

This declaration does not include the motor act line in respect of which a separate declaration is provided.

Chapter A - (Actuary declaration) Identity of actuary

I was asked by Shomera Insurance Company Ltd (hereinafter: Shomera) to evaluate the provisions specified in Chapter B hereunder in the general insurance lines (excluding the motor act line) for the financial statements of the insurer Shomera (hereinafter: the Provisions) as of 31.12.2010 as specified hereunder:

I am an employee of Shomera. In July 2007 I was appointed as supervising actuary in the general insurance sector (excluding the motor act line). To the best of my knowledge I am not an interested party and I am not a controlling shareholders in Shomera. I do not maintain business relations with any interested party in Shomera or a family member of an interested party in Shomera, including business relations with a subsidiary of Shomera or a related company to Shomera.

Chapter B - (Actuary Declaration) - Scope of actuarial opinion

1. Format of scope of actuarial opinion

   a. For the purpose of calculating the insurer's Provisions, I relied on data furnished to me by the insurer. My requests to receive information and data were granted satisfactorily for the purpose of assessing the Provisions for the purpose of financial statements. I reviewed the probability and adequacy of the data and compared the aforesaid data to the figures of the year to which the statement referred and figures of previous years.

b. When necessary, I relied in my assessment on figures obtained from other reliable sources. I reviewed the level of conformance of data and their relevance.

c. The actuarial assumptions that I used during my work as well as the methods of evaluating the Provisions specified in Section 2 hereunder, were set by me, to the best of my judgment and professional knowledge, and subject to the provisions, rules and guidelines set forth in Section 1 in Chapter C hereunder.

d. For the purpose of calculating the retention, I requested authorized entities in charge of reinsurance in Shomera for information about the insurer's re-insurance arrangements, claim collection abilities and problems in the payment policy of reinsurers. Based upon the information I received I reviewed the implications and influence of re-insurance arrangements on Provisions.

e. My opinion also took into account the following matters:

1) As to Provisions calculated for residual insurance arrangement (the pool) or for assumed businesses - irrelevant.

2) Provisions that were calculated for all co-insurance in which the company is not a main insurer (there were such cases until underwriting year 2001 only) were calculated by the main insurers and delivered to me.

3) Reduction of reserves was not carried out due to the possibility of lack of correlation between insurance lines.

2. Data attached to the actuarial opinion

	As of 31 December 2010	
	Gross (NIS in thousands)	Retention (NIS in thousands)
1) Provisions for outstanding claims and direct expenses thereof (including provision for claims incurred but not reported to the insurer)		
a) Statistical lines		
Motor vehicle insurance - property (property and third party)	43,706	43.238
Comprehensive residential	4,495	1,727
Employers liability insurance	11,877	11,142
Third party liability insurance	16,929	11,422
Comprehensive business premises insurance	4,186	1,232
Total statistical insurance lines	81,193	68,761
b) Non-statistical insurance lines(1)	1,092	39
B). Total statistical and non-statistical lines	82,285	68,800
A.2 indirect expenses(2)	1,624	1,624
Total statistical and non-statistical lines		
A.3 Provision for premium deficiency:		
Motor vehicle insurance - property (property and third party)	No declaration required	0
Comprehensive residential	No declaration required	0
Total outstanding claims and provision for premium deficiency calculated according to actuarial assessment	83,909	70,424

[(1)] Non-statistical sectors: engineering insurance, contractor insurance, diamond insurance.

[(2)] Provision for indirect expenses is for the entire underwriting year.

Chapter C - (Actuary Declaration) Opinion

I declare and certify that in the following lines of insurance (as specified in the Supervision of Insurance Business Notice (Lines of Insurance) 5745-1985):

- a. Motor vehicle insurance property (property and third part) - Section 1(A)(9).
- b. Comprehensive residential insurance - Section 1(A)(7).
- c. Employers liability insurance - Section 1(A)(7)
- d. Third party liability insurance - Section 1(A)(14).
- e. Comprehensive business premise insurance - Section 1(A)(14).

1. I assessed the insurer's provisions specified in Chapter B according to the instructions and rules specified hereunder, as they were in force on the date of the financial statements:
   - a. Provisions set forth in the Supervision of Insurance Business Law 5741-1981 and regulations thereof;
   - b. Instructions and rules prescribed by the Regulator of Insurance;
   - c. Standard actuarial rules and practices.
2. Having reviewed the figures specified in Chapter B, I reached a conclusion that the figures are satisfactory and reasonable and that they can be relied upon for my evaluation.
3. The assumptions and methods for the purpose of assessing the Provisions were set by me, according to the best of my professional judgment and in accordance with instructions, rules and guidelines specified hereinabove.
4. The Provisions specified in Chapter B Section 2.A.1).a) for statistical insurance lines: motor vehicle - property, comprehensive residential insurance, employer liability insurance, third party liability insurance, comprehensive business premises insurance - constitute, to the best of my knowledge and assessment, an appropriate reserve to cover

the insurer's liabilities for outstanding claims, specified hereinabove, in each statistical line specified separately, effective on the date of the financial statements.

5. The total Provisions specified in Chapter B Section 2.A.1).b) constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for outstanding claims in statistical and non-statistical lines together, effective on the date of the financial statements.

6. The Allocation specified in Chapter B Section 2.A.2) constitutes, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for indirect expenses to settle claims for policies that were issued throughout the underwriting years effective on the date of the financial statements.

7. The Provisions specified in Chapter B Section 2.A.3) constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for premium deficiency in the retention level (to the extent that premium deficiency exists) in the lines that were specified effective on the date of the financial statements.

Chapter D - (Actuary Declaration) Notes and Clarifications

1. Recently, the Actuary Association published a standard for actuarial assessment for outstanding claims, including principles and professional criteria in connection with assessment of outstanding claims, including reference to capitalization, documentation, disclosure and actuarial statements concerning these reserves. Actuarial assessments are based upon these principles and professional criteria.

2. In the following lines of insurance, no actuarial assessment was carried out due to lack of statistical significance:

   Engineers insurance, contractors insurance, diamond insurance. In these lines, reserves were based upon the assessment of the claims division in the company.

3. As to claims from "co-insurance" policies until 2001 only, financial figures from leading companies were received, that is, Menora Mivtachim Insurance Ltd., Hadar Insurance Company Ltd., Arye Insurance Company Ltd., (hereinafter: the Main Insurers).

15/03/2011	General Insurance Actuary	Nir Haramati	[Signature]
Date	Position	Name of Actuary	Signature

End of Actuary Declaration - General Insurance (excluding motor act)

Actuarial Opinion in Motor Act Line

Attached is the actuary opinion in the motor act line .

Chapter A - Identity of the Actuary

I was asked by Shomera Insurance Company Ltd (hereinafter: Shomera) to evaluate the provisions (hereinafter: the provisions) specified in Chapter B hereunder, in the motor act line for the financial statements of the insurer Shomera as of 31.12.2010 as specified hereunder.

I am an employee of Menora Mivtachim Insurance Ltd and serve as its chief actuary since January 2001.

In August 2010 I was appointed as appointed actuary in the motor act line in Shomera.

To the best of my knowledge I do not maintain any other business relations with the insurer or with a family member of any party with interests in the insurer, or with a related company , or any other entity that provides services to the insurer.

Chapter B - Scope of actuarial opinion

1. Scope of the Actuarial opinion

1. For the purpose of calculating the insurer's provisions, I relied on data furnished to me by the insurer. My requests to receive information and data were granted satisfactorily for the purpose of assessing the provisions for the purpose of financial statements. I reviewed the reasonableness and adequacy of the data and compared the aforesaid data to the figures of the year to which the statement refers and to figures of previous years.
2. When necessary, I relied in my assessment on figures obtained from other reliable sources. I reviewed the applicability and relevance of the data.
3. The actuarial assumptions that I used during my work as well as the methods of evaluating the Provisions specified in Section 2 hereunder, were set by me, to the best of my judgment and professional knowledge, and subject to the provisions, rules and guidelines set forth in Section 1 in Chapter C hereunder.

4. For the purpose of calculating the retention, I requested information from authorized individuals responsible for reinsurance affairs regarding the insurer's reinsurance arrangements, the ability to collect claim liabilities and the existence of difficulties emanating from the payment policy of the reinsurers. Based upon the information I received I reviewed the implications and influence of reinsurance arrangements on the provisions.

5. My opinion also took into account the following issues:

   A. The Provisions calculated for residual insurance arrangement (the pool) were based on the Pool's calculations.

   B. The company has no coinsurance with other companies in the motor act line.

   C. There is no reduction in the provisions in respect to lack of correlation between different lines of business.

2. Data attached to the actuarial opinion

	As of December 31 2010	
	Gross (thousand NIS)	Retention (thousand NIS)
A.1. Provision for outstanding claims and direct expenses deriving therefrom (including provision for claims incurred but not reported to the insurer)		
Statistical insurance lines:		
Motor act	585,290	521,224
Total statistical insurance lines	585,290	521,224
Non-statistical insurance lines		

Total statistical and non-statistical lines	585,290	521,224
A.2. Indirect expenses		
Motor act	15,612	15,612
A.3 Provision for premium deficiency		
Motor act		0
Total outstanding claims and provisions for premium deficiency calculated according to actuarial assessment	600,902	536,836

Chapter C - Opinion

I declare and certify that in the motor act line:

1. I assessed the insurer's Provisions specified in Chapter B according to the instructions and rules specified hereunder, as they were in force on the date of the financial statements:
   a. Provisions set forth in the Supervision of Insurance Business Law 5741-1981 and regulations thereof;
   b. Instructions and rules prescribed by the Regulator of Insurance;
   c. Standard actuarial rules and practices.
2. Having reviewed the figures specified in Chapter B, I reached the conclusion that the data is reasonable and adequate and can be relied upon for the purpose of my evaluation.
3. The assumptions and methods for assessing the provisions were set by me, according to my best professional judgment and in accordance with instructions, rules and guidelines specified hereinabove.
4. The Provisions specified in Chapter B Section 2.A.1, for statistical insurance lines: (motor act) constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for the outstanding claims specified hereinabove,

in each statistical line specified separately, effective on the date of the financial statement.

5. The total provisions specified in Chapter B Section 2.A.1, constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for outstanding claims in statistical and non-statistical lines together, effective on the date of the financial statements.

6. The provision specified in Chapter B Section 2.A.2, constitutes, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for indirect expenses to settle claims for all underwriting years, effective on the date of the financial statement.

7. The provisions specified in Chapter B Section 2.A.3, constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for premium deficiency in the residual level (to the extent that premium deficiency exists) in the insurance lines that were specified effective on the date of the financial statement.

Chapter D - Notes and Clarifications

1. Recently, the Israel Association of Actuaries published a standard of practice regarding outstanding claims reserves, including principles and guidelines for the assessment of outstanding claims, with references to discounting, documentation, disclosure and actuarial declarations concerning these reserves. The actuarial assessments are based upon these principles and guidelines.

2. As of the 2009 annual statement, the BF (Bornhuetter-Ferguson) method has been applied for the purpose of calculating reserves in motor act business, so that the reserve, for each year of underwriting, is calculated on the basis of a weighted average of the calculated ultimate cost of claims according to the company's experience only and the cost obtained by using the risk premium recommended by ISO. This year the risk premium of ISO was updated so as to include the risk premium calculated by Ron Actuarial Intelligence Ltd that replaced the ISO.

Date	Position	Name of Actuary	Signature
15/03/2011	Appointed Actuary - Motor Act Insurance	Levenglick Avraham	

Actuary Declaration - Health Insurance

Attached is the actuary declaration including an opinion of estimate of provisions for outstanding claims.

Chapter A - (Actuary declaration) identity of actuary

I was asked by Shomera Insurance Company Ltd (hereinafter: Shomera) to assess the provisions specified in Chapter B hereunder, in the general insurance lines (excluding motor act line) for the financial statements of the insurer (hereinafter: the Provisions) Shomera as of 31.12.2010 as specified hereunder.

I am an employee of Shomera. In March 2005 I was appointed as supervising actuary in the general insurance line (excluding motor act).

To the best of my knowledge, I am not an interested party and I am not a controlling shareholder of Shomera. I do not maintain any business relations with an interested party of Shomera and not with any family member of an interested party in Shomera, including business relations with a subsidiary of Shomera or a company related to Shomera.

Chapter B - (Actuary declaration) - scope of actuarial opinion

1. Format of scope of actuarial opinion

   A. For the purpose of calculating the insurer's Provisions, I relied on data furnished to me by the insurer. My requests to receive information and data were granted satisfactorily for the purpose of assessing the Provisions for the purpose of financial statements. I reviewed the probability and adequacy of the data and compared the aforesaid data to the figures of the year to which the statement referred and figures of previous years.

   B. When necessary, I relied in my assessment on figures obtained from other reliable sources. I reviewed the level of conformance of data and their relevance.

C. The actuarial assumptions that I used during my work as well as the methods of evaluating the Provisions specified hereunder, were set by me, to the best of my judgment and professional knowledge, and subject to the provisions, rules and guidelines set forth in Section 1 in Chapter C hereunder.

D. For the purpose of calculating the retention, I requested authorized entities in charge of reinsurance in the insurer for information about the insurer's reinsurance arrangements, claim collection abilities and problems in the payment policy of reinsurers. Based upon the information I received I reviewed the implications and influence of reinsurance arrangements on the Provisions.

E. My opinion also took into account the following matters:

1) Provisions calculated for assumed business - the company has no assumed business.

2) Provisions calculated for secondary insurance line of personal accidents, a secondary line in which the company has coinsurance policies that originate in collective insurance (written up to the year 2000 only) were assessed by the main insurers and delivered to me.

2. Data attached to the actuarial opinion

	As of December 31 2010	
	Gross (thousand NIS)	Retention (thousand NIS)
A.1. Provision for outstanding claims and direct expenses deriving therefrom (including provision for claims incurred but not reported to the insurer)		
A. Secondary insurance line health, personal accidents:		
Individual insurance	1,595	153
Collective insurance	184	175
Total secondary line health, personal accidents	1,779	328
A.2. Indirect expenses(1)		
Individual insurance	37	37
Collective insurance(2)	0	0
Total outstanding claims and Provisions for premium deficiency calculated according to actuarial assessment	**1,816**	**365**

(1) Provisions for indirect expenses is for all years of underwriting.

(2) Without Provisions for indirect expenses since claim management is not conducted by the company.

A.3. No Provisions were made from the provisions of the insurance contract, A.4 No Provisions were made for participation in profits - the aforesaid is not in the provisions of the policy.

Chapter C - (Actuary Declaration) Opinion

I declare and certify that in the secondary insurance line of personal accidents:

1. I assessed the insurer's provisions specified in Chapter B according to the instructions and rules specified hereunder, as they were in force on the date of the financial statement:
    a. Provisions set forth in the Supervision of Insurance Business Law 5741-1981 and regulations thereof;
    b. Instructions and rules prescribed by the Regulator of Insurance;
    c. Standard actuarial rules and practices.
2. Having reviewed the figures specified in Chapter B, I reached the conclusion that the figures are satisfactory and reasonable and that they can be relied upon for evaluation purposes.
3. The assumptions and methods for the purpose of assessing the provisions were set by me, according to the best of my professional knowledge and in accordance with instructions, rules and guidelines specified hereinabove.
4. The Reserves specified in Chapter B constitute, to the best of my knowledge and assessment, an appropriate reserve to cover the insurer's liabilities for its financial obligations deriving from health insurance contracts in the secondary health lines as specified hereinabove, effective on the date of the financial statement.

Chapter D - (Actuary Declaration) Notes and Clarifications

1. Recently, the Actuary Association published a standard for actuarial assessment for outstanding claims, including principles and professional criteria in connection with assessment of outstanding claims, including reference to capitalization, documentation, disclosure and actuarial declarations concerning these reserves. Actuarial assessments are based upon these principles and professional criteria.
2. As to claims from policies in the secondary insurance line - personal accidents - collective insurance ("coinsurance" until the year 2000 only), financial figures were received from the main insurers that are Migdal Insurance Co. Ltd and Dikla Insurance Co. Ltd (hereinafter: the Main Insurers).

15/03/2011	Health Insurance Actuary	Nir Haramati	[Signature]
Date	Position	Name of Actuary	Signature

End of Actuary Declaration - Health