

Menora Mivtahim Holdings Ltd.

Periodic report for 2011

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Part 1: The corporation's activities and a description of the development of its business affairs

This part was prepared pursuant to regulation 8(c) of the Securities Regulations (periodic and immediate reports), 5730-1970 (hereinafter: "**the Securities Regulations**"). However that set forth in regulations 8(b), 8a and 8b of the securities regulations in respect of the periodic report does not apply to information in the periodic report of a corporation that consolidated or relatively consolidated an insurer or where the insurer is its included company, if this information refers to the insurer.

Since the major holdings of the company are corporations that are insurers (Menora Mivtahim Insurance Ltd. and by means of it, also Menora Mivtahim Pension Ltd. and Shomera Insurance Company Ltd.), most of this part has been prepared pursuant to the circulars of the Commissioner for insurance, that applied the aforesaid securities regulations to Mivtahim *mutatis mutandis*, as a result of the nature of Mivtahim, while sometimes giving details differing from those required pursuant to the aforesaid regulations.

The section regarding the financial services, in this part, was prepared pursuant to the provisions of the first supplement of the Securities Regulations (details of a prospectus, and draft prospectus, structure and form) 5729-1969.

This part of the periodic report, that addresses a description of the company, its development and business affairs and its fields of activity, also includes forward looking information, within the meaning of the Securities Law, 5728-1968. Forward looking information is information that is uncertain regarding the future, based on information existing in the company on the date of publication of the report and includes the estimates or intentions of the company as of the date of publication of the report. The actual results are liable to be materially different from those estimated or implied from this information.

In certain cases it is possible to identify passages containing forward looking information by the appearance of words such as: "the company/group estimates", "the company/group is convinced that", "the company/group intends", "is expected", etc., but it is likely that this information will also appear with different wordings.

Forward looking information appearing in this report refers solely to the date on which it is written. The company does not undertake to update or change this information if additional or different information in connection with the aforesaid information comes to its knowledge.

This part includes a brief and general description of insurance products and insurance coverage. The full and binding conditions are those as set forth in every insurance policy and/or contract and/or regulations, as the case may be.

The periodic report, including all its parts, should be read as a single entity.

Definitions

The terms as set forth below shall have, in the description of the business affairs of the corporation, the meaning appearing alongside them, unless stated otherwise expressly.

Designated bond Non negotiable government bonds having a guaranteed return, issued to pension funds and insurance companies, by virtue of the Loan Law (insurance companies) 5723-1962, and by virtue of agreements signed with them.

Institutional entity An insurer and a management company.

Premium	The sum the insured is obligated to pay the insurer pursuant to the conditions of the policy including charges.
Contribution fees	The sum paid by a planholder (salaried person, self employed person, and employer) in a pension fund or by a planholder in a provident fund for the pension insurance or the savings in a provident fund, as the case may be.
Charges	The sums paid by the insured to cover the insurer's costs, such as registration fees, or to cover compulsory payments, such as various taxes and imposts.
The financial statements	The audited financial statements of the company as of December 31, 2011.
Free investments	Investments of assets of the Group not by means of designated bonds.
Underwriting commitment	A commitment to purchase securities offered in accordance with a prospectus if not purchased by the public, or a commitment to purchase securities offered in accordance with a prospectus in order to sell them to the public.
Management company	A company managing a pension fund or provident funds that received a license for this, pursuant to the Law for Supervision of Financial Services (provident funds) 5765-2005.
The Commissioner's circulars	Circulars, position papers, and clarifications published by the Commissioner or the Inspector.
The Pension Consulting Law	The Law for Supervision of Financial Services (consulting, marketing, and pension clearing system) 5765-2005.
The Joint Investment Trust Law	The Joint Investment Trust Law, 5754-1974.
The Companies Law	The Companies Law, 5759-1999.
The Insurance Contract Law	The Insurance Contract Law, 5741-1981.
The Supervision Law	The Law for Supervision of Financial Services (insurance), 5741-1981.
The Investment Consulting Law	The Law for Regulation of Investment Consulting, investment marketing, and management of investment portfolios, 5755-1995.
The Securities Law	The Securities Law, 5728-1968.
The Law for Compensation of Victims of Road Accidents	The Law for Compensation of Victims of Road Accidents, 5735-1975.
The Provident Funds Law	The Law for Supervision of Financial Services (provident funds), 5765-2005.
Underwriting	The process of approval of an insurance proposal and the action of pricing the proposed policy, <i>inter alia</i> , by means of actuarial discounts (except for section 8 of this part (products and financial services), in respect of which see the definition of "underwriting commitment", below).
Underwriter	A person who made an underwriting commitment.

Pension product	Within the meaning of the Pension Consulting Law.
The Inspector or the Inspector for insurance or the Commissioner	The Commissioner for the capital market, insurance, and savings in the Ministry of Finance, who is also the Inspector for insurance, within the meaning of the Supervision Law.
The Income Tax Order, or the Order	The Income Tax Order [new version].
Earned premium	A premium referring to the year of the report.
Residue	The residual risk imposed on the insurer after transfer of some of the risk to a sub insurer.
Regulation for Means of Investment	The Regulations for Supervision of Financial Services (insurance) (means of investment of capital and funds of an insurer and management of its commitments), 5761-2001.
Minimum Capital Regulations	The Regulations for Supervision of Financial Services (insurance) (minimum equity required from the insurer), 5758-1998.
Calculation Regulations	The Regulations for Supervision of Financial Services (insurance) (method of calculation of provision for future claims in general insurance), 5745-1984.
Regulations for Details of Reports	The Regulations for Supervision of Insurance Transactions (details of reports), 5758-1998.
Provident Funds Regulations	The Income Tax Regulations (rules for approval and management of provident funds), 5724-1964.
Standard & Poor's Rating – S&P	The international credit rating company.

For the sake of convenience, in this part the following abbreviations shall have the meaning appearing alongside them, unless expressly stated otherwise:

The company	Menora Mivtahim Holdings Ltd.
The Group	The company and the companies directly or indirectly controlled by it.
Menora Mivtahim Insurance	Menora Mivtahim Insurance Ltd.
Menora Mivtahim Capital Raising	Menora Mivtahim Capital Raising Ltd.
Menora Mivtahim Provident Fund	Menora Mivtahim Provident Fund Ltd.
Menora Mivtahim Engineers	Menora Mivtahim and the Engineers Histadrut Management of Provident Funds Ltd. (in its former name – the Company for Management of the Engineers' Further Education Fund Ltd.
Menora Mivtahim Real Estate	Menora Mivtahim Real Estate Ltd.

Menora Mivtahim Pension	Menora Mivtahim Pension Ltd.
Menora Mivtahim Finance	Menora Mivtahim Finance Ltd. and the companies controlled by it, unless expressly stated otherwise.
Orot Agency	Orot Life Insurance Agency (2005) Ltd.
Shomera	Shomera Insurance Company Ltd. and the companies controlled by it, unless expressly stated otherwise.

1 Description of the general development of the corporation's business affairs

1.1 The activities of the corporation and a description of the development of its business affairs

1.1.1 Menora Mivtahim Holdings Ltd. (hereinafter: "the company") is a holding company, the holders of a controlling interest of which are Neidan Establishment and Palms Establishment Ltd., foreign corporations registered in Vaduz-Lichtenstein, that hold 61.86% of the company's shares (above and below: "the foreign corporations"). The foreign corporations are held in trust for Mr. Gurevitz as a single sole beneficiary.

As of the date of the report, the company engages, by means of subsidiaries controlled by it, in all the major branches of insurance, including life insurance and long term savings, including pension and provident fund, vehicle insurance (compulsory and property), other general insurance and health insurance.

In addition the company, by means of additional subsidiaries controlled by it, engages in activities in the field of the capital market and finance, including management of trust funds, management of investment portfolios, and underwriting.

The company also engages in additional activities (that do not constitute a "field of activity" within the meaning of the Securities Regulations (details of a prospectus and draft prospectus, structure and form), 5729-1969), such as investments in real estate abroad by means of companies controlled by it.

1.1.2 The company was incorporated in Israel (Palestine) in 1935 as a private company called the Office for General Liability Ltd., and after a number of changes of name, over the years, changed its name in 2006 to its current name.

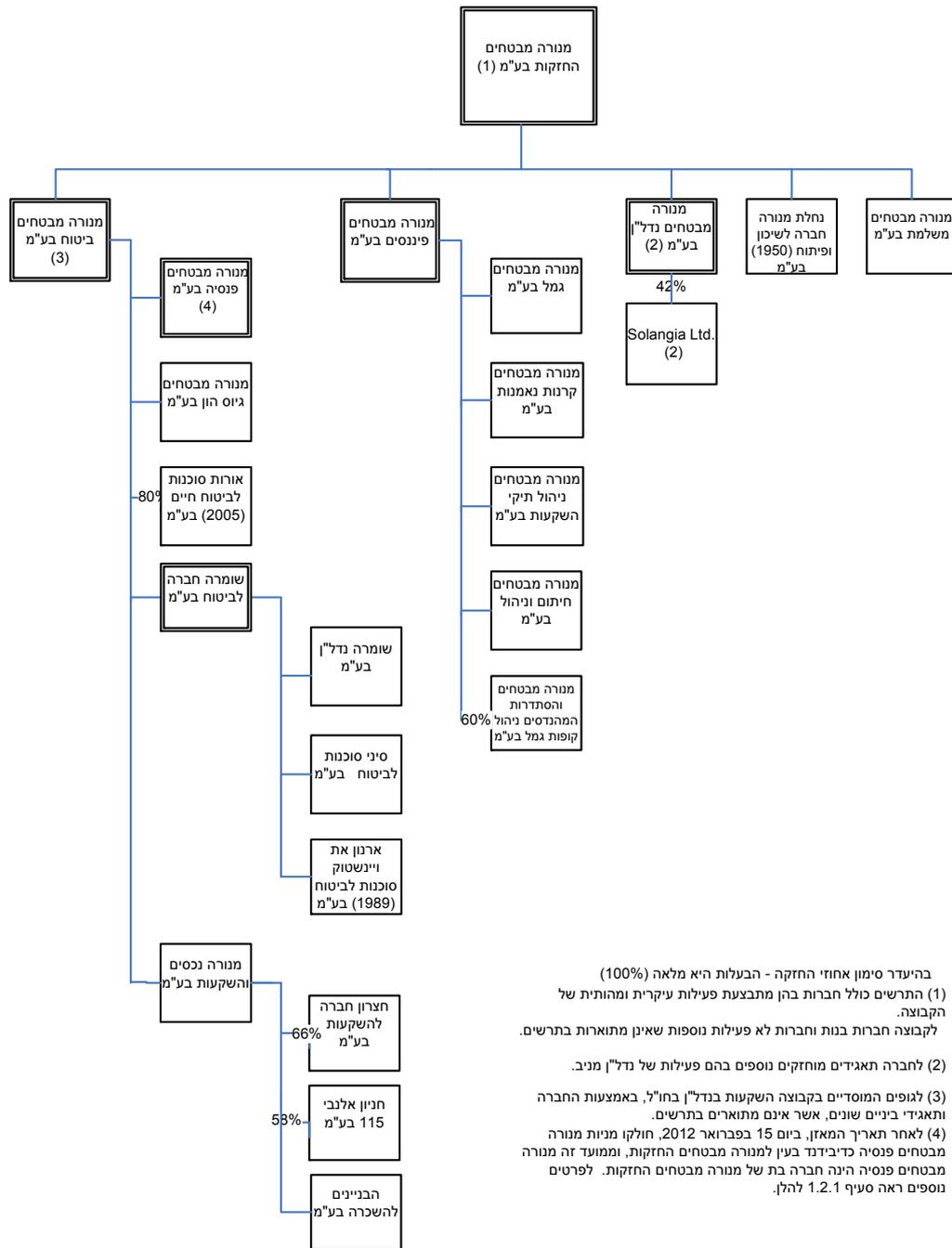
1.1.3 In 1982 an issue was made to the public of the company's shares in the Tel Aviv Stock Exchange Ltd. and the company became a public company.

1.1.4 Since the date of its incorporation the company has engaged in various fields of insurance by itself and by means of subsidiaries controlled by it.

1.1.5 In 1998 the insurance business of the company was split into a subsidiary controlled by it, called Menora Mivtahim Insurance Ltd. (hereinafter: "Menora Mivtahim Insurance"). In 2001 MenoLife – Israeli Insurance Company for Life Insurance Ltd., a subsidiary of the company, that engaged in the field of life insurance, was merged with another subsidiary of the company, Menora Mivtahim Insurance.

1.2 Diagram of the structure of holdings of the Group, as of December 31, 2011

The following is a schematic diagram of the structure of holdings of the Group, as of the date of the report. A full list of the companies controlled by the company is given in the sixth part of the periodic report, as part of regulation 11 of the securities ("**the additional details report**").



Menora Mivtahim Holdings Ltd. (1)

Menora Mivtahim Insurance Ltd. (3)

Menora Mivtahim Pension Ltd. (4)

Menora Mivtahim Capital Raising Ltd.

80% Orot Life Insurance Agency (2005) Ltd.

Shomera Insurance Company Ltd.

Shomera Real Estate Ltd.

Sinai Insurance Agencies Ltd.

Arnon & Weinstock Insurance Agencies (1989) Ltd.

Menora Assets & Investments Ltd.

66% Hezron Investment Company Ltd.

58% Allenby 115 Parking Ltd.

Buildings For Leasing Ltd.

Menora Mivtahim Finance Ltd.

Menora Mivtahim Provident Fund Ltd.

Menora Mivtahim Trust Funds Ltd.

Menora Mivtahim Management Of Investment Portfolios Ltd.

Menora Mivtahim Underwriting And Management Ltd.

60% Menora Mivtahim Engineers' Histadrut Management And Provident Funds Ltd.

Menora Mivtahim Real Estate Ltd. (2)

42% Solangia Ltd. (2)

Nahalat Menora Housing & Development Company (1950) Ltd.

Menora Mivtahim Meshalemet Ltd.

If the percentage holding is not indicated, there is full ownership (100%).

- 1) The diagram includes companies in which major and material activities of the Group are carried out. The Group has additional subsidiaries and inactive companies that do not appear in the diagram.
- 2) The company has additional held corporations in which there are real estate activities giving a yield.
- 3) The institutional entities in the Group have real estate investments abroad, by means of the company and various intermediate corporations, that do not appear in the diagram.
- 4) After the date of the balance sheet, on February 15, 2012, shares of Menora Mivtahim Pension were distributed as a dividend in kind to Menora Mivtahim Holdings, and on this date Menora Mivtahim Pension is a subsidiary of Menora Mivtahim Holdings.

1.2.1 Starting from October 2004, the company, by means of Menora Mivtahim Pension Ltd. (formerly called Mivtahim Pension Funds Ltd.) (hereinafter: "Menora Mivtahim Pension"), a fully owned and controlled company of Menora Mivtahim Insurance, manages the new comprehensive pension fund – "the New Mivtahim" (formerly called "Mivtahim Yoter"), that is the largest new pension fund in Israel (hereinafter: "the New Mivtahim") and the general pension fund "the New Mivtahim Plus" (formerly called "Mivtahim Mashlima"). On February 15, 2012, after the date of the balance sheet, Menora Mivtahim Insurance distributed shares of Menora Mivtahim Pension, as a dividend in kind, to the company. Starting from this date, Menora Mivtahim Pension is a subsidiary of Menora Mivtahim Holdings. For additional details see note 41 of the financial statements.

- 1.2.2** In 2005 the company, by means of a fully owned subsidiary, Menora Mivtahim Finance Ltd., (hereinafter: "Menora Mivtahim Finance") began to engage in activities in the field of the capital market, finance, and provident funds. For details regarding the activities in the field of financial services conducted by the company as of the date of this report, see section 8 below.
- 1.2.3** Menora Mivtahim Provident Funds Ltd. (hereinafter: "Menora Mivtahim Provident Fund") was established as a subsidiary of Menora Mivtahim Pension in 1999, and began to engage in the field of provident funds and further education funds in 2003. In 2005 the ownership of Menora Mivtahim Provident Funds was transferred to Menora Mivtahim Finance. The activities of Menora Mivtahim Provident Funds in this branch develop both by means of the purchase of the activities of existing provident funds and by means of establishing new provident funds. For details regarding the management of the provident funds in the Group, see section 3 below.
- 1.2.4** In August 2005 Menora Mivtahim Trust Funds Ltd. (hereinafter: "Menora Mivtahim Funds") was established. It commenced its activities in 2006, when it purchased most of the activities of management of the trust funds of the Association of Trust Funds Ltd. from Bank Mizrahi Tefahot Ltd. For a description of the activities of management of the trust funds in the Group as of the date of this report, see section 8 below.
- 1.2.5** In 2006 the company, by means of Menora Mivtahim Real Estate Ltd., began to invest in real estate abroad, and from 2010 the company also began to invest in solar energy projects abroad.
- 1.2.6** In December 2007 Menora Mivtahim Insurance purchased all the shares of Shomera Insurance Company Ltd. (hereinafter: "Shomera"). Shortly after the date of the purchase of Shomera, in December 2007, Shomera purchased all the shares of Sinai Underwriters Insurance Agency (1989) Ltd. (formerly called "Arnon & Weinstock insurance Agencies (1989) Ltd.") (hereinafter: "the Arnon & Weinstock Agency"). Shomera engages mainly in the field of vehicle insurance (compulsory and property) and insurance of property and also holds the insurance agencies of Sinai Insurance Agency Ltd. and the Arnon & Weinstock Agency and real estate assets (by means of Shomera Real Estate Ltd.).
- 1.2.7** In addition, the company has investments in a number of additional subsidiaries as set forth above in the diagram. Some of the real estate assets of the company – offices and land – are held by Menora Mivtahim Assets and Investments Ltd.
- 1.2.8** On March 29, 2011, Menora Mivtahim Insurance signed an agreement for the purchase of all (100%) of the shares included in the paid up and issued share capital of Israel Industrial Development Bank Ltd. On March 4, 2012, after the date of the balance sheet, the transaction was completed, after compliance with the conditions precedent, including approval by the Court of the merger and approval by the Tax Authority. For additional details see section 9.5 of the report of the Board of Directors and also note 40 of the financial statements.

1.3 Fields of activity

The Group engages in the following fields of activity:

1.3.1 Life insurance and long term savings

This fields of activity includes the activities of life insurance, managed by means of Menora Mivtahim Insurance, including pension savings as part of an insurance policy as well as cover for insurance events resulting from various risks during the life of the individual, such as insurance in the event of death, disability, and loss of work capability. Furthermore, in the field of long term savings, the Group manages pension funds, provident funds, and further education funds, by means of subsidiaries – Menora Mivtahim Pension, Menora Mivtahim Provident Funds, and Menora Mivtahim Engineers.

1.3.2 General insurance

The general insurance activities are managed by means of Menora Mivtahim Insurance and Shomera and include the following fields of activity:

1.3.2.1 Compulsory vehicle insurance

The activity in the field is the provision of insurance cover for bodily injuries caused as a result of use of motor vehicles, as required by law. The activity includes marketing and sales of compulsory vehicle insurance policies.

1.3.2.2 Vehicle property insurance

This field includes the activities of the Group in the marketing and sales of insurance policies for insurance of property damage to vehicles, including third party damage caused by insured vehicles.

1.3.2.3 Other general insurance

This field includes the other branches of general insurance that are not included in the branches of compulsory vehicle insurance or vehicle property insurance. The major insurance policies in this field are of the kind of liabilities, property insurance and health insurance (short term), as well as activities not included in other fields of activity.

The following are the main branches included in the field of other general insurance:

Liabilities insurance

This branch includes the activities of the Group in marketing and sales of third party liability insurance policies.

Property insurance

As part of this branch the Group engages in the marketing and sales of property insurance policies that are not included in the insurance policies proposed in the field of property vehicle insurance.

Health insurance (short term)

As part of this branch the Group engages in the marketing and sales of insurance policies, excepting group ones, for insurance of personal accidents and the insurance of illness and convalescence (insurance of trips abroad and insurance of foreign workers and tourists).¹

It should be noted that starting from January 1, 2012, after the date of the balance sheet, most of the health insurances included in the following general insurance, were transferred to the following health (see section 1.3.3 below).

The other general insurance branches

Menora Mivtahim Insurance engages in other, non-material activities in the branches of general insurance, such as insurance of execution guarantees and financial guarantees, insurance of guarantees pursuant to the Sales Law, insurance of sickness pay (to cover employers' liabilities *vis-a-vis* their workers for the payment of sickness leave, by law) and other risks.

1.3.3 Health insurance

Starting from January 1, 2011, and as a result of the change to the operational structure of the Group, the health insurance field is defined as a separate activity that unifies various long term health insurance policies, and is also reported as a separate sector starting from the financial statements of the company for the first quarter of 2011. This field includes the activities of the Group in marketing and sales of long term health insurance policies, including insurance of illnesses and hospitalization, dental insurance, nursing insurance, and insurance of serious illnesses. The insurance is carried out as part of individual and collective insurance policies. The insurance policies sold in the aforesaid branches cover a range of damages (except for death from illness) caused to the insured as a result of illnesses and/or accidents. This field is managed in the Group by Menora Mivtahim Insurance.

It should be noted that starting from January 1, 2012, the field of health unifies most of the various short term health insurance policies that were transferred to it from the field of general insurance.

1.3.4 Financial products and services

As part of this field the Group manages the following activities: management of trust funds, management of investment portfolios and furnishing underwriting commitments, by means of the companies: Menora Mivtahim Trust Funds Ltd., Menora Mivtahim Management of Investment Portfolios Ltd., and Menora Mivtahim Underwriting and Management Ltd., respectively, that are owned by Menora Mivtahim Finance.

1.3.5 Other activities

In addition, the company engages in other activities that are not included in the

¹ The illness and convalescence branch also includes insurance for medical payment and dental insurance, but since the policies in these branches are long term ones, they have been included in the health insurance branch, starting from January 1, 2011. (For additional details see section 7 below.)

aforesaid activities, since they are not sufficiently material to constitute a separate fields of activity, including initiation of projects and investments in real estate and investment in solar energy projects abroad, by means of Menora Mivtahim Real Estate, and investment activities in additional subsidiaries, as set forth in section 9.3.6 below.

Furthermore, the Group holds three insurance agencies: Arnon & Weinstock, and Sinai Insurance Agency Ltd., by means of Shomera, and Orot life Insurance Agency (2005) Ltd. (hereinafter: "**Orot Agency**") by means of Menora Mivtahim Insurance, all as set forth in the diagram of the structure of holdings of the company.

A description of the fields of activity of the Group shall be given separately, except for matters related to all the fields of activity of the Group that shall be described together, in section 9 below.

1.4 Investments in the capital of the corporation and transactions in its shares

No investments were made in the company's capital in the two years preceding the date of this report, and no material transactions were made by stakeholders of the company outside the Stock Exchange. It should be noted that shares were issued in 2008, as part and by virtue of a shares scheme for the CEO of the company, to a trust company, for him. For details regarding the shares scheme for the company CEO, see section 9.6.7 below as well as note 34 of the financial statements.

1.5 Distribution of the dividends

In the two years preceding the date of the report the company did not distribute dividends.

Part B – Financial information regarding the fields of activity of the corporation**2 Financial information regarding the fields of activity of the corporation****2.1 Summary of the results of the activity**

Data are presented in this section in respect of the results of the activities of the Group. In addition to the data presented in this section, see the explanations of the results appearing below in this report, as part of the description of the information in each field of activity of the Group as well as in the report of the Board of Directors.

Financial information in respect of the results of the fields of activity (thousands of NIS):

	2011	2010	2009
Profit (loss) from the field of life insurance and long term savings	(27,663)	212,090	241,209
Profit from the field of compulsory vehicle insurance	126,375	78,570	74,946
Profit (loss) from the field of vehicle property insurance	(47,083)	6,367	40,129
Profit from the field of other general insurance	45,260	71,603	100,098
Profit from the field of health insurance	51,290	11,826	99,234
Profit from financial products and services	6,749	10,339	29,868
Other (*)	(63,943)	43,920	8,279
Profit on the income before tax	90,985	434,715	593,763
Tax on the income	52,685	152,768	190,793
Net profit	38,300	281,947	402,970
Referred to:			
Shareholders of the company	37,816	281,616	402,798
Rights not awarding control	484	331	172
Net profit	38,300	281,947	402,970
	2011	2010	2009
Profit (loss) from the field of life insurance and long term savings	(40,416)	230,755	312,234
Profit from the field of compulsory vehicle insurance	73,872	83,815	187,921
Profit (loss) from the field of vehicle property insurance	(55,297)	7,248	64,941
Profit from the field of other general insurance	26,782	73,262	139,013
Profit from the field of health insurance	47,046	13,643	102,359
Profit from financial products and services	6,749	10,339	29,868
Other (*)	(103,532)	42,199	170,768
Profit on the income before tax	(44,796)	461,261	1,007,104
Tax on the income	8,397	160,205	334,556
Net profit	(53,192)	301,056	672,547
Referred to:			
Shareholders of the company	(53,676)	300,725	672,375
Rights not awarding control	484	331	172
Net profit	(53,192)	301,056	672,547

(*) Mainly including financing costs, results of an activity that is not defined as a field of activity, and income from investments that are not attributed to a defined field of activity.

2.2 Financial information based on the fields of activity of the corporation

2.2.1 Life insurance and long term savings

Life insurance (thousands of NIS)

	2011	2010	2009
Gross premiums	1,680,902	1,700,745	1,537,349
Premiums with self residue	1,562,323	1,587,554	1,425,028
Net management fees	94,232	193,325	79,307
Profit (loss) before tax	(113,740)	63,332	98,763
Overall profit (loss) before tax	(126,493)	81,997	169,788
Total commitments in respect of insurance contracts and investment contracts, gross	16,519,430	16,453,030	14,534,005
Commitments in respect of insurance contracts that do not depend on the yield	4,774,977	4,590,258	4,329,994
Commitments in respect of insurance contracts that depend on the yield	11,744,453	11,862,772	10,204,011

Pension funds (thousands of NIS)

	2011	2010	2009
Contribution fees collected	4,976,058	4,203,323	3,650,839
Net income from management fees	323,313	279,447	246,964
Profit before tax	90,986	96,015	91,872
Overall profit before tax	90,986	96,015	91,872
Total assets managed	37,628,016	34,114,481	27,811,825

Provident funds (thousands of NIS)

	2011	2010	2009
Contribution fees collected	798,342	715,827	700,341
Net income from management fees	84,796	76,259	63,302
Profit (loss) before tax	(4,909)	52,743	50,574
Overall profit (loss) before tax	(4,909)	52,743	50,574
Total assets managed	13,069,008	12,618,235	11,357,486

For details regarding the developments that occurred to the data presented in the financial information in the field of life insurance and long term savings, including the development of the premiums and the contribution fees, the development of income from management fees of pension funds and provident funds, and the development of the profit (loss) and the overall profit (loss), before tax, see sections 3.1, 3.2, and 4.4.1 of the report of the Board of Directors and note 19 of the financial statements.

2.2.2 Compulsory vehicle insurance (thousands of NIS):

	2011	2010	2009
Gross premiums (including fees)	634,780	602,065	621,979
Premiums with self residue	620,373	490,029	600,968
Profit before tax	126,375	78,570	74,946

	2011	2010	2009
Overall profit before tax	73,872	83,815	187,921
Total gross insurance commitments	2,460,992	2,365,254	2,178,784
Provision for premiums that have not yet been received	280,670	262,020	259,302
Claims pending:			
Actuarial estimate	1,980,161	1,941,557	1,836,849
Supplement/deficit between the actuarial estimate and the provision in the financial statements	190	17	28
Accumulated sum	199,971	161,660	82,605

For details regarding the developments that occurred to the data presented in the financial information in the field of compulsory vehicle insurance, including in respect of the development of the premiums and the profit before tax, see section 4.3 below as well as sections 3.1, 3.3, 4.4.2.1, and 4.4.2.4 of the report of the Board of Directors and note 18 of the financial statements.

Breakdown of the residual profit of the fields of activity (thousands of NIS):

	2011	2010	2009
Profit (loss) for the open years (*)	(15,493)	15,922	22,863
Underwriting year released	2008	2007	2006
Profit in respect of the underwriting year released	78,507	40,418	15,010
Adjustments for the underwriting year released in previous years	63,361	22,230	37,073
Total profit reported	126,375	78,570	74,946
Activities not included in calculation of the reserves	(16,664)	17,093	13,530
Loss from transactions of the Pool	(5,274)	(33,451)	(16,397)

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

For details regarding the developments that occurred to the data presented in the financial information in respect of the breakdown of the residual profit (loss), see section 4.1 of the report of the Board of Directors and note 18 of the financial statements.

Data in respect of the underwriting years 2004-2011 (thousands of NIS)

Underwriting year		Open underwriting years				Closed underwriting years			
		2011	2010	2009	2008	2007	2006	2005	2004
Gross premium (including charges)	(1)	642,737	603,110	622,253	557,314	529,829	497,166	508,804	479,770
Residual profit (loss) in respect of the underwriting year, accumulated to the date 31.12.2001	(2)	(7,658)	(558)	6,293	85,605	56,957	42,804	62,700	125,902
Residual surplus income over expenditure	(3)	40,448	49,521	99,889	-	-	-	-	-

Influence of the income from investments on the profit/surplus accumulated in respect of the underwriting year	(4)	16,233	36,042	86,876	100,012	105,917	102,034	104,500	107,139
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1. From 2004 and until 2011 there was an increase in premiums mainly because of the increase in extent of sales. A decrease in premiums was recorded in 2010 as a result of amendment to legislation according to which the responsibility for medical costs was transferred to the health funds, with the transfer of 9.4% of the premiums to Karnit – Fund for Compensation for Victims of Road Accidents.
2. During the period 2004-2006 there was an erosion of the profitability following competition and reduction of tariffs. From 2007 there was an increase in profitability as a result of improvement in underwriting and tariffs. In the underwriting year 2011 a loss was recorded (not including accumulation) as a result of the policy of Menora Mivtahim Insurance not to capitalize the claims pending, while the insurance premiums collected were calculated with the assumption of capitalization.
3. In 2011 the surplus income reflects an earned premium for six months only. The decrease in surplus income in 2009-2011 results from the fact that income had not yet accumulated from investments.
4. The decrease in income from investments results from the fact that over the years profits from the investments had not yet accumulated.

2.2.3 Property vehicle insurance (thousands of NIS)

	2011	2010	2009
Gross premiums (including charges)	904,352	902,069	877,843
Premiums with self residue	740,669	668,572	675,426
Profit (loss) before tax	(47,083)	6,367	40,129
Overall profit (loss) before tax	(55,297)	7,248	64,941
Total gross insurance commitments	634,749	578,640	551,567
Provision for premiums that have not yet been received	404,629	391,432	375,675
Claims pending:			
Actuarial estimate	230,120	187,093	175,892
Supplement/deficit between the actuarial estimate and the provision in the financial statements	-	115	-

For details regarding the developments that occurred to the data presented in the financial information in the field of property vehicle insurance, including the development of the premiums and the profit (loss) before tax, see section 5.3 below as well as sections 3.1, 3.3, and 4.4.2.2 in the report of the Board of Directors and note 18 of the financial statements.

The insurance premiums originating in insurance policies for which secondary insurance cover was purchased at a rate exceeding 90% (thousands of NIS):

	2011	2010	2009
Gross premiums	-	65,138	105,607
Premiums with self residue	-	4,560	42,044

Other general insurance (thousands of NIS):

	2011	2010	2009
Gross premiums	815,760	775,153	777,996
Premiums with self residue	402,448	364,062	376,973
Profit (loss) before tax	45,260	71,603	100,098
Overall profit (loss) before tax	26,782	73,262	139,013
Total gross insurance commitments	1,430,135	1,388,812	1,244,770
Provision for premiums that have not yet been received	300,726	283,930	278,551

For details regarding the developments that occurred to the data presented in the financial information in the field of other general insurance, including in respect of the development of premiums and profit before tax, see section 6.3 below as well as sections 3.1, 3.3, 4.4.2.3, and 4.4.2.4, in the report of the Board of Directors and note 18 of the financial statements.

The following are data in this fields of activity that are presented while differentiating between branches of liabilities insurance, property insurance, and others:

Liabilities insurance (thousands of NIS):

	2011	2010	2009
Gross premiums	232,198	239,570	245,908
Premiums with self residue	134,538	125,711	136,358
Profit before tax	16,258	35,675	48,581
Overall profit before tax	650	37,059	79,663
Total gross insurance commitments	1,001,065	984,473	897,395
Provision for premiums that have not yet been received	94,552	99,521	98,473

Claims pending in respect of branches transferred by the actuary:

	2011	2010	2009
Actuarial estimate	539,093	502,425	496,388
Supplement in respect of the actuarial estimate	1,329	2,747	4,747
Accumulated sum	163,040	154,837	125,860

Claims pending in respect of branches not transferred by the actuary:

	2011	2010	2009
Estimate by the claims department of the identified claims	94,640	105,409	94,577
Supplement to the claims pending in respect of events that occurred but have not yet been reported (IBNR)	6,093	5,963	5,646
Accumulated sum	102,318	113,571	71,704

The insurance premiums originating in insurance policies for which secondary insurance cover was purchased at a rate exceeding 90% (thousands of NIS):

	2011	2010	2009
Gross premiums	37,946	55,971	49,652
Premiums with self residue	6,779	10,950	9,634

Breakdown of residual profit of the liabilities insurance branch (thousands of NIS)

Report year	2011	2010	2009
Profit (loss) for the open years (*)	(24,689)	(9,089)	(14,601)
Underwriting year released in the report year	2008	2007	2006
Profit in respect of the underwriting year released in the report year	35,187	17,881	43,016
Adjustments for the underwriting year released in previous years	5,760	26,883	20,166
Total profit reported	16,258	35,675	48,581
Activities not included in calculation of the reserves	18,152	(7,060)	(10,833)

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

For details regarding the developments that occurred to the data presented in the financial information in respect of liabilities insurance, see section 6.1.4 below as well as sections 3.1, 3.3, 4.4.2, and 4.4.2.4 the report of the Board of Directors and note 18 of the financial statements.

Data regarding the underwriting years 2004-2011 in respect of liabilities insurance (thousands of NIS) (*):

Underwriting year	Open underwriting years			Closed underwriting years				
	2011	2010	2009	2008	2007	2006	2005	2004
Gross premium (including charges)	228,000	238,707	243,343	247,925	247,048	236,419	222,793	200,929
Residual profit (loss) in respect of the underwriting year, accumulated to the date 31.12.2001	(3) (23,603)	(13,542)	(2,934)	35,306	(9,257)	37,495	51,935	71,218
Residual surplus income over expenditure	(2) 26,133	43,952	49,692	2,974	2,185	-	-	-
Influence of the income from investments on the profit/surplus accumulated in respect of the underwriting year	2,329	8,594	19,198	35,714	35,804	42,398	38,106	34,910

1. The change in profitability over the years results from the development in estimation of the claims.
2. In 2011 the surplus income reflects an earned premium for six months only. The decrease in surplus income in 2009-2011 results from the fact that income had not yet accumulated from investments. The decrease in income from investments results from the fact that over the years profits from the investments had not yet accumulated.

2.2.4 Property insurance (thousands of NIS):

	2011	2010	2009
Gross premiums (including charges)	583,562	535,583	532,088
Premiums with self residue	267,910	238,351	240,615
Profit before tax	29,002	35,928	51,517
Overall profit before tax	26,132	36,203	59,350
Total gross insurance commitments	429,070	404,339	347,375

	2011	2010	2009
Provision for premiums that have not yet been received	206,174	184,409	179,878

Claims pending in respect of branches transferred by the actuary:

	2011	2010	2009
Actuarial assessment of the claims pending	222,493	219,930	167,497
Supplement/deficit between the actuarial estimate and the provision in the financial statements	403	-	-

For details regarding the developments that occurred to the data presented in the financial information in the field of property insurance, including the development of the premiums and the profit before tax, see section 6.3 below, as well as sections 3.1, 3.3, and 4.4.2 the report of the Board of Directors and note 18 of the financial statements.

The insurance premiums originating in insurance policies for which secondary insurance cover was purchased at a rate exceeding 90% (thousands of NIS):

	2011	2010	2009
Gross premiums	82,501	103,004	106,564
Premiums with self residue	15,611	17,204	17,482

2.2.5 Health insurance

The following is financial information in respect of the fields of activity (thousands of NIS):

	2011	2010	2009
Gross premiums	325,929	312,328	291,790
Premiums with self residue	224,519	217,214	200,862
Profit before tax	51,290	11,826	99,234
Overall profit before tax	47,046	13,643	102,359
Total gross insurance commitments	634,622	586,199	491,936

Nursing insurance (thousands of NIS):

	2011	2010	2009
Gross premiums	57,620	50,407	45,148
Premiums with self residue	44,798	39,494	35,260
Profit (loss) before tax	22,312	(7,785)	58,531
Overall profit (loss) before tax	20,050	(6,161)	58,630
Total gross insurance commitments	438,074	415,747	332,564

Other health insurance (thousands of NIS):

	2011	2010	2009
Gross premiums	268,309	261,921	246,642
Premiums with self residue	179,721	177,720	165,602

Profit (loss) before tax	28,978	19,611	40,703
Overall profit (loss) before tax	26,996	19,804	43,729
Total gross insurance commitments	196,548	170,452	159,372

For details regarding the developments that occurred to the data presented in the financial information in respect of health insurance, see section 7.2 below, as well as sections 3.1, 3.3, 4.4.2, and 4.4.2.4 the report of the Board of Directors and note 20 of the financial statements.

2.2.6 Financial products and services

The activity in the field of financial products and services does not include the share of the provident fund branch in the results included in the field of long term savings (thousands of NIS):

	2011	2010	2009
Total income			
Income from management fees and commission from external entities	87,312	99,995	74,089
Income from management fees and commission not from external entities	1,987	2,468	5,961
Net income (loss) from investments	(384)	3,166	29,492
Total income	88,915	105,629	109,542
Costs that constitute income of other fields of activity	7,856	12,137	11,429
Costs that do not constitute income of other fields of activity	71,502	76,071	58,924
Total costs	79,358	88,208	70,353
Deduction of reputation and intangible assets	2,808	7,082	9,321
Profit before tax	6,749	10,339	29,868
Total assets in the balance sheet	187,285	211,271	203,800

For details regarding the developments that occurred to the data presented in the financial information in respect of non insurance activities, see section 8.3 below, as well as sections 4.2, 4.3, and 4.4.4 of the report of the Board of Directors.

Part C – Description and information regarding the fields of activity of the corporation

3 Life insurance and long term savings

3.1 General information regarding the field of activity

This field includes the activities of the Group in the branches of life insurance, pension, and provident funds.

The life insurance branch

The life insurance branch awards cover for insurance events related to a person's economic situation and that result from various risks, such as death, loss of work capability, disability (hereinafter: "**risk**"), where insurance schemes also include the element of financial accumulation (hereinafter: "**savings**"). The combination of the two elements (risk and savings) in a combined policy or in separate policies depends on the choice of the insured and his personal needs.

Life insurance policies are long term policies that may be purchased independently or as part of employer-employee relations as a salaried worker or as a holder of a controlling interest ("**Executive Insurance Policy**"). The Group's activities in the branch of life insurance are conducted by means of Menora Mivtahim Insurance, a subsidiary controlled by the company. The Group began in 2006 to sell life insurance policies based on pure savings (without the element of risk) – mainly in top finance products.

The pension branch

The pension branch awards the insured the option of long term pension savings (old age pension) as well as cover for the event of disability (disability pension) and death (dependents pension). The Group's activities in the pension branch are conducted by means of Menora Mivtahim Provident Funds, that acts as a management company of pension funds – a subsidiary that during the period of the report was fully controlled by Menora Mivtahim Insurance, and from February 15, 2012, has been fully owned by the company.

The provident funds branch

The provident funds branch grants the saver (hereinafter: "**planholder**") the additional option of medium or long term savings while receiving various tax benefits and the option (under specific conditions) of withdrawal of the sums accumulated as a one-time sum. Personal provident funds are long term ones. (Pursuant to the amendment to the Provident Fund Law, in personal provident funds it is possible to withdraw a one-time sum when specific conditions are met, and only in respect of sums resulting from deposit made in them prior to the end of 2007. In respect of deposits made in them from January 2008 onwards they act as provident funds that do not pay a pension.)

Further education funds are medium term provident funds. Personal Severance Pay provident funds are for varying terms depending on the period of employment and the preference of the planholder. (In respect of deposits made in them from January 2008 onwards they act as provident funds that do not pay a pension, but the Severance Pay monies may be withdrawn from them as a one-time sum, even if deposited after January 2008.)

Central severance pay funds (that were blocked, pursuant to the provisions of the amendment to the Provident Funds Law, for deposits in respect of workers who did not

make deposits in them up to the end of 2007, and pursuant to the same provisions were totally blocked for deposits from 2011 onwards) and provident funds for other purposes are generally short term provident funds, intended for planholders of specific kinds only.

The activities of the Group in the provident funds branch are conducted by Menora Mivtahim Provident Funds, a fully controlled subsidiary of Menora Mivtahim Finance, and by Menora Mivtahim Engineers (formerly known as the Company for Management of Engineers' Further Education Funds Ltd.), a subsidiary controlled by Menora Mivtahim Finance.

The nature of the sales, the types of insurance policies, the insurance schemes, the provident funds and the pension funds sold to the broad public are considerably influenced by regulatory changes, the policy of the Group, and the varying needs and preferences of the customers.

3.1.1 The structure of the field of activity and the changes therein

In recent years many changes have been taken place in the field of life insurance and long term savings, that have influenced or may influence the activities of the Group in the field, in the light of the changes to the government policy, that mainly gives decisive preference to savings in the pension plan (Executive Insurance Policies and policies for self-employed persons in the pension and pension funds plan) over the capital plan (personal provident funds for benefits and Severance Pay and Executive Insurance Policies in the capital plan), in order to ensure the capability of citizens to live decently after the retirement age.

This policy of the government was expressed in comprehensive reforms in the branch (both reforms executed as of the date of this report and future reforms, as set forth below), that address, *inter alia*, a change to the structure of products in the field, change to the tax benefits given to long term savers, while giving preference to persons saving in plans intended for a pension.

The following is a brief description of the main features of the reforms introduced in the branch in recent years. (For details regarding future reforms proposed by the government, see sections 3.1.1.18 and 3.1.1.4 below.)

3.1.1.1 The Becher committee

In November 2004 the inter ministerial team headed by the then Director-General of the Ministry of Finance, Dr. Yossi Becher (hereinafter: "**the Becher committee** " and "**the Becher reform**", respectively) published a report regarding the reform of the capital market.

The aim of the Becher reform was to lead to a competitive structure in the capital market and improvement of its functioning, by reducing the centralization and increasing the competition in the capital market, minimizing conflicts of interests amongst the entities acting in the capital market, and extending the supervision and monitoring of these entities and those controlling and holding them. The Becher reform contained a number of significant changes and principles that influenced, and are expected to influence, the branch (that have been anchored in extensive legislation in this fields of activity), as set forth below:

***Placing emphasis in the market on the final customer, i.e. the worker**

As a result of the Becher reform the degree of involvement and influence of the worker in the selection of the pension product, in which he will invest his money, is very high. This is expressed, *inter alia*, by giving the customer the option of choosing the pension product (and the management company) most suited to him, after receiving the best advice from the consultant/distributor of the pension scheme.

This concept of shifting the emphasis in the market in the direction of the final customer is expected to continue and be reflected in the investment to be derived from the program for increasing competition in the pension savings market, published by the Commissioner, as set forth in section 3.1.1.7 below.

***Regulation of engagement in consulting and marketing of the pension savings scheme**

As part of the Becher reform the field of consulting, marketing, and distribution of the pension product has been regulated, and separation has been enforced between the functions of the consultant/distributor and the marketer, while giving the banks the option of acting as consultants/distributors only, and while distinguishing between the types of commission that each of the aforesaid position holders is permitted to receive. For additional details see section 3.1.3.1(5) below.

***Change of structure and entry of the banks to the pension consulting branch**

Following the recommendations of the Becher reform (that were anchored in legislation) the banks were permitted to act as consultants/distributors only while being obligated to sell the provident funds managed by them. Accordingly, the provident funds branch, that up till then had been controlled by the banks, is now mainly controlled by insurance companies and investment houses.

The entry of the banks to the field of pension consulting, because of their extensive deployment and great access to the public, will almost certainly cause the increase of the banks' share of distribution activities in the field, that is likely to influence the existing marketing and distribution channels of long term savings products and their cost.

In the Group's opinion, although about 5 years have elapsed since the "Becher legislation", the entry of the banks to the distribution of pension products is still in its first stages. Only after the banks complete their preparations and engage in the distribution of all the pension products both to self employed and salaried persons will it be possible to estimate the full influence of the change, that at this stage has not yet been fully implemented.

The company's estimate is forward looking information based on analysis of the development in the field. It is likely that this forecast will not be realized in the event of additional amendments to legislation or in the event of the behavior of the banks and/or the consumers being different.

***Limitation of the market share and prevention of centralization**

As part of the Becher reform it was decided that a permit would not be

granted for the purchase or holding of an insurer or a provident fund, if the market share of the purchaser or the holder, including the holders of a controlling interests therein, and entities controlled by them, in the field of long term savings, exceeds 15% of the value of the total assets in the long term savings field.

Based on the data published by the Commissioner in December 2011, the total long term savings assets, as of September 30, 2011, came to about NIS 528.5 billion. Accordingly, the maximum market share published, as of the aforesaid date, is about NIS 79 billion. As of September 30, 2011, and based on the aforesaid data, the Group holds about 11% of the total long term savings assets.

3.1.1.2 Compulsory pension

An additional factor, that considerably influenced the long term savings field, is the Expansion Order for the General Collective Agreement dated November 2007 (that was amended in August 2011), that specifies an arrangement of compulsory pension for every worker, and applies the provisions of the collective agreement in respect of the obligation to take out pension insurance to all the salaried workers in the economy.

The provisions of the collective agreement and the expansion order, as aforesaid (hereinafter, together: "**the compulsory pension arrangement**") state that the pension insurance in accordance with them, for a worker who has not chosen a different instrument, shall be done in a comprehensive new pension fund. Consequently the compulsory pension arrangement introduced salaried workers, who had previously made no savings whatsoever, into the circle of long term savers, mainly in the pension branch.

Pursuant to the compulsory pension arrangement, the rates of provision from the salary that it is obligatory to insure with pension insurance (the actual salary but not more than the average salary in the economy) will increase gradually every year, starting with provisions at a rate of 2.5% of the salary on the collective agreement coming into effect (at the beginning of 2008) and reaching a rate of 17.5% from 2014.

The compulsory pension arrangement applies to women from the age of 20 and to men from the age of 21 and the liabilities in respect of it will apply to persons who retired at the compulsory retirement age and receive a pension, that is not a pension from the National Insurance Institute, or to persons who have a better pension arrangement, that is preferable to the arrangement as set forth above.

As of the date of this report, compulsory pension insurance comes into effect after 6 working months have elapsed, but if the worker has a previous pension insurance arrangement the obligation to insure him shall come into effect from his first working day, after three working months only.

In 2010 the rate of provision for pension insurance came to 7.5% (total provisions on account of the worker and the employer) and starting from 2011 the rate of provision for pension insurance came to 10% (total provisions on account of the worker and the employer)

In September 2010 a collective agreement was signed between the Histadrut

and the coordination office of the employers' organization that amended the existing agreement for comprehensive pension insurance in the economy (compulsory pension), according to which the rates of deposit in the compulsory pension arrangement will be increased to 17.5%. As set forth above, in August 2011 the Minister of Industry, Commerce, and Employment approved the expansion order to the general collective agreement (framework) for comprehensive pension insurance in the economy between the coordination office of the economic organizations and the general Histadrut dated September 2010.

The amended expansion order improves the conditions of the previous expansion order (dated January 1, 2008) while applying it to all the salaried workers in the economy. The amendment, in principle, includes:

- 1) Addition of an additional pension stage of 17.5% provision from the salary in effect from January 1, 2014;
- 2) Clarification that if the worker has a better arrangement but which does not yet apply to him, the expansion order for compulsory pension shall apply to him until commencement of the better arrangement;
- 3) Clarification that if a worker has a better arrangement but the element of Severance Pay in which is less than the rate as set forth in the expansion order for compulsory pension, the employer must make provision for the element of Severance Pay at at least the rate as set forth in the expansion order;
- 4) Clarification that the order does not apply to a person hired after he passed the retirement age and who receives a pension not from the National Insurance Institute (i.e. the receipt of a pension from the National Insurance Institute does not exempt the employer from its obligation pursuant to the expansion order).

As we have said, the compulsory pension arrangement specifies a progressive arrangement regarding the rates of contribution fees from the salary of the insured, estimated as a relatively low salary, and as a result of this some of the contribution fees deposited in respect of these workers in the years 2008 to 2011 were relatively low sums, and the Group estimates that even the sums to be deposited in the coming years pursuant to the provisions of the compulsory pension arrangement are expected to be unsubstantial sums compared to the sums received for workers who are not insured as part of the compulsory pension arrangement. However, the increase in the rate of deposit from the salary is expected to be at "regular" rates, i.e. in 2014, 17.5% of the salary is expected to increase the collection as part of the compulsory pension arrangement relative to the first years of implementation of the arrangement.

The company's estimate is forward looking information based on an analysis of the provisions of the compulsory pension arrangement. It is likely that this forecast will not be realized in the event of additional amendments to legislation or in the event of the behavior of the banks and/or the consumers being different.

3.1.1.3 Preference for the pension product over the capital product

The government's policy in the last decade has been, as we have said, encouragement of long term savings intended for a pension starting from the retirement age. Pursuant to the Income Tax Order and the regulations enacted by virtue of it, larger benefits are given when the customer purchases a pension fund or a policy for a pension.

At the end of the 1990s the provident fund regulations were amended so that a self employed person saving in the pension scheme can receive the saving that he accumulated only by means of a pension, while withdrawal of the savings in a capital sum involves high taxation.

From 2000 the rule also applied to savings in an Executive Insurance Policy intended for a pension. The sum of the pension received by the insured is the result of division of his accumulated savings by a pension factor determined in accordance with the provisions of the policy. Following the aforesaid change and in the light of the increased life expectancy the insurance companies changed the pension factors in insurance policies marketed from that date onwards.

In insurance policies marketed after the change the customer will receive a monthly pension lower than that received by a customer who purchased a policy at an earlier time and reached an identical sum. Starting from 2001 the Group issued a policy for a pension in which, if specific conditions are met, the insurer shall be entitled to change the pension factor specified in the policy after receipt of approval from the Commissioner for making the change.

In the light of amendment 3 of the Provident Fund Law, the main features of which are set forth below, it was decided to convert the factors as set forth in these insurance policies (that were issued from 2001) into factors that embody a guarantee of life expectancy for the insured.

Starting from 2008, mainly following the amendment of the Provident Fund Law, the Group also began marketing life insurance policies that incorporate a commitment to a pension factor on the date of issue of the policy, i.e. a commitment to base the pension factor on the mortality rates known on the date of issue of the policy (as opposed to the mortality rates on the date of retirement) but without guaranteed return, so that the accumulated monies and the sum of the pension to be paid to the pensioner will be linked to the profits on the investments actually obtained.

Furthermore, Menora Mivtahim Insurance decided in 2009 to award an Appendix guaranteeing a pension factor in existing policies (including policies not paid for pension) starting from 2008. The compulsory pension arrangement and the amendment to the Provident Fund Law, as set forth above, constitute an additional element in the base of the government policy as aforesaid.

In the company's estimate, the overall pension arrangements in the Israeli economy will cause numerous salaried workers, who in the past did not save at all, to enter the circle of long term savers, but the main effect will be in the pension branch.

The main features of amendment 3 of the Provident Fund Law

Furthermore, the major step taken in the context of preference for the pension product in recent years was amendment 3 of the Provident Fund Law, as set forth below.

Prior to the aforesaid amendment it was possible to deposit the savings monies in two major plans: (1) capital funds, in which the savings monies may be withdrawn on retirement in a one-time payment, and (2) pension funds, in which the savings monies are paid as a monthly pension and may not be withdrawn as a one-time payment.

In January 2008 the Law for Supervision of Financial Services (provident funds) (amendment 3) 5768-2008 (above and below: "**the Provident Fund Law amendment**"), was enacted, that cancelled the distinction between the aforesaid plans starting from January 2008, so that from this date onwards all the monies deposited in the personal provident funds managed as capital funds until the end of 2007 (personal provident funds for benefits and Severance Pay and capital life insurance policies subject to the provident fund regulations) will be intended for the purpose of pension only, and the aforesaid provident funds will become provident funds not paying a pension, i.e. funds that are permitted to pay the monies of the benefits deposited therein from 2008 onwards only by means of transfer to provident funds paying a pension (that are funds permitted to pay monthly pensions to planholders, such as the new pension funds and pension life insurance plans).

It is stated in the Provident Fund Law amendment that no change shall apply to the matter of withdrawal of Severance Pay monies in a capital sum (when the conditions required for this are met) and to the matter of the status of the monies developed in the capital funds up to the end of 2007, that shall continue to be capital monies, and that it shall also be permitted to capitalize pension payments if they exceed the minimum sum of the pension specified for this matter.

As part of the Provident Fund Law amendment the Income Tax Order was also amended, and uniform tax benefits were specified in it in respect of all the personal provident funds (pension funds, provident fund, not paying a pension, and Executive Insurance Policies), the permitted ceiling for expenditure for the purchase of insurance cover for loss of work capability for a worker was raised, and expenditure for the purpose of purchase of dependents pension insurance for dependents of the insured was recognized as awarding tax credit (subject to the ceilings as set forth for this matter). Furthermore, salary ceilings and guaranteed income were specified for the matter of the purchase of the aforesaid insurance cover.

The main features of amendment 5 of the Provident Fund Law

Furthermore, in November 2010 **the Law for Supervision of Financial Services (provident funds) (amendment 5 and temporary order), 5770-2010**, was published, that included, *inter alia*, amendments regarding matters resulting from amendment 3 to the Provident Fund Law and in addition removed specific limitations regarding activities of management companies.

The amendment to the law permits a management company to engage in other business related to pension products that were forbidden in the past. For example, a pension company of an old established fund was permitted to manage other products (including other old funds). However, the prohibition still remained for the management of more than one new comprehensive pension fund.

In addition, the temporary order was intended to regulate the legal situation regarding planholders, who were not aware of the legislative change resulting from amendment 3, and it permits any of the following functions to contact the management company with a demand for return of the monies (subject to the payment of tax on capital profits):

- a) A person who was a self-employed planholder on December 31, 2007, and continued to deposit monies in a provident fund for benefits (a non paying fund) and reached the age of 60 on December 31, 2007;
- b) A person who was a self-employed planholder in a provident fund not paying a pension on the date of commencement of the aforesaid amendment 5, and reached the age of 60 on December 31, 2007;
- c) A person who was a beneficiary of a planholder who died, and the monies accumulated in the specific of the deceased were transferred to his account in a provident fund not paying a pension;
- d) A person who was a planholder in a personal provident fund for Severance Pay, who was entitled to withdraw the monies from the aforesaid fund, and the aforesaid monies (the Severance Pay monies) were transferred to the benefits element in the planholder's account in the provident fund not paying a pension.

3.1.1.4 The mobility reform in pension products

The Regulations for Supervision of Financial Services (provident funds) (transfer of monies between provident funds) 5768-2008 (hereinafter: "the mobility regulations") were enacted in March 2008, according to which it is permitted to make transfers of accumulated sums between different provident funds and, in certain cases, even if they are of different kinds, while preventing the possibility of transfer from a provident fund for the purpose of a pension to a capital provident fund. The aforesaid regulations came fully into effect in January 2009, on expansion of the mobility to life insurance policies.

Since the possibility existed in the new pension funds market of transfer of monies between pension funds in a relatively simple and easy manner, and without costs on the part of the customer, the enactment of the regulations did not cause a material change in the context of competition between the various pension funds, competition that also existed prior to the enactment of the regulations.

Since the entry into effect of the regulations, transfers of assets are also actually made between the pension funds and other provident funds (mainly provident funds not paying a pension and Executive Insurance Policy plans), and in the Group's estimate the extent of the assets transferred from the pension funds to other funds as aforesaid is less than the extent of the assets

transferred from the other funds to the pension funds. For additional details regarding the mobility regulations see section 3.1.3.1(13) below.

3.1.1.5 The establishment of a pension clearing house

In August 2009 the Commissioner published a memorandum of understanding for cooperation for advancement of a central system for switching information messages and clearing of monies in the field of pension savings (hereinafter: "**the clearing house**"). In the memorandum the Commissioner announced that he intended to advance the construction of the clearing house in order to improve the efficiency of the working methods related to the transfer of information and monies in the financial savings market, against a background of the developments in recent years.

The main roles of the clearing house would be the two way transfer of information between the institutional entities, the pension consultants, and the pension agents, transfer of information between the employers and the distributors and the institutional entities, and clearing of the pension savings monies.

In June 2010 the Commissioner published intermediate instructions regarding the methods of operation of the pension clearing system and in March 2011 **the Law for Supervision of Financial Services (pension consulting and pension mortgage) (amendment 3) 5771-2011**, was published, in which the licensing process for a company to operate a pension clearing system and the mechanisms for supervision of the company were regulated. The provisions of the amendment to the law specify the powers of the Commissioner to issue instructions related to the granting of a license to a company to operate a pension clearing system as well as instructions regarding the methods of operation and management of the pension clearing system and instructions regarding the corporation administration applying to it, with the aim of protecting the interests of users of the clearing house and recipients of the service from the users and preventing centralization in the field of pension consulting and marketing. Furthermore, the amendment to the law specifies rules in respect of supervision by the Commissioner of the security of the information transferred from the clearing house.

In May 2010 a private company was set up, called the Clearing House for Long Term Savings Ltd., with the aim of the setting up, establishment, and management of a clearing house for information and monies in the field of long term savings for all the institutional entities, the pension consultants and the pension agents, and to organize the working interfaces between them. The shareholders of the company are various institutional entities (including Menora Mivtahim Provident Funds), as well as bank and other distributors. The Commissioner and his representatives serve as observers in the institutions of this company, and accompany its behavior.

In August 2011, following dissatisfaction on the part of the Ministry of Finance from the rate of progress of setting up the pension clearing house by the aforesaid company, the Ministry of Finance published an invitation to participate in a preliminary selection process, that would be the first stage in a tender for the setting up and operation of a central pension clearing system (hereinafter: "**the project**"). The invitation includes details of the major

principles for construction and operation of the central pension clearing system, such as conditions for granting a license to the company for operation of the system and the obligation to receive a control permit from the Commissioner.

Selection of the entity for setting up the project is divided into two stages: the preliminary selection process and the stage of the RFP, in which the bidders who were found suitable at the end of the preliminary selection process will be invited to submit their proposals for execution of the project. The information transferred by means of the project shall be kept for the period of required to supply the services only, and it is intended to obligate the institutional entities and the license holders to connect to the system.

In February 2012 a draft circular was published, regarding "the obligation to use the central pension clearing system". The draft circulars gives details of the activities to be carried out by means of the clearing system. It is stated in the letter accompanying the draft that in the coming weeks there are expected to be published the documents of the tender for construction of the clearing system (RFP) where these documents will be sent to a number of bidders who meet the threshold conditions for the preliminary selection process (PQ).

It was also stated that shortly after the date of publication of the tender documents additional relevant information will be published for users of the clearing system, such as: operation of the clearing system, the services, and details of the payment for them. The charges for use of the services of the clearing system will be determined in the tender and shall apply to the users of the services of the system, based on the benefit that they will derive from the use thereof.

It is proposed that the institution bodies will participate in a material share of the operating costs of the system based on the extent of the assets managed by them. Consequently it is intended to state that, subject to approval by the tenders committee, in the first year the institutional entities will bear 70% of the annual operating costs fixed, in the second year 65%, in the third year 60%, in the 4th year 55%, and in the 5th year onwards 50%. The other users will bear the balance of the costs depending on the extent of their actual use of the services of the clearing system, based on the tariff specified for operation.

In parallel to advancement of construction of the pension clearing house, the Commissioner published a number of circulars and draft circulars, with the aim of improving the efficiency of the working processes and removing technological barriers. As part of this effort, a circular was published in 2010 regarding the **encoding of provident funds**, and in 2011 a circular was published regarding **a uniform format for the transfer of information and data in the pension savings market**, as well as a draft circular regarding power of attorney for a license holder. (For additional details see section 3.1.3.1, under circulars and drafts of the Commissioner, respectively). In addition, in November 2011. The Regulations for Supervision of Financial Services (consulting, marketing, and pension clearing system) (information security in a central pension clearing system) 5771-2011, were published. (For additional details see section 3.1.3.1, under bills and draft regulations).

Subsequently, in March 2012, the Commissioner published a tender for the setting up and operation of a central pension clearing system, that was sent to a number of bidders who met the threshold conditions in the preliminary selection process, with an RFP for setting up and support of the clearing system.

3.1.1.6 The maximum management fees reform

In February 2012, after the date of the balance sheet, **there were approved** the Regulations for **Supervision of Financial Services (provident funds) (management fees), 5772-2012** (hereinafter, for the purpose of this sub section: "**the regulations**"), that address the determination of ceilings for management fees that institutional entities are permitted to collect in respect of provident funds and insurance funds managed by them, as follows:

In provident funds

Starting from 2013, the rate of management fees shall not exceed 1.1% of the accumulated monies or 4% of the current deposits; starting from 2014 the rate of management fees shall not exceed 1.05% of the accumulated monies or 4% of the current deposits. The recipients of the old age and dependents pensions may be charged management fees at a rate that shall not exceed 0.6% of the accumulated monies.

In insurance funds (life insurance policies)

In new policies issued starting from January 1, 2013, the rates as set forth above shall apply to provident funds. No change to the management fees ceiling shall apply to policies in effect before the aforesaid date.

The regulations do not influence the maximum rates of management fees that it is permitted to charge, *inter alia*, in comprehensive pension funds, in provident funds guaranteeing a return, in insurance funds guaranteeing a return, in further education funds, in central provident funds or in provident funds for other purposes.

In addition the regulations state that in activities of planholders with whom contact has been lost or of planholders who have died, after the period of time as set forth in the aforesaid regulations for location of the planholder with whom contact has been lost or the beneficiaries, as the case may be, the management fees for the aforesaid planholders' accounts shall be reduced to 0.3% of the accumulated balance in annual terms. (For additional details see section 3.1.3.1 in respect of the Regulations for Supervision of Financial Services (provident funds) (location of planholders and beneficiaries) 5772-2012.

For a description of the preparations of the Group in respect of the influence of the regulations, see also section 9.2 of the report of the Board of Directors. In March 2012 the Bill for Supervision of Financial Services (provident funds) (amendment 8) (minimum rate of management fees) 5772-2012 was passed in its first reading. It was proposed in the bill that the Minister of Finance, with the approval of the Knesset Finance Committee, would be empowered to fix the minimum and maximum sums and rates of the management fees as well as maximum sums and rates of costs.

3.1.1.7 The program for increased competition in the financial savings market

As of the date of this report, a number of proposals lie on the agenda for reforms and changes in the life insurance and long term savings market, some of which have not yet been formulated or approved, as the case may be. The main details are given below of the aforesaid reforms:

In November 2010, the Commissioner published a program for increased competition in the financial savings market with the aim of reducing the differences between the various financial savings products, increasing the transparency of the financial savings market including all the players therein, improving the quality and prices of the products offered, and creating a uniform basis of comparison between the products (hereinafter: "**the program for increased competition**").

Following publication of the program for increased competition new regulatory instructions and drafts were published, as follows:

- * The draft **Regulations for Supervision of Financial Services (provident funds) (management fees) 5771-2011** (hereinafter, for the purpose of this sub section: "**the regulations**"), that specify ceilings for management fees that institutional entities are permitted to charge in respect of provident funds and insurance funds managed by them, that were approved as aforesaid in February 2012. See section 3.1.1.6 above.
- * Memorandum for the Law for Supervision of Financial Services (consulting, marketing, and pension clearing system) (amendment ___), 5771-2011, that was published in March 2011, in which it was proposed to alleviate the current prohibition, according to which a financial consultant who is a bank corporation is not permitted to make an agreement with an employer or with employers organization for the purpose of providing financial consulting for their workers, and to empower the Commissioner to specify instructions and criteria in respect of such an agreement. It was also proposed in the memorandum to specify that an employer may not make execution of a transaction in a pension product conditional on its execution by a specific license holder, including a license holder supplying operating services to the employer. Furthermore, the employer may not stipulate that any other service that it is obligated to supply to the worker, including the operating services themselves or the granting of a benefit to the worker, be conditional on execution of transaction by means of a specific license holder. In addition, it is proposed to impose on all the license holders the obligations applying to an insurer in respect of the submission of reports and notices to the Commissioner. It is also proposed to impose on the license holder the prohibition applying to an insurer in respect of making the insurance conditional, so that the license holder may not make the purchase of one pension product conditional on the purchase of another pension product from it or from someone else, unless it received approval of this from the Commissioner.
- * **The draft circular for institutional entities in respect of management fees for financial savings instruments**, published in March 2011, in

which it was proposed to formulate instructions according to which an institutional entity shall be entitled to offer a planholder a rate of management fees lower than the maximum rate as set forth in the law, provided that the aforesaid proposal is valid for at least two years. Furthermore, it was proposed in the draft to specify that no notice to a planholder in respect of a change to management fees may be furnished later than two months or earlier than four months from the date of the change.

- * The draft Regulations for Supervision of Financial Services (provident funds) (insurance cover in provident funds), 5771-2011, and the draft circular for institutional entities in respect of the purchase of insurance cover by means of a management company, that was published in February 2012. The draft of the regulations proposes to specify that a management company shall be entitled to purchase for a planholder, and a provident fund shall be entitled to specify in its regulations, insurance cover for long life, risks of death and disability, and these only. The insurer shall be selected in a competitive process approved by the Board of Directors. A related party may be selected as an insurer provided that it offered the best terms. The draft also specifies conditions for the insurance cover purchased by means of a management company and in respect of preservation of the insurance cover for an inactive planholder; the draft circular proposes to permit management companies to market insurance cover to their planholders, while awarding a pension insurance corporation agent license to the management company that will be limited to marketing of the insurance cover for death and disability risks, where the cover is granted by means of individual insurance policies at the planholder's expense. (The premium for the individual insurance of an insurer, that is a related party of the management company, shall be in the sum of the premium customary at the time of issuing the insurance policy, for insurance having similar characteristics marketed by the insurer.) Furthermore, the draft of the regulations also prohibit a management company from purchasing a group insurance policy for planholders of the provident fund from the monies of the management company. It is proposed in the draft circular to cancel the circular for institutional entities 2008-9-15 in respect of "supplementary insurance for planholders in provident funds and pension funds". Following the changes in the draft regulations, as set forth above, an amendment was published to the income tax regulations (rules for approval and management of provident funds), 5765-2005, in which it was proposed to cancel the sections referring to conditions for the purchase of group life insurance in a provident fund, as well as the insurance policies that may be purchased as part of an insurance fund at a rate of 35% of the monthly payment made for the benefits element. In March 2012, after the date of the balance sheet, the Knesset Finance Committee approved the aforesaid draft regulations.
- * **The second draft of the Regulations for Supervision of Financial Services (insurance) (commission), 5771-2011**, that was published in October 2011, in which it was proposed, *inter alia*, to regulate the

method of payment of commission to a number of license holders in parallel as part of movement of customers between insurance agents; to specify that the service commission should be paid to the insurance agent by means of a direct financial payment; to specify various limitations in respect of the remuneration for an insurance agent because of meeting a sales target (including the length of the measurement period, the method of granting the remuneration, while distinguishing between an insurance product that is not a pension product, in respect of which a number of methods of payment have been specified, and a pension product for which it has been specified that payment would be a direct financial payment); to specify additional conditions in respect of commission paid for an insurance product that is not for a fixed period, including the ratio between the commission paid in each of the first five years and the commission paid in the first year; and the obligation to disclose to the insured the commission paid to the agent.

- * **Draft Regulations for Supervision of Financial Services (provident funds) (distribution commission) (amendment __), 5771-2011**, that was published in March 2011, in which it was proposed to specify instructions according to which an insurer (and not only a management company) may pay distribution commission in respect of pension products managed by it and in respect of which the customer is given pension consulting. It is also proposed to specify a uniform model for distribution commission when making a transaction in the three kinds of pension products: provident fund, new pension fund, and Executive Insurance Policy. The proposed distribution commission model fixes a maximum rate of distribution commission of 0.1% of the accumulated sums and up to 2% of the current deposits for the said products (based on a monthly calculation). In the event of the management fees charged being less than the aforesaid maximum rate of distribution commission, it is proposed to permit the payment of reduced distribution commission at a rate of 40% of the management fees in respect of the accumulated sums and/or the current deposits, as the case may be. Regarding the further education fund, that is different in nature from the pension products as set forth above, it is proposed to leave the permitted distribution commission ceiling at the permitted maximum rate of the twelfth part of 0.25% of the balance of accumulated assets in the fund for the benefit of the customer each month.

The aforesaid draft regulatory provisions, if accepted, have possible ramifications or the reduction of income and profits, reduction of new sales, increase of the power of choice given to the worker, while reducing the agent's influence on the worker's selection and improvement of the economic feasibility for banking entities for activities in the field of pension consulting.

The information in all matters related to the possible ramifications as set forth above, is forward looking information based on estimates and assumptions of the Group. As of the date of this report and in the light of the fact that we are speaking of a draft of the regulations and the regulatory instructions only, actual implementation may be materially

different from that forecast, and depends, *inter alia*, on the final wording of the regulations and the regulatory instructions and on the behavior of the various relevant entities in the branch.

3.1.1.8 The adjusted financial savings model – construction of default option plans

In January 2012 the Commissioner published a third draft of the Regulations for Supervision of Financial Services (provident funds) (construction of default option plans) 5770-2010, together with the third draft circular that addresses adjustment of the investment plan to the characteristics of the planholder (hereinafter: "the draft adjusted financial savings model").

In the draft adjustment financial savings model, every institutional entity must manage, in each of the provident funds managed by it, a number of investment plans that will provide a default option for planholders (including existing planholders in existing general plans) who have not chosen another plan, based on one of the two following alternatives:

- 1) At least three plans for planholders who have not yet reached the age of 60 and a plan for planholder older than 60;
- 2) Investment plans in each of which there is a group of planholders in a specific range of dates of birth.

It is also proposed that, in all events, the monies available for the commitments to the pensioners (in a provident fund that pays a pension – a pension fund and a group Executive Insurance Policy plan) will be invested in a separate investment plan. Apart from the adjustment financial savings model plans, the specialized investment plans shall continue to exist.

The proposed model is not intended to apply to central provident funds, old pension funds, further education funds, provident funds with personal management, provident funds guaranteeing a return, and provident funds for other purposes.

3.1.1.9 The reform regarding the management of insurance plans and provident funds regulations

In September 2011 there were published a memorandum of the Law for Supervision of Financial Services (provident funds) (amendment __), 5771-2011, a memorandum of the Law for Supervision of Financial Services (insurance) (amendment __), 5771-2011, and a draft procedure for notice of the implementation of an insurance program and provident fund regulations, that propose to adjust the provisions of the law to the most appropriate supervision approach for the structure of the modern market, in accordance with the conduct required from the State of Israel in the light of its joining the OECD and in the light of the principles of the Solvency II directive.

In these documents it was proposed to change the method of conduct of products, so that an institutional entity shall be required to announce a product (a new one or updating of the conditions of an existing one) before commencement of its marketing, but will not be required to wait for approval by the Commissioner as a condition for commencement of marketing. This change will increase the freedom of operation of

institutional entities on the one hand, while increasing their liability for the quality of the products that they are leading on the other hand.

In accordance with the draft procedure, the new product (or the changes to the existing one) will come into effect 30 days after the date of submission of the notice (to which will be attached information and documents as set forth in the procedure), unless the Commissioner announced his opposition to the product/ change, in whole or in part, within the aforesaid period.

The Commissioner reserves the right to announce his opposition even after the product/ change comes into effect, in order to protect the interests of the planholders, to prevent harming the capability of the fund to meet its commitments, and for the reasons as set forth in the law.

In addition it is proposed to make adjustment in respect of provisions specifying criminal and/or financial sanctions against those who acted despite the opposition of the Commissioner, or not in accordance with the company's notice in connection with the merger or the transfer of management of the fund (as set forth below).

The aforesaid draft circular specifies the details to be attached to notice of implementation of a new insurance plan, the establishment of a new provident fund, or a change to the regulations of a provident fund, including an Appendix defining the level of details required in the actuarial Appendix accompanying the insurance plan or the provident fund regulations. The draft circular is expected to come into effect in July 2012 and to cancel the circular for institutional entities 2006-9-4 and the insurance circular 2005-1-35, that address this issue.

3.1.1.10 The supplementary benefit model (the committee for evaluation of benefits in the pension savings)

In February 2011 the committee for evaluation of benefits in pension savings was established. Based on items in the press, it seems that the recommendations of the committee will be the cancellation of the tax benefits currently given in respect of provisions made for the worker for the pension savings, and instead of them the State will pay the benefit by means of the depositing of monies directly into the pension savings of the worker, where the aim of the model is to lead to equality of distribution of taxation benefits and to simplification of the structure of tax benefits for a pension.

As of the date of this report the recommendations of the committee have not yet been published.

3.1.2 Description of the branches of the insurance and the insurance cover included in the field

3.1.2.1 The life insurance branch

General

* The Group markets insurance plans that combine risk and savings, including individual insurance policies, group insurance policies, Executive Insurance Policies, and insurance policies for self-employed persons. The types of insurance cover marketed by the Group include

cover of risk, such as death, loss of work capability, disability, and savings.

- * A life insurance policy is a contract between the insurer and the insured/policy holder (hereinafter: "**the customer**") that defines the obligations and rights of both parties. A change may be made to the contract with the agreement of both parties. A life insurance policy is an asset held by the customer.

The sum of the insurance and the savings accumulated in them are supposed to provide a response to the customer's needs during times of crisis or when some other event occur during the insured's life (such as death, loss of work capability, or retirement). During the 1950s it was decided to fully link the policies, including their various components, to the Consumer Price Index. In other words, linkage of the sum of the insurance for the event of death or of loss of work capability, the redemption value of (the sum of the savings accumulated in the policy) and the premium paid by the customer. The insurance companies were able to guarantee the aforesaid linkage as a result of the issue of specific bonds for this subject by the Israeli government. (For additional details see section 9.3.7.1 below.) Until 1976 the linkage to the index was made half yearly, in February and August of each year (based on the index published on January 15 for December and on July 15 for June, respectively). When the inflation increased in the country it was decided to adopt monthly linkage. In 1991, as part of the reform in the capital market, the State stopped issuing special bonds for the insurance companies as aforesaid for new policies, and consequently policies began to be issued without a guarantee of linkage of the savings to the index. Such policies (that were marketed from 1991) are called "profit sharing policies". The savings element in the policies is invested by the insurance companies pursuant to the regulations for means of investment, and the instructions of the Commissioner. The return achieved by the companies, after deduction of management fees, are credited to the insured's account. In recent years numerous and varied investment plans have been developed and the insured is entitled to direct the insurer regarding in which of the variety of plans to invest his savings, based on his needs and preferences.

- * As part of the trend to increase transparency, in life insurance policies marketed since January 2004, details are given of the conditions of the policy, the method of splitting the payment due to the insurer, i.e. the sum and the percentage of the premium allocated to cover costs (management fees from premium/ collection), the percentage and the sum allocated for purchase of the kinds of insurance cover, and the sum of the balance transferred for savings. As part of this process all the life insurance plans containing a savings element were modified.
- * Further to the position paper of the Commissioner dated December 2006, headed "guidelines for a life insurance product combined with savings", since April 2007 the company has marketed new insurance policies for executives and self-employed persons and new individual policies. In these policies the extent and the date of coming into effect of the

company's liability for insurance cover were defined, and the withdrawal fines were cancelled (see also section 3.2.1 below). In the insurance policies for executives and self-employed persons the period of the insurance for all elements of the policy is fixed for at least up to retirement age, and in Executive Insurance Policies the definition of the employer as the policy holder has been cancelled. It should be noted that, in the light of amendment 3 of the Provident Fund Law, the Group markets, since 2009, insurance policies for executives and self-employed persons that are recognized as a provident fund paying a pension or as a provident fund not paying a pension, as the case may be. For additional details in the subject of products and services in the fields of activity see section 3.2 below.

3.1.2.2 The pension branch

- * The pension branch awards the insured the option of long term pension savings. The pension market includes old pension funds (that were barred to the entry of new planholders in 1995), new comprehensive pension funds, and new general pension funds. In 2003 the Commissioner appointed special managers for most of the old pension funds, ordered the sale of the management companies of the new pension funds that were owned by the said old pension funds, and introduced changes to the regulations of the old pension funds, mainly in order to cope with the problem of the actuarial deficit of the said funds. The management companies of the major new pension funds were sold to the insurance companies, and in this process Menora Mivtahim Provident Funds was purchased by Menora Mivtahim Insurance. The sale of the management companies of the new pension funds to the insurance companies led to a change to the competition structure in the field of long term savings in general and to the pension branch in particular.
- * In contrast to the situation existing until the Becher legislation, according to which the degree of involvement of the worker in determination of the type and characteristics of his pension arrangement was relatively small, and the influence of the employers was higher, the trend emerging from the Becher reform is to shift the emphasis towards the end customer, i.e., the worker, so that his degree of involvement and influence will be greater (see section 3.1.1.1 below).
- * In addition, the pension market is developing a trend of personal joining of the pension funds by individuals, by means of brokers acting pursuant to the Pension Consulting Law, while exploiting the freedom of choice given to the said individuals by virtue of the Provident Fund Law.
- * The Group, as part of Menora Mivtahim Provident Funds, manages in this branch two pension funds awarding cover for old age, disability, and dependents pensions: "New Mivtahim", that is a new comprehensive pension fund entitled to partial subsidy of the return by means of special government bonds; and "the New Mivtahim Plus", that is a new general pension fund. The contractual framework with the insured is regulations that may be changed by the management company with the approval, or

on the demand, of the Commissioner.

- * The Group's income in this branch comes from management fees received from the aforesaid funds and the Group's expenditure in this branch comes from current operating costs of the activities of the funds. Menora Mivtahim Provident Funds is a management company of pension funds pursuant to the Provident Fund Law and pursuant to the Supervision Law, and for this purpose it holds an insurer's license in the life insurance branch. For further details of products and services in the fields of activity see section 3.2 below.

For further details of products and services in the fields of activity see section 3.2 below.

3.1.2.3 The provident funds branch

- * This branch includes four different sub branches: provident funds not paying a pension (that also act as personal provident funds for benefits and Severance Pay for the matter of monies deposited in them up to the end of 2007), further education funds, central funds (central fund for Severance Pay, central provident funds for participation in a budget pension) and provident funds for other purposes. The activities of the Group in the provident funds branch include new sales, as well as the management of assets deposited in the past in the provident funds and that have not yet been withdrawn.
- * The provident funds branch has been mainly influenced by the Becher reform that included, *inter alia*, a long subject of changes related to management companies of provident funds, including separation, as far as possible, between the banks and the owners of the provident funds. Furthermore, limitation of the market share of the various institutional entities in all matters related to the holding of means of control of the provident funds, change to the patterns of marketing and distribution of the provident funds (definition of the role of the consultant/ distributor as opposed to marketer), arrangement of the corporate structure of the management companies of the provident funds, increase of supervision, liability (both civil and criminal), and enforcement in respect of these companies.

For further details of products and services in the fields of activity see section 3.2 below.

3.1.3 Limitations, legislation, standards, and special constraints

The Group's activities in this field are subject to the provisions of the law applying to insurers, pension funds, and provident funds, including the provisions of the Supervision Law and the Provident Fund Law and the regulations enacted by virtue thereof, as well as the instructions of the Commissioner, as published from time to time, and the instructions of the Commissioner as set forth below.

3.1.3.1 General

The following are details of the major provisions of the law applying to the Group in its activities in the field of life insurance and long term savings, as well as the major regulatory provisions (proposed legislation, draft

regulations, circulars, and draft circulars of the Commissioner) published in the year of the report, and that were not described in one of the subjects as set forth in the aforesaid sections.

For details of the major legislation applying to the Group in all its activities see section 9.2 below.

The provisions of the law and the regulations

*** Becher legislation**

In August 2005 three bills were enacted in the Knesset as proposed by the government, based on the recommendations of the Becher committee (hereinafter: "**Becher legislation**").

The Law for Increased Competition and reduction of centralization and conflicts of interests in the capital market in Israel (amendments to legislation) 5765-2005 (hereinafter: "the Law for Increased Competition"). This law was intended to create a competitive structure in the capital market, mainly by means of reduction of centralization and conflicts of interests in entities acting in the capital market, and extension of the supervision and monitoring of these entities and those controlling them.

For implementation of the aforesaid, indirect amendments for a number of pieces of legislation were included in the law, including the various banking laws, mainly in respect of arrangement of the separation of ownership of the banks from the provident funds and trust funds owned by them, while specifying transition instructions in this matter, taking into account the market share and equity of the Bank or anyone acting on its behalf, prior to the Becher legislation, and determination of new fields of activity in which the banks would be permitted to engage, especially pension consulting, and consulting or marketing of investments; the Law for regulation of investment consulting while regulating investment marketing activities; and the Joint Trust Investments Law; the Supervision Law while expanding and deepening the supervision and monitoring of insurers and agents and those controlling them (for additional details see section 9.2.2 below); and a number of other additional laws.

*** The Provident Fund Law**

This law regulates for the first time, by means of major legislation, the fields of activity of the provident funds (including pension funds) that was until then embodied in the provident funds regulations. Provisions were specified in the Provident Fund Law, *inter alia*, regarding the licensing of a management company, permit for control of a company as aforesaid, limitations to the holding of means of control in a management company, exclusivity of occupation, appointment of organs and position holders in a management company, arrangement of approval of provident funds, the regulations of the fund and the method of changing them, rules regarding payments to the fund and withdrawal of monies from it, methods of investment of the fund's monies and management of its assets, supervision of the fund and reports to the

Commissioner and the planholders.

As part of the Provident Fund Law, the right of a worker to choose the provident fund in which his employer would deposit the monies for him, if the worker had a right for deposit of monies in his name in a provident fund, was specified for the first time (even if the right was originally determined in respect of a specific provident fund). In this context it was specified that if the eligible worker did not choose a specific provident fund with the exercise of his right, the deposit would be in the provident fund chosen by law or by agreement giving the worker the right to deposit monies in his name in the provident fund. The relations between the planholders and the management company were also regulated.

The Provident Funds Law authorizes the Commissioner to impose financial sanctions on an offender of some of the provisions of the law. In this context see also additional details regarding the Law for increased enforcement in the capital market (amendments to legislation) 5771-2011, in section 9.2.2 below.

By virtue of the Provident Funds Law various regulations were enacted from time to time, that regulate various subjects in connection with provident funds (including pension funds) and management companies, including investment rules for institutional entities, recognized costs for an institutional entity, methods of re-evaluation of various assets in the provident funds, the obligation imposed on a management company for participation in general meetings, etc.

For details regarding amendments 3 and 5 of the Provident Fund Law, see section 3.1.1 above.

* **The Law for improvement of economic efficiency (amendments to legislation for implementation of the economic program for 2009-2010) 5769-2009 (hereinafter: "the Efficiency Law")**

The Efficiency Law amended the Provident Funds Law regarding limitations on the management of provident funds by a management company. In accordance with the amendment, the management company was forbidden to manage more than one provident fund of any of the types of provident funds as set forth in the amendment, except in specific cases.

The law empowers the Minister of Finance to specify conditions in respect of non application of the prohibition to a management company in respect of which specific condition, as specified by him, are observed.

In July 2010, amendment 7 of the Efficiency Law was published, as part of which amendment 4 of the Supervision Law was enacted, and it was stated that a management company of provident funds would not manage more than one provident fund of any of the types of provident funds as set forth in the law, starting from January 1, 2012 (instead of starting from June 30, 2011).

It was also specified that the aforesaid provision would not apply to central provident funds for Severance Pay.

* **The Retirement Age Law, 5764-2004**

This law, that was amended recently on December 29, 2011, specifies the age at which a worker may be obligated to retire because of his age, and the age at which he may take early retirement and enjoy a pension

It was specified in the law that the age at which a female worker may be obligated to retire because of her age shall be increased progressively from 62 to 64, unless by the end of 2016 the Finance Committee approves the recommendations of the Minister for a different retirement age, based on the recommendations of a public committee for examination of the retirement age for a woman who was born after 1955.

* **The Pension Consulting Law**

This law regulates pension consulting or marketing. It includes, *inter alia*, provisions regarding the obligation for licensing of a pension marketer or consultant, conditions and requirements for qualification in this matter, obligations, prohibitions and limitations in respect of pension marketing or consulting, matching the product to the customer's needs, the obligation to give the customer the best advice, the furnishing of documents justifying in writing the economic feasibility of the pension savings and the recommendation of the consultant, proper disclosure of the fact that the marketer or consultant is linked to the various manufacturers, while specifying fiduciary duty and the duty of care and the prohibition of possible conflict of interests between the consultant or marketer and the customer, and provisions regarding the Commissioner's supervision of the activities of the aforesaid professionals and the obligations of registration and reporting. For details of amendment 3 of this law in respect of the setting up of a pension clearing house, see section 3.1.1 above.

In this context, the Commissioner published in December 2008 a circular for clarification regarding the addition of planholder to an institutional entity in connection with section 13 of the Financial Consulting Law. It was clarified in the circular that any connection between an individual and a license holder constitutes pension consulting or pension marketing, as the case may be, because of the nature of their occupation. Consequently it is not possible to carry out a transaction without a process of pension consulting or pension marketing.

Cases were also clarified in the circular in which section 13 of the pension consulting law will not apply, such as in the event of an individual, on his own initiative, contacting an institutional entity, and the said institutional entity is totally passive and takes no marketing action *vis-a-vis* the said individual, such as joining via the Internet website, or where the joining is made by the employer for a pension product defined as a default option pursuant to section 20(b) of the Provident Fund Law.

Provisions were also specified in the pension consulting law in respect of pension consulting by a bank corporation, including conditions for receipt of a permit as a pension consultant for a bank corporation, as well as provisions limiting, for a specific period of time, the option of the

bank corporation supplying pension consulting in connection with pension products managed by insurance companies, even if they held a pension consulting license pursuant to the aforesaid law.

It was also specified in the pension consulting law that a pension consultant shall be entitled to receive distribution commission from the management company, at the maximum rate as set forth in the regulations, provided that the calculation of the commission is done independently of the product recommended by the consultant to the customer.

In this context **the Regulations for Supervision of Financial Services (provident funds) (distribution commission), 5766-2006**, were published, in which the maximum distribution commission that may be paid to the pension consultant was specified.

* **The Severance Pay Law, 5723-1963**

This law includes, *inter alia*, rules in respect of deposits in provident funds of the Severance Pay element and in respect of all kinds of deposits in pension provident funds, including in respect of policies subject to the provident funds regulations (Executive Insurance Policies) and pension funds, as well as provisions for protection of monies deposited as aforesaid against attachment, encumbrance, return, or transfer.

* **The Salary Protection Law, 5718-1958**

Pursuant to the provisions of section 19(a) of the Salary Protection Law, provident funds must take steps to collect debts from an employer, since the provident funds shall be entitled to be exempt from their obligation to notionally credit to a planholder, payments that the employer is obligated to transfer, but where in fact they were not received by the fund, and to award full rights in respect of these payments, only if they prove that there was no negligence or that there were other circumstances that justified such exemption from the obligation.

* **The Income Tax Order**

Tax benefits are specified in the Income Tax Order that are granted following the deposit of monies in provident funds, including in respect of policies subject to the provident funds regulations (for self-employed persons and for Executive Insurance Policies) and pension funds, and tax benefits given for monies paid from them.

In January 2008 the Order was amended as part of the amendment to the Provident Funds Law (see section 3.1.1 above and paragraph (a) in this section). Uniform tax benefits were specified in the aforesaid amendment in respect of all the personal provident funds (pension funds, provident funds not paying a pension and Executive Insurance Policies), by means of making the rate of the credit given in respect of deposits in these instruments equal to a uniform rate of 3.5% of the deposit up to the ceiling specified for this matter.

Furthermore, the permitted ceiling for costs for the purpose of purchase

of insurance cover for loss of work capability for a worker was raised (from 2.5% to 3.5% of the salary) and expenditure was recognize for the purpose of purchase of pension insurance for dependents (at a rate of 1.5% of the insured income) for the purpose of receipt of the aforesaid credit. In addition, ceilings were specified for guaranteed salary and guaranteed income in respect of the purchase of the aforesaid insurance cover.

* **Income tax regulations (rules for approval and management of provident funds) 5724-1964 (above and below: "the provident funds regulations")**

These regulations regulate various subjects related to the management of provident funds, pension funds, Executive Insurance Policies and life insurance for self-employed persons. The major subjects regulated in these regulations include the investment rules, the determination of the permitted rates of provisions for pension savings regarding salaried planholders and self-employed planholders, as well as determination of the options for withdrawal of the sums accumulated therein.

The regulations obligate the provident funds and the management companies of the provident funds to take out professional liability insurance to cover their liability in respect of negligent acts or omissions *vis-a-vis* the planholders, as well as cover for breach of trust by their workers *vis-a-vis* the planholders. The insurance shall be made in the sums and under the conditions as set forth in **the regulations for joint trust investments (equity and insurance of a trust manager and a trustee and conditions of qualification of directors and members of the investments committee), 5755-1995**, and in a way that will cover claims in respect of events that took place during the period of the policy even if they were submitted within a year of the end of the period of the policy. The sum of the deduction demanded in the policy is limited to the ceiling as set forth in the provident funds regulations.

In February 2008 the Minister Finance enacted **a temporary order for amendment of the provident funds regulations**, according to which it will be possible to deposit Severance Pay monies in all the provident funds (that do or do not pay a pension) up to 2013, even if the deposits in the employer benefits element are less than the minimum deposits required for this matter, provided that the deposits in the benefits elements are not less than the deposits required pursuant to the compulsory pension arrangement.

In December 2010 the Minister of Finance enacted **an additional temporary order for amendment of the provident funds regulations**, according to which it will be possible to deposit during 2011-2012 the element of Severance Pay in provident funds not paying a pension, even in the absence of the minimum deposit required of the Severance Pay elements in the pension provident funds pursuant to the provisions of the provident funds regulations.

* The Regulations for Supervision of Financial Services (insurance) (application for a license, qualification, specialization, and examinations

of insurance agents, pension consultants and pension marketing agents) 5766-2006; the Regulations for Supervision of Financial Services (insurance) (fees) 5766-2006; the Regulations for Supervision of Financial Services (insurance) (exemption for the obligation for specialization or examinations of insurance agents, pension consultants, and pension marketing agents) 5766-2006 (hereinafter: "the exemption regulations")

The aforesaid regulations regulate the process of qualification of the pension consultants and the pension marketers, their licensing, the payment of the fees involved in licensing, and the exemptions granted from the aforesaid processes in whole or in part. These regulations replaced the regulations for supervision of insurance transactions (license for an insurance agent), 5729-1969.

- * The Order for the prohibition of capital laundering (obligations of identification, reporting, and keeping of records of an insurer and an insurance agent) 5761-2001 (hereinafter: "the insurance order") and the Order for the prohibition of capital laundering (obligations of identification, reporting, and keeping of records of the provident fund and the management company of the provident fund), 5761-2001 (hereinafter: "the provident fund order")

These orders impose on the insurance companies, the insurance agents and the management companies of the provident funds, the obligation of identification of customers, reporting, management and saving of various documents. The insurance order applies only to life insurance plans having a savings element. The provident fund order obligates the provident fund or the management company of the provident fund, in connection with the provident fund managed by it, to record and keep the identification details of the planholder wishing to deposit in a self-employed planholder account in a provident fund. Furthermore, the order applies the obligation of reporting and verification of details in respect of deposits and withdrawals in the sums as set forth in the order. The provident fund order does not apply to pension funds.

On July 3, 2011, a **draft order for the prohibition of capital laundering** was published, that combines in a single framework regarding all the institutional entities, the provisions of the insurance order and the provisions of the provident fund order. *Inter alia* the draft proposes to extend the applicability of the order to pension funds, to obligate the institutional entity to carry out a process of KYC (know your client) before opening an account (including clarification of the source of the monies, the occupation of the account holder, the aim of the opening the account, etc.), to also extend the applicability of the order to salaried persons who are holders of a controlling interest in the company employing them, to add increased obligations in respect of a foreign public figure, to add the obligation of execution of current monitoring of the activities in the account in respect of the KYC process, and the degree of risk of the planholder for laundering capital, etc.

In parallel it is proposed to reduce the sum that it is obligated to report in respect of deposits and withdrawals in respect of loans exceeding NIS

50,000. In addition the draft obligates an institutional entity to formulate policy, tools, and risk management in the subject of the prohibition of capital laundering.

The draft also contains an Appendix including a list of actions that may be regarded as irregular, in respect of which a separate report must be made to the Authority for prohibition of capital laundering and financing of terror. The draft includes transition provisions in respect of accounts existing on the date of commencement of the order, so that the provisions will come into effect on the date of execution of an initiated transaction in one of the planholder's accounts in the provident fund/pension fund.

* **The Regulations for Supervision of Financial Services (provident funds) (transfer of monies between funds 5768-2008 (hereinafter: "the mobility regulations"))**

The regulations, together with the circulars published in this matter by the Commissioner, from time to time, specify rules that permit planholders to execute the transfer of monies, in as simple and easy a manner as possible, between provident funds of the same kind (including pension funds and insurance funds), and even the transfer of monies from capital provident funds to pension provident funds.

In December 2011 a **draft amendment to the mobility regulations** and a draft amendment to the circular issued by virtue of them, were published. In the draft amendment to the mobility regulations a provision was added, *inter alia*, regulating in a separate and faster way the transfer of monies between funds managed by the same management entity, the obligation was added of compensation of the planholder by the management company of the recipient fund in the event of delay by the management company of the recipient fund in transfer of the application, it was clarified that, as part of the calculation of the yield of the new pension fund in respect of delay in transfer, the demographic yield should also be taken into account, and the provisions regulating the merging and splitting of accounts were replaced.

In the draft amendment to the circular the period in which the fund making the transfer must announce the existence of an impediment to the transfer has been reduced from 10 to 3 business days, it was decided that an application of an inactive planholder and an application of an active planholder who only moves the accumulated balance and does not move current deposits shall expire if they are not transferred to the transferring fund within 60 days of the date of the planholder's signing the application; a section was added regulating applications for transfer between funds managed by the same management company; an appendix was added presenting data of the return of the fund making the transfer during the period of the delay, where the recipient fund must furnish to the fund making the transfer, within 2 business days, a payment demand; the obligation was added of the employer being notified, by the fund making the transfer, of the mobility, where the mobility also includes the Severance Pay element, within 15 days of the date of transfer of the

monies, etc.

* **The Regulations for Supervision of Financial Services (provident funds) (personally managed provident fund) 5769-2009 (hereinafter: "the personally managed provident fund")**

These regulations specify the option of management of types of savings monies of a self-employed planholder defined in the regulations and of monies of the further education fund, by means of a personally managed provident fund, to be managed by the planholder or his portfolio manager, under specific investment limitations, to be monitored by the management company.

In respect of limitations regarding brokerage activities by means of a related party, the regulations state that, subject to the observance of a competitive process, a management company or an institutional investor, as the case may be, shall be entitled to purchase or sell securities by means of a related party, provided that:

- 1) The commission in respect of the purchases or sales as aforesaid shall not exceed 20% of the commission paid in respect of all the purchases and sales carried out by the institutional during the year;
- 2) The commission paid to the related party in respect of every purchase or sale as aforesaid shall not exceed the commission to be paid to the winner during the competitive process who is not a related party, because of an identical or similar transaction.

* **The Women's Work Regulations (dates and rules for payments to a provident fund) 5768-2008 (hereinafter: "The Women's Work Regulations")**

Pursuant to the provisions of the regulations, a worker undergoing a problematic pregnancy and a worker on birth leave shall be entitled to continuation of the current deposits in respect of them in the provident funds during the period of the problematic pregnancy and the period for which they are entitled to birth payments from the National Insurance Institute. The aforesaid eligibility also applies, mutatis mutandis, to the case of a worker taking birth leave in respect of his wife giving birth.

* **The Regulations for Supervision of Financial Services (provident funds) (purchase and sale of securities) 5769-2009**

Limitations are specified in these regulations regarding the purchase of securities by an institutional entity managing investments depending on a yield (pension fund, provident fund, profit sharing life insurance policy), if the said securities are marketed or distributed by means of a party related to the institutional entity, or if the aforesaid related party is the underwriter in the issue of the said securities.

* **The Regulations for Supervision of Financial Services (provident funds) (direct costs in respect of execution of transactions) (amendment), 5772-2012**

On February 29, 2012, after the date of the balance sheet, the amendment

to the aforesaid regulations was approved in parallel to the circular for institutional entities, also in the subject of direct costs in respect of execution of transactions, whose date of commencement is March 1, 2012. As part of the amendment to the regulations, a temporary order was issued that would remain in effect until December 31, 2013, according to which direct costs were added in respect of execution of transactions in the assets of a provident fund as part of external management commission.

In addition, additional cases were specified that are recognized as direct costs in respect of the execution of transactions in the assets of provident funds, as set forth below:

- 1) Not more than 80% of the costs paid in respect of management of a class action or a derivative suit (as long as it is not paid to a related party), provided that the investments committee approved in advance the reasonableness of the expenditure in respect of the sum of the investment in the asset forming the subject of the aforesaid action/suit, and
- 2) The management fees charged by the issuer of the basket certificates in which the provident funds invested, provided that at least 75% of the exposure commitments of the basket certificate are in respect of foreign assets (they were not issued in Israel and are not traded or held in Israel), provided that the issuer of the certificate is not a related party – the other investment costs in respect of such a basket certificate, if any, shall be borne by the management company from the management fees that it charges.

In parallel it was approved to continue to recognize costs in respect of the internal rating process conducted by the management company or its related party for the purpose of evaluation of the risk of the borrower or the loan as a direct cost only in respect of loans given prior to December 31, 2011, and subject to the receipt of approval in advance by 2/3 of the external representatives in the investments committee.

It was specified in the circular that the management company must furnish the investments committee with quarterly reports in respect of the payment of direct costs regarding the execution of transactions in assets of the provident fund, so that this will examine their reasonableness regarding the extent of the assets managed. The report shall be made for every investment plan or fund separately.

* **The Regulations for Supervision of Financial Services (provident funds) (participation by the management company in general meetings), 5769-2009**

The regulations specify, *inter alia*, the obligation of participation in voting of an institutional investor in respect of the monies of the planholders, in a general meeting of a corporation in which it has voting rights, in the subjects listed in the regulations, while defining cases in which approval is required from external representatives for the voting and instructions in respect of an agreement with a professional entity for the purpose of formulation of recommendations for voting in meetings.

Subsequently in the regulations the Commissioner supplied, in a circular by him, the obligation on the part of an institutional investor to formulate and publicize in its Internet website the following subjects: the voting policy; the method of actual voting including noting the fact that the voting was in accordance with its voting policy or that of a professional entity with whom it made an agreement; the criteria in respect of the quality of the corporate administration in the corporations in which it is considering investing. In addition, the securities authority recently published a directive in respect of the publication of the voting results of institutional entities in specific circumstances.

* **The Regulations for Supervision of Financial Services (provident funds) (minimum equity required from the management company of a provident fund or a pension fund), 5772-2012**

In February 2012, after the date of the balance sheet, these regulations were published, as well as **a circular in respect of capital requirements from management companies**, that contains instructions accompanying the regulations. The regulations specify the equity required from the management company. Pursuant to the regulations, the initial equity required from a management company shall be in the minimum sum of NIS 10 million (except in exceptional cases) (hereinafter: "**the initial sum of the equity**").

The minimum equity required from a management company on the date of the report shall not be less than the highest of the following: the initial sum of the equity, or the accumulated sum of (a) 0.1% of the assets managed, up to a ceiling of managed assets of NIS 15 billion; (b) 0.05% of the assets managed above the ceiling as set forth in (a); (c) 25% of the annual costs as set forth in the regulations.

For companies holding controlled management companies, an additional capital demand has been specified in respect of the sum obtained by multiplying the minimum equity of each of the controlled companies by the rates of the holdings of the management company therein.

The regulations also define the methods of investment of the equity required and obligate a management company to hold at least 50% of the minimum equity required from it pursuant to the regulations in liquid assets, after the deduction of the total value of all the liquid assets required from a management company that is a controlled company, multiplied by the rate of its holding in the controlled company.

In addition, the management company is forbidden to:

- 1) invest the minimum equity required from it pursuant to the regulations in one controlling it, in a related party, or in a party related to one controlling it;
- 2) hold more than 10% of the means of control of any corporation whatsoever, except for a subsidiary that is a management company, except for the holding of 100% of the means of control of an auxiliary corporation;
- 3) hold intangible assets, within the meaning of the draft regulations,

against the minimum equity required pursuant to the draft regulations;

4) encumber assets standing against the minimum equity required from it pursuant to the regulations; and

5) guarantee a commitment of any kind whatsoever, unless the guarantee is required for its current activities, and does not exceed 5% of its assets.

A transition provision is also specified in the regulations, according to which a management company that received a license prior to the date of commencement of the regulations, shall be obligated to progressively increase its equity up to the sum required pursuant to the regulations, prior to the date of publication of the financial statements for December 31, 2014, where at least 30% of the difference shall be completed prior to the date of publication of the financial statements for December 31, 2012, at least 60% of the difference shall be completed prior to the date of publication of the financial statements for December 31, 2012, and at least 80% of the difference shall be completed prior to the date of publication of the financial statements for December 31, 2013.

For the ramifications of the regulations on the equity requirements of management companies in the Group, see note 15 of the financial statements.

* **The Regulations for Supervision of Financial Services (provident funds) (location of planholders and beneficiaries), 5772-2012, together with a circular addressing the "procedure for location of planholders and beneficiaries")**

In February 2012 these provisions were published, with the aim of creating an effective and applicable mechanism for institutional entities, for the location of planholders with whom contact has been lost. The provisions obligate an institutional entity to take steps for the location of planholders and beneficiaries, including initiating investigation and examination, and specifies the activities required for updating data in respect of the planholders; obligate the formulation of working procedures for location of the planholders and beneficiaries; the formulation of rules for transfer of monies to the administrator general; the form of a procedure for periodical reporting to the Commissioner; and instructions for the use of an Internet website for the location of the planholders or beneficiaries.

In parallel to this regulation, as set forth above, a complementary arrangement was published as part of **the Regulations for Supervision of Financial Services (provident funds) (management fees), 5772-2012**, for the purpose of creation of an incentive for institutional entities to act effectively in order to locate savers and beneficiaries by reduction of the rate of management fees to 0.3% of that accumulated in cases in which contact was lost with the planholder up to the date of renewal of contact with him.

In March 2012 the Commissioner published a draft circular in respect of an Internet interface for location of accounts of planholders and activities

of planholders who had died – technical requirements, as a complementary step to the aforesaid regulations. As part of the draft circular the technical requirements from institutional entities are characterized for the purpose of operation of a central Internet interface for location of the accounts of planholders, that the Commissioner intends to set up, with the aim of enabling planholders, and beneficiaries of planholders who have died, to easily and rapidly locate accounts with the institutional entities.

* **The Regulations for Supervision of Financial Services (provident funds) (rules for investment applying to management companies and insurers), 5772-2012**

In February 2012 the Knesset Finance Committee approved the Regulations for Supervision of Financial Services (provident funds) (rules for investment applying to management companies and insurers), 5772-2012, in addition to the second draft of the circular in respect of the rules for investment applying to management companies and insurers, that was published in August 2011. The aim of the regulations is to apply uniform investment rules to the pension savings products, including provident funds, pension funds, and profit sharing policies.

The regulations cancel the currently existing distinction between the investment rules applying to provident funds and pension funds, and those applying to the monies of profit sharing policies, and also change some of the existing investment rules, in order to match them to the methods of operation in the capital market in general and to the method of operation of institutional investors in particular.

In the regulations the quantitative limitations currently existing have been removed, while increasing the involvement of the investment committees of the institutional entities in the investment activities. Furthermore, some of the provisions as set forth in the income tax regulations (rules for operation and management of provident funds) 5724-1964 and in the Regulations for Supervision of Insurance Transactions (methods of investment of the capital and funds of an insurer and management of its commitments) 5771-2011, have been transferred for determination at the discretion of the Commissioner.

The draft circular in respect of the investment rules applying to management companies and insurers specifies detailed provisions in matters that have been transferred for determination at the discretion of the Commissioner, as aforesaid, including in respect of deviation from the rate of investment, investment in a partnership, in real estate rights by means of a corporation that is not a partnership, the granting of loans, a transaction with a related party, and by means of it, investment in the related party.

The second draft adds a provision in respect of a specialized investment plan. In March 2012 the third draft of the aforesaid circular was published, that, *inter alia*, added provisions in respect of a specialized investment plan, deleted an index, and reduced the possible rate of investment of an institutional entity in a partnership, from 49% to 20%.

(For additional details see section 9.2.3 below.)

* **The Regulations for Supervision of Financial Services (provident funds) (setting up default option plans) 5772-2012**

In January 2012 the Commissioner published a draft of the aforesaid regulations, together with a draft circular in respect of matching the investment plan to the characteristics of the planholder (that will be officially published after approval of the draft regulations in the Knesset). For additional details of the adjusted financial savings model, see section 3.1.1.8 below.

Bills and draft regulations

* **The draft Regulations for Supervision of Financial Services (conditions in an insurance contract) (provisions in respect of limitation of an insurance contract containing insurance cover for disability), 5771-2011**

In February 2011 the Commissioner published the aforesaid draft regulations. Pursuant to the draft an insurance contract that contains insurance cover for disability shall also include a condition according to which if the date of occurrence of the disability is later than the date of the accident or the discovery of the illness, as the case may be, the period of limitation shall not commence before the date of occurrence of the disability. In this matter, "the date of occurrence of the disability" means the date on which the insurer became obligated to pay insurance benefits to the insurer in respect of the insurance cover for the disability.

***The bill for Supervision of Financial Services (provident funds) (amendment – reduction of management fees and the obligation of disclosure), 5770-2010**

In July 2011 the aforesaid private bill was published, with the aim of awarding all the planholders in the fund equal conditions for payment of the management fees, while providing the option of granting discounts based on uniform and equal rules, so that the management fees will be uniform for planholders having similar characteristics. An additional aim is to create transparency in the field of the management fees, in order to encourage competition between the management companies, and to enable savers to compare the costs of the various products.

* **Draft Regulations for Supervision of Financial Services (Provident funds) (rules for management of central pension provident funds), 5771-2011**

In August 2011 the Commissioner published the aforesaid draft, together with a draft circular in this matter. Provisions were given in the draft regulations in respect of management of a central pension fund (hereinafter: "**the fund**"), specifying, *inter alia*, that the management company of the fund shall keep a separate account for eligible workers who receive pensions, and a separate account for eligible workers who do not receive pensions; that the monies that the planholder deposits in the fund shall not be less than the accumulated actuarial commitments as

of the date of joining and shall not exceed the maximum sum for deposit as of the said date; and provisions in respect of the method of payment from the fund. The draft circular includes supplementary provisions in respect of rules for deposits of payments by the planholder in central pension provident funds, subject to the principles as set forth in the draft circular.

* **Draft Regulations for Supervision of Financial Services (consulting, marketing, and pension clearing system) (information security in a pension clearing system), 5771-2011**

The regulations specify provisions in respect of information security in a pension clearing system, saving information, identification of customers and users, obligations of users of the system, issue of information outputs, and granting the right of perusal of these outputs.

* **Memorandum of the law for amendment of the Income Tax Order (No. __), 5771-2011**

As part of the law memorandum it is proposed to expand the framework of tax benefits given during withdrawal of monies from a pension savings plan, while amending the provisions in respect of exemption regarding pensions, as set forth below:

- a) Progressive increase of the rate of the exemption from the pension during 15 years, up to a rate of 67% of the pension. The monthly sum of the exemption shall not be regarded as the rate of the sum of the actual pension up to a ceiling, but as a fixed sum that constitutes the rate of the ceiling sum;
- b) The granting of full tax exemption for an individual aged 60 at the time of withdrawal of a pension derived from monies deposited in a pension provident fund, starting from January 1, 2000, for which tax benefits were not granted;
- c) Change of the definition of a "pension awarding eligibility" and a "recognized pension".

In addition it is proposed to empower the Minister to fix rules for tax liability and the rate of the tax in the event of "illegal withdrawal of monies" from a provident fund, so that capitalization of the pension shall be deemed to be "legal withdrawal", provided that it was done in accordance with the conditions as set forth in the law and the regulations. The memorandum contains additional amendments with the aim of improving the conditions of savers in provident funds at the time of deposit and of withdrawal of the monies.

* **Bill for "renewal" of the following capital provident funds**

In August 2011 a private bill was published for amendment of the Income Tax Order (exemption from tax in respect of one-time withdrawal of benefits monies deposited for a period of at least 10 years), 5771-2011, with the aim of restoring the option (that had been cancelled in the amendment to the Provident Funds Law, as set forth above) of a one-time withdrawal of monies deposited in a provident

fund, if at least 10 years have elapsed from the date of deposit of the monies, in order to provide a solution for the sector of self-employed persons and the middle class, who had in the past saved by means of capital plans in respect of salary elements that are not recognized for pension – sectors, the extent of whose deposits for pension savings decreased substantially after the amendment to the Provident Funds Law.

In March 2012 the Bill the Law for Supervision of Financial Services (provident funds), 5772-2012, was approved by the Ministerial committee for legislation, prior to the first reading in the Knesset, in which approval will be given as a benefits provident fund in respect of monies deposited in respect of a planholder from 2012 onwards, up to a ceiling of NIS 17,400 per year, and for which the following cumulative conditions were met:

- 1) The planholder has income from salary or a profession, and in respect of which at least 15% was deposited in a pension provident fund; and
- 2) Monies were not deposited in respect of the said planholder in the said year in a further education fund. It will be permitted to withdraw these monies by means of a one-time capital withdrawal when at least 15 years have elapsed from the date of the first payment to the provident fund.

Circulars of the Commissioner and position papers

- * In February 2011 the Commissioner published a circular in respect of a **uniform format for the transfer of information and data in the pension savings market**, that cancels earlier circulars in this matter, and specifies "a uniform record" to be used by the institutional entities, license holders and additional information consumers in the field of pension savings, with the aim of improving the efficiency of the working processes, removing technological barriers, encouraging and supporting a competitive, advanced and developed market, while increasing transparency and improving the reliability and availability of information relevant to the pension savings of the public.

The circular will specify, after completion of all the appendices attached to it, a uniform format for information and data to be transferred via the various interfaces connected to pension consulting and to the pension manufacturer, including an interface of holdings, preliminary consulting, mobility, joining, events, collection, and acceptance of monies.

In the first stage the circular includes two appendices that give details of the format of the holding interface and the preliminary consulting interface, and it will come into effect in respect of these interfaces (appendices A and B of the circular) on October 1, 2011. Dates have not yet been fixed for the other interfaces forming the subject of this circular.

In February 2012 the Commissioner published the second draft in the subject as Appendix C of the aforesaid circular – the mobility interface, including details of the information that the management company of the Transferer fund must transfer to the management company of the

Transferee fund during transfer of monies between provident funds, in which information requirements were added to each of the stages as set forth in the circular 2008-11-9, that addressed the transfer of monies between provident funds. There was also published the draft of appendices D, E, and F, that address the joining interface, the events interface, and the interface for collection and acceptance of monies.

It was published in these drafts that the joining interface and the events interface would describe the information that a consultant or a pension marketer is required to transfer to an institutional entity in each of the events as set forth in the interface. It is also proposed that the interface for collection and acceptance of monies will give details of the information required for the processes of payment and deposits for pension savings, including the method of splitting the deposits between the various pension products. In March 2012 a number of clarifications for this circular were published.

- * In March 2011 the Commissioner published a circular regarding **agents and consultants in respect of the prohibition against giving benefits to a pension consultant**. There were stated in the circular, with reference to section 19 of the Law for Supervision of Financial Services (pension consulting and pension marketing) 5765-2005, the prohibitions applying to an institutional entity in connection with the supply of benefits to pension consultants or to bank employees, and to a pension consultant in connection with the receipt of a benefit.

Pursuant to the provisions of the circular, an institutional entity is entitled to give a benefit as aforesaid, including a benefit in the amount of the circular, subject to the benefit being given to all workers of the entity employing the pension consultant, and that the benefit is similar to benefits given by the institutional entity to other entities having similar market characteristics. The provisions of the circular also refer to the regulation of the participation of the pension consultant in conferences and events organized or financed by the institutional entity.

- * In July 2011 the Commissioner published a circular that addressed an **agreement between an institutional entity and a license holder**, with the aim of adjusting the working procedures as set forth in insurance circular 2004/14 "agreement between an insurer and an insurance agent" in respect of treatment of insurance premiums paid to the insurer by means of an insurance agent ("deposits"), for every agreement between a license holder and an institutional entity.

In December 2011 the Commissioner published an amendment to the aforesaid circular, according to which an agreement made for the purpose of brokerage for an insurance matter (that shall also be deemed to be a trust agreement) shall contain provisions in respect of the method of transfer of deposits as set forth in the circular, and may also order the transfer of deposits from the insured or from his employer in one of the following ways:

- 1) Directly to an institutional entity;
- 2) To a license holder, who will transfer them within 3 business days

from the date of their receipt to the institutional entity, without delay, without the right of offsetting, and without some other use of the deposit monies, where the transfer of the deposits pursuant to this section shall be done only by means of checks for the benefit of the institutional entity;

3) To an institutional entity by means of one of the three types of trust accounts as set forth in the circular (a separate trust account for each institutional entity; an account split by means of a trustee; a split account managed by the license holder). Pursuant to the circular, the license holder may not delay the sum of the deposits and shall transfer them to the institutional entity within the specified period of time; it shall not offset from them sums due to it from the institutional entity; it shall make no use of them whatsoever except their transfer in full (including profits on the investments that accumulated in the trust accounts) and for the insured for whom the monies were transferred.

It was also specified that the trust accounts shall not have a debit balance and shall be free of any mortgage, lien, encumbrance, debt, or third party right whatsoever.

Deposits made in a trust account shall be deemed, in all respects, to have been received by the institutional entity on the day following the deposit in the account, including in respect of the date of calculation of the return from them. In addition it was required to receive agreement in writing from the institutional entity regarding the method of receipt of the deposits. This circular applies to all the institutional entities and license holders, as set forth in the circular, including a pension consultant who is a bank corporation (that is entitled to transfer the deposits to a separate bank account prior to their transfer to the institutional entity), in respect of all the agreements between them that are in effect starting from January 1, 2012.

- * In August 2011 the Commissioner published a circular in respect of **computerized graphical signatures**. The aim of the circular is to improve and make more efficient the method of transfer of documents from a license holder (including an insurance agent or an employee of the institutional entity) to an institutional entity, to reduce the transfer times for the documents, and to improve the service for the customer. The circular specifies provisions for a license holder using a digital signature in order to obtain the customer's signature on documents as part of execution of a transaction (as set forth in the circular), including the method of obtaining the customer's signature and the method of locking the signed documents for archive purposes.

It was also specified in the circular that the institutional entity must publish, by the date of commencement of the circular, work procedures for the transfer of files signed with the customer's characterized graphical signature, in a manner clear and accessible to license holders. Following applications received by the Commissioner in respect of obtaining an employer's signature on a transaction with its employees, the Commissioner published in December 2011 a draft amendment to the aforesaid circular in respect of transactions between an employer and its

workers.

- * In August 2011 the Commissioner published a circular in respect of the **regulation of a planholder joining a provident fund**. The circular replaced an earlier one in the subject. Provisions were specified in the circular, *inter alia*, in respect of the process of a planholder joining a provident fund, including updating the process of completion of joining forms; compulsory data that the fund must receive before permitting the deposit of monies in the fund; provisions in respect of joining a provident fund by means of an employer; provisions for the appointment of beneficiaries; documents that the fund must furnish to a joining planholder, and saving the documents on magnetic media.

It was also specified that a document signed with a characterized graphical signature that meets the requirements as set forth in the circular for agents and consultants, 2011-10-4, in respect of characterized graphical signatures, shall be deemed to be an original document in respect of the beneficiaries provision. The circular came into effect on October 1, 2011.

- * In November 2011 the Commissioner published a circular in respect of **the supply of information to a customer who wishes to withdraw his money from a pension product – clarification**. It was specified in the circular that general data given to a saver by an institutional entity during withdrawal of the monies do not come in the category of pension marketing within the meaning of the supervision law, and that the institutional entity shall be entitled to supply it to the planholder without infringement of the provisions of section 13 of the aforesaid law.

It was also stated that the withdrawal of monies shall not include the operation of transfer of monies between investment plans or insurance plans for the same pension product and the transfer of monies from one type of pension product or from one pension product to another. In this matter, "general data" are data or facts that do not depend on the characteristics of the saver and, *inter alia*:

- a) the conditions of eligibility for withdrawal;
 - b) the tax ramifications of illegal withdrawal of monies;
 - c) informing the customer of the option of receiving a loan from the fund and preservation of his rights, where relevant.
- * In December 2011 the Commissioner published an institutional entities circular in respect of **reclamation of data regarding planholders' rights in institutional entities**, that obligates institutional entities to carry out reclamation of data regarding planholders' rights as set forth in the holdings interface (Appendix A of the circular regarding a uniform format for transfer of information and data in the pension savings market as set forth above), in order to ensure, as far as possible, that the record of the planholders' rights in the information systems will be reliable, complete, available, and retrievable. Principles were also specified for the method and extent of data reclamation.
 - * In December 2011 the Commissioner published an institutional entities

circular in respect of directions regarding the disclosure structure required in the annual financial statements of provident funds and pension funds. New instructions were given in the circular in respect of the disclosure structure required in the financial statements of provident funds and pension funds that changes the method of presentation of the financial statements of the funds, with the aim of their being clearer and more transparent for the user and constituting a tool during selection of the fund.

The major changes introduced in the financial statements of the pension funds are: change of the method of accounting records of the benefit payments and the withdrawals from an accumulated basis to a cash basis (the change of basis of the report shall be done from now onwards), change of the pattern of presentation of the investment activities, expansion of the report of the management fees, in a fund having a number of investment plans – expansion of the information returned at the level of a single plan, addition of disclosure regarding the five largest employers in the fund, and addition of a management review report for the set of financial statements (the management review report mainly includes analyses of investment activities and the rights of the insured in the fund).

The major changes in respect of the financial statements of the provident funds are: the management and Board of Directors review reports were merged, it became obligatory to give more details of the exposure of the investments, broken down by branches of the market, separate of investments in Israel and abroad, details of the repayment of management fees to planholders, details of the rate of management fees by the number of planholders in the fund, details of the five largest employers in the fund, etc. The aforesaid changes have no influence on the results of the financial statements of the fund but only on the method of presentation of the annual financial statements only. The circular will come into effect in respect of the financial statements for 2012.

- * In January 2012 the Commissioner published his position regarding the **consideration from the sale of branch provident funds**, so that in the sale of a branch provident fund, whether by transfer of management of the fund to another management entity or whether by the sale of means of control in the management company, the consideration of the sale must be attributed to the planholders and not to the shareholders of the fund.
- * In March 2012 the Commissioner published the agents and consultants circular in respect of **power of attorney for a license holder**. In the circular a uniform format was specified for the power of attorney form, by means of which the customer empowered the license holder to receive information or transfer requests as part of pension consulting or pension marketing, both specific and ongoing. There were also specified in the circular, *inter alia*, (a) that the power of attorney empowering the license holder to receive information regarding the customer on a one-time basis shall be in effect for 3 months from the date of its signing; (b) the power of attorney for a pension consultant for the purpose of execution of a

transaction as part of an ongoing consulting agreement shall remain in effect; (c) provisions in respect of the way in which an institutional entity shall act on receipt of a power of attorney, including the determination of a procedure regarding verification of the power of attorney, based on the type of power of attorney.

Draft circulars and draft position papers of the Commissioner

- * In August 2011 the Commissioner published a draft circular in respect of directions regarding the disclosure structure required in the financial statements of provident funds and pension funds. It was proposed in the draft to update the wording of the annual financial statements of provident funds and pension funds so that they would be clearer and more transparent for the user and would constitute a tool in selection of the fund. The changes included merging of the management and Board of Directors review reports, the introduction of the obligation for lateral details regarding the exposure of the investments, by market branches, separation between investments in Israel and abroad, broader details of the repayment of management fees to planholders, details regarding the rate of management fees by the number of planholders in the fund, details of the 5 largest employers in the fund, including the average rate of management fees collected from the planholders, etc. The provisions of the draft circular are expected to come into effect starting from the financial statements for 2012.
- * In September 2011 the Commissioner published a number of draft law memorandums and circulars in respect of changes to the mechanism for implementation of an insurance plan and the regulations of provident funds in such a way that the institutional entity would be required to notify the Commissioner of a new product (insurance plan, pension fund or provident fund).
- * In addition, the Commissioner published additional draft circulars and regulations, as part of the reform for management of insurance plans and provident funds, as set forth in section 3.1.1.9 above.

3.1.3.2 The life insurance branch

The following are details of the major provisions of the law applying to the Group in its activities in the field of life insurance, as well as the major regulatory provisions (proposed legislation, draft regulations, circulars, and draft circulars of the Commissioner) that were published in the year of the report, regarding this branch, and that were not described elsewhere as part of the subjects addressed in the previous sections:

The provisions of the law

- * **The Regulations for Supervision of Financial Services (group insurance of loss of work capability) 5766-2006**

The regulations were published in November 2006 and specify basic principles for the group insurance of loss of work capability, whose major aim is to protect the interests of the insured and ensure proper insurance cover. The regulations came into effect in April 2007, and

apply to group policies for loss of work capability that are made or renewed from this date.

It is specified in the regulations that a policy holder may be an employer only; an individual insured shall be permitted to shift to an individual policy on expiry of the group insurance with conditions similar to the individual policies of the insurer on the date of the transfer, and without renewed underwriting.

The regulations also specify the insurer's obligation to furnish every insured in the group with a policy, a sheet giving details of the insurance, and an annual report. Following these regulations and the Regulations for Supervision of Insurance Transactions (group life insurance) 5753-1993, the Commissioner published in January 2010 a draft circular regarding the procedure for operation life insurance policies and group loss of work capability policies, that gives details of the conditions in which an insurer shall be entitled to activate a group policy.

* **The Regulations for Supervision of Insurance Transactions (group life insurance) 5753-1993**

These regulations include provisions in respect of group life insurance, risk (without a savings element), including definition of the groups and their minimum size, the period of the insurance, and ceilings for agents' commission.

In August 2005 the regulations were amended and it was specified that a group of insured for the purpose of group insurance shall number 50 persons (instead of the former value of 100). In addition, the provision was cancelled according to which the period of insurance would remain one year, and the Commissioner was authorized to make provisions in respect of a continuation policy in the event of termination of the group policy and without new underwriting.

* **The Regulations for Supervision of Insurance Transactions (methods of separation of accounts and assets of an insurer in life insurance) 5744-1984**

These regulations specify instructions in respect of methods of separation of accounts and assets of life insurance transactions from all the insurance transactions of an insurer, and separation of assets of profit sharing life insurance transactions from assets of other life insurance transactions.

* **The Regulations for Supervision of Insurance Transactions (conditions of linkage in a life insurance contract) 5742-1982**

These regulations include, *inter alia*, provisions regarding the conditions of linkage in calculation of the payments that the insurer must make as a result of redemption of the policy, or in the event of insurance in a life insurance contract.

* **The Regulations for Supervision of Insurance Transactions (conditions in the insurance contract) (provisions for a previous medical condition) 5764-2004**

In January 2004 regulations were published that were intended to regulate the method of use by the insurer of a reservation for the insurer's liability, as a result of previous medical condition; to ensure proper insurance cover during the entire period of insurance; and to prevent underwriting during a claim for payment of insurance benefits.

Circulars and draft circulars of the Commissioner

- * In October 2011 the Commissioner published a draft clarification for the letter to the managers of the insurance companies, in respect of insurance policies that guarantee a yield collected from HETZ (linked life insurance) bonds published in June 2011.

In his letter dated June 2011 the Commissioner clarified that the rights of the insured in insurance policies as aforesaid, that mature, in cases in which the insured did not exercise their eligibility for a pension or a capital payment, shall not be harmed, subject to the conditions of the policy in the right of the insured for continuation of guarantee of the return (collected in HETZ bonds).

However, an insured who did not exercise his right at the end of the period pursuant to the conditions of the policy, shall not be entitled to continuation of guarantee of the yield as aforesaid in respect of additional deposits made after the end of the period of the policy. On realization of eligibility for a pension in the policies in question, its payment shall be in accordance with the original conditions of the policy, including the allocation factors as set forth in the policy, taking into account the age of the insured on the date of commencement of actual payment of the pension.

In the clarification letter dated October 2011, distinction was made between capital policies and group policies, according to which in the event of withdrawal or payment of a pension, this shall not affect the insured's right to receive a guarantee during return in respect of the balance of the savings that accumulated in the policy, as opposed to a capital policy in which, on termination of the period of insurance, the eligibility for receipt of the promised yield also ends. Consequently it is not possible to make any investment whatsoever in HETZ bonds for the assets of the said policy.

- * In August 2011 the Commissioner published a third draft for updating the guidelines document in respect of combined plans for life insurance and savings. In accordance with the draft, an insurance company, that chooses to offer, as part of its life insurance plans, a pension plan based on a pension factor that does not embody a guarantee of mortality rates, must prominently display the pension factor in its Internet website, and include in the conditions of the policy reference to the precise address in the Internet website in which the factor is displayed. This update shall apply to plans marketed by the insurance companies from the starting date indicated on the update.

3.1.3.3 The pension branch

The following are details of the major provisions of the law applying to the

Group in its activities in the pension branch, as well as the major regulatory provisions (proposed legislation, draft regulations, circulars and draft circulars of the Commissioner) that were published in the year of the report and that address this branch, and that were not described as part of one of the subjects listed in the aforesaid sections:

* **The Provident Fund Law**

The Provident Fund Law regulates, by means of major legislation, various subjects related to the establishment and management of a provident fund (see also sections 3.1.1, 3.1.2.1 above). *Inter alia*, the Provident Fund Law applies to a management company of a provident fund, including a pension fund, the provisions of the Supervision Law in respect of the appointment of organs and position holders. Consequently Menora Mivtahim Provident Funds is obligated to appoint an actuary, a risks manager, and an auditor pursuant to the provisions of the Supervision Law.

In addition, and pursuant to the provisions of the Provident Fund Law, it must appoint an investments committee, where the majority of its members are external representatives, for the purpose of formulation of the investment policy of the assets of the pension funds and for supervision of management of the investments, as aforesaid.

* **The Supervision Law**

The Supervision Law specifies the conditions for receipt of an insurer's license by an entity wishing to manage a pension fund. Pursuant to the Supervision Law, as amended in the amendment to the Provident Fund Law (see additional details in sections 3.1.1 and 3.1.2 above), Menora Mivtahim Provident Funds is entitled to also engage in the management of provident funds (of various kinds) only, and to hold all the means of control in subsidiaries holding an insurance agent's license ("**corporation agent**").

* **The provident funds regulation**

In respect of the requirements for equity of management companies of provident funds and pension funds, see details in section 3.1.3.1 (under the heading: provisions of the law and the regulations), below.

3.1.3.4 The provident funds branch

The following are details of the major legislative restrictions that refer to the company's activities in the provident funds branch, as well as the major regulatory provisions published in the last year and that address this branch:

* **The provident funds regulations**

In respect of the equity requirements for management companies of provident funds and pension funds, see details in section 3.1.3.1 (under the heading: provisions of the law and the regulations) below.

* **Order for prohibition of capital laundering (obligations of identification, reporting, and keeping of records of a provident fund**

and the management company of a provident fund) 5761-2001

In respect of the provisions of the order see details in section 3.1.2.1 above.

*** The Regulations for Supervision of Financial Services (provident funds) (partial withdrawal of monies from a further education fund) 5771-2011**

In February 2011 the aforesaid regulations were enacted, against a background of the amendment to the Provident Fund Law, and that replaced the default option rules in respect of the order of withdrawal of monies during a partial withdrawal from a further education fund, that were specified in the provident funds regulations. Pursuant to the new arrangement, the monies liable for capital profit tax will be withdrawn, followed by the withdrawal of monies exempt from capital profit tax, and finally monies deposited after December 31, 2002. However, the planholder shall retain the right to request to withdraw the monies in an order differing from that as set forth in the regulations.

Draft regulations

- * In December 2011 the draft income tax regulations (rules for conditions in which various accounts in a further education fund shall be regarded as a single account) (amendment), 5771-2011, were published, that were intended to adjust the current regulations (from 1993) to the regulatory changes that had occurred since then, that awarded the planholder freedom of choice regarding where his savings would be managed.

As part of the draft regulations and in order to prevent tax plans, it was proposed to obligate a planholder wishing to consolidate seniority in further education funds to give notice of this to the management companies of the merged further education funds within 30 days of the date of his joining the second fund, where the management company of the first further education fund must supply various data to the management company of the second further education fund within 10 business days of the date of receipt of the merging notice from the planholder. Merging of seniority may only be between two accounts.

It is also proposed to specify that if a planholder has two or more further education funds and wishes to withdraw monies from one of them, all the accounts shall be deemed to be a single account for the purpose of closing them to new deposits, and the planholder shall declare that he does not have further education funds additional to those to which he split his account apart from the list that he attached to his declaration. The management company of the further education fund from which the planholder wished to withdraw monies shall notify the other management companies of the withdrawal and shall request them to close the accounts split by the planholder into additional deposits.

In addition, a draft letter was published for clarification of the aforesaid regulations, in which it was specified that the management company of the further education fund must demand, on the date when the planholder joins the fund managed by it, the completion of a declaration in respect

of the planholder's request to merge the seniority of his accounts as set forth above.

Circulars and draft circulars of the Commissioner

- * In February 2012 the Commissioner published an institutional entities circular in respect of **the submission of applications for merging of provident funds and the merging of investment plans** for approval by the Commissioner, that replaces the procedure for merger of provident funds with another provident fund managed in trust by the same management company, dated April 2010.

An Appendix was attached to the circular, containing details of the guidelines on the date of full merging of the provident funds (in respect of the balance of the assets of the merging funds and the investment policy of the merged plans). The circular distinguishes between three different types of merger:

A full merger that complies with the guidelines as set forth in the Appendix, and in which there is no need to enact regulations, shall be deemed to have been approved 20 business days after the date of submission of the application.

A full merger that complies with the guidelines as set forth in the Appendix, and in which there is a need to enact regulations, shall be deemed to have been approved 30 business days after the date of submission of the application.

A merger that does not comply with the guidelines as set forth in the Appendix obligates the submission of a special application to the Commissioner and shall be deemed to have been approved 40 business days after the date of submission of the application.

All subject to the Commissioner not giving a different instructions and provided that commencement of the merger is within six months of the date of approval of the plan as aforesaid. If the Commissioner gave a different instructions, the merger plan shall be deemed to have been approved 10 business days after the date of submission of the amended application. Fixed wordings were attached to the circular, in respect of the application form for the merger and the declarations of the CEO accompanying the application.

3.1.4 Changes to the scale of activities in the field, its profitability, and the mix of customers

3.1.4.1 The life insurance branch

The scale of activities

The premiums for life insurance totaled NIS 1,681 million in 2011, compared to NIS 1,701 million in 2010 and compared to NIS 1,537 million in 2009. In 2011 there was a drop of about 1% compared to 2010. In 2010 one-time premiums were received in the sum of NIS 125 million from the government ministries for payment of an immediate pension. After neutralization of the influence of the aforesaid one-time premiums, the

increase in premiums totals about 7%.

Furthermore, premiums were received in 2011 that were allocated directly to insurance commitments (without a risk element – investment contracts) in the sum of NIS 408 million compared to NIS 400 million in 2010.

The policies redeemed in 2011 totaled NIS 576 million compared to redemptions in the sum of NIS 554 million in 2010, an increase of about 4%. The rate of redemption from the average reserve (not including the redemptions of investment contracts) totaled 3.8% in the year of the report (identical to last year's rate).

Redemptions in respect of policies whose premiums were allocated directly to insurance commitments (without a risk element – investment contracts) totaled about NIS 284 million in 2011 compared to the sum of about NIS 189 million in 2010.

Profitability

The profitability of the Group in this field is influenced by a number of major factors. A significant factor that influences profitability is the financial margin resulting from investment of the monies of life insurance policies that were issued up to the end of 2003. This margin is influenced by the results of the capital market in the period of the report.

It should be noted that in 2011, as a result of a negative real yield in these policies, varying management fees were not charged, thus harming the profitability. Furthermore, the profitability in this field is influenced by the extent of accumulation of the assets in policies issued from 2004.

An additional factor is the difference between the premium charged in respect of the risk element and its actual cost, taking into account secondary insurance. The increase in life expectancy influences the profitability both in risk plans and in plans in which a pension is paid during the entire period of the insured's life. An additional factor that influences the company's profitability is the life time of the policies. If the premium is paid for a longer period the profitability from the policy increases.

In addition, it should be noted that the maintenance of a low costs ratio will lead to a higher rate of profitability.

The overall loss from life insurance transactions, before tax, in 2011 totaled the sum of about NIS 126 million, compared to an overall profit, before tax, of about NIS 82 million in 2010.

The change in overall profit from the life insurance activities results from two major sources: (a) a change to the financial margin and to income from investments; and (b) a change to the results of the underwriting and operating activities in this field.

The change to the financial margin mainly results from a decrease in income from management fees in the sum of about NIS 99 million, because of the fact that in 2011, against a background of the negative real return achieved, varying management fees were not charged; as well as from a decrease in income from investments in respect of policies not depending on yield compared to commitments in respect of the same policies in the sum of

about NIS 64 million, and a total decrease of about NIS 163 million.

The change to the results of the underwriting and operating activities in the sum of about NIS 45 million results mainly from an increase in management and general costs in the sum of about NIS 33 million mainly as a result of an increase in the establishment of workers and costs in respect of amortization and automation, with the addition of a decrease in the underwriting profit due, *inter alia*, to the updating of commitments in respect of insurance contracts and payments in respect of insurance events (including in respect of updating estimates, assumptions, and actuarial estimates) in the sum of about NIS 12 million.

In February 2012 The Regulations for Supervision of Financial Services (provident funds) (management fees), 5772-2012, were enacted, in which ceilings were specified for management fees that may be charged in respect of new life insurance policies. These ceilings are expected to influence the profitability of the Group. (For additional details see section 3.1.16 above.)

In respect of an analysis of the profitability see section 2.2.1 above as well as section 4.4.1.1 of the report of the Board of Directors.

For details of income and profit before tax in this branch see the table in section 2.2.1 above.

Mix of customers

See section 3.4 below.

3.1.4.2 The pension branch

The scale of activities

As of the date of this report the Group, by means of Menora Mivtahim Provident Funds, for planholders of new pension funds, manages assets in the sum of about NIS 37,628 million, compared to assets in the sum of about NIS 34,114 as of December 31, 2010, an increase of about 10%. The increase is mainly due to the fact that in 2011 contribution fees were charged in the sum of about NIS 4,976 million compared to collection in the sum of about NIS 4,203 million in 2010, an increase of about 18%.

Profitability

The profitability in this branch depends mainly on income from management fees and changes to the element of management and general costs. The management fees from the New Mivtahim pension fund are collected in two ways: the rate of contribution fees collected in the period and the rate of accumulation of assets in the fund. The addition of new planholders increases the contribution fees collected and the accumulation of assets increases accordingly.

In the New Mivtahim Plus pension fund management fees are collected from the accumulated monies only, and management fees in a fixed amount are collected from pensions paid to some of the pensioners in this fund.

In the light of the competition in the branch, Menora Mivtahim Provident Funds awards the planholders in the pension funds benefits in management

fees that are intended to increase their accumulated monies in the fund, or supplementary insurance cover financed by Menora Mivtahim Provident Funds in addition to payment of commission to agents and consultants. The benefits in management fees reduce the effective rate of management fees collected from planholders in the fund, and the purchase of the insurance cover influences the profitability.

For data in respect of income and profit before tax in this branch see the table in section 2.2.1.1 above.

In the period of the report, profit before tax was recorded in pension activities in the sum of about NIS 91 million, compared to a profit in the sum of about NIS 96 million in 2010. The reduction in profit was mainly due to a decrease in income from investments in the sum of about NIS 9 million, while on the other hand the profitability of the pension activities increased by about NIS 4 million. The income from management fees increased by about NIS 44 million, an increase of about 16% compared to 2010. This increase was due to an increase in the scale of income from management fees and from contribution fees collected from the managed assets.

The marketing, management, and general costs increased in the period of the report in the sum of about NIS 40 million, an increase of about 20% compared to 2010. The increase was mainly due to an increase in marketing and commission costs following the increase in the scale of the transactions and the increase in management and general costs resulting from an increase in the establishment of workers and an increase in computer costs.

Mix of customers

See section 3.4 below.

3.1.4.3 The provident funds branch

The scale of activities

As of the date of this report, the Group, by means of Menora Mivtahim Provident Funds, is managing for planholders in the provident funds assets in the sum of about NIS 13,062 million, of which the sum of about NIS 4,572 million in provident funds guaranteeing a yield, compared to assets in the sum of about NIS 12,612 million, of which the sum of about NIS 4,342 million is provident funds guaranteeing a yield as of December 31, 2010, an increase of about 4%.

The major increase is due to the purchase of management rights for the Lehava provident fund that includes assets in the sum of about NIS 436 million as well as the collection of contribution fees in the sum of about NIS 802 million in 2011 compared to the collection of about NIS 706 million in 2010, an increase of about 13%.

Profitability

In the period of the report a loss before tax in the sum of about NIS 5 million was recorded in the provident fund activities compared to a profit in the sum of about NIS 53 million in 2010, a decrease of about NIS 58 million. The increase in profit was mainly due to a decrease in net income in respect of

provident funds guaranteeing a yield in the sum of about NIS 53 million (a loss of NIS 13 million in 2011 compared to a profit of about NIS 40 million in 2010) and to an increase in marketing, management, and general costs in the sum of about NIS 15 million, an increase of about 25% compared to the corresponding period last year.

The increase in costs was mainly due to an increase in the establishment of workers and an increase in commission and marketing costs. On the other hand there was an increase in income from management fees (as a result of the increase in managed assets) of about NIS 9 million, an increase of about 11% compared to the corresponding period last year.

For data in respect of income and profit before tax in this branch see the table in section 2.2.1.1 above.

In February 2012 the Regulations for Supervision of Financial Services (provident funds) (management fees) 5772-2012 were enacted, in which ceilings were specified for management fees that a management company is entitled to charge in respect of the provident funds managed by them. These ceilings are expected to influence the profitability of the Group. For details see section 3.1.16 above.

Mix of customers

See section 3.4 above.

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

In the Group's estimation, the critical success factors in the field of activity are, *inter alia*, focusing on the activity of distribution of the products that are profitable for the Group, while adjusting the various products to the needs of the customers, as well as the capability of retaining customers and the development of products meeting these needs.

Additional success factors are the expansion of the distribution organizations for the recruiting of new customers while maintaining a high level of service for the customer, leadership in the field of yields for the customer, improved efficiency in production inputs, and maintenance of the level of service, *inter alia* by means of improvement of the information systems in the future.

Additional success factors, unique to the pension funds branch, are, *inter alia*, accessibility to distribution and marketing channels, providing a suitable response to the various needs of the distribution channels, locating the needs of the insured as characterized by the brokers acting in the branch and by the relevant organs in the company, fixing competitive management fees, the capability of achieving satisfactory yields in avoidance investment options, a demographic yield, and rapid response to regulatory changes, and the capability of recruiting new customers and retaining existing ones.

Additional success factors, unique to the provident funds branch, are, *inter alia*, operational efficiency and efficient monitoring of external guarantees.

3.1.6 Substitutes for products in the fields of activity

Products of the fields of activity are, to a large extent, interchangeable, but this

interchangeability is not complete, since the products of the various branches in the field do not possess totally identical characteristics, as set forth below.

Competition exists between the institutional entities in the field of life insurance and long term savings, *inter alia*, because of the unique nature of the pension products that are substitute products in the field.

Furthermore, in all matters related to products in the life insurance branch for which there are no tax benefits (such as top finance), competition exists with other financial entities that market investment products (such as savings plans in banks, trust funds and deposits of various kinds). In respect of the risk elements in the life insurance branch, including pension disability, it is also possible to purchase the cover in a pension fund as a substitute for life insurance products.

However, this cover is only in the event of the customer purchasing products that include savings to retirement age. Furthermore, risk cover, including a variety of insurance products that do not exist in the pension fund, such as disability following an accident, loss of professional work capability etc., may be purchased as separate cover by itself in the life insurance branch only. Furthermore, a one-time payment ("compensation") that is not a pension, in the event of an insurance event, may only be purchased through an insurance company.

In the company's estimation, the regulatory changes made in recent years in the field of the various tax benefits, in the subject of mobility, the Becher legislation, the compulsory pension arrangement, the amendment to the Provident Fund Law, and the program for increased competition in the pension savings market, have influenced the degree of internal interchangeability of products in the field and the degree of interchangeability between them and other savings products.

However, the company estimates that in the light of the extent and nature of the changes, a process of formulation of a new market structure in the field of activity continues to exist, in accordance with the new rules specified as part of the aforesaid changes, and in accordance with future regulatory changes (such as in the context of the maximum management fees in the various substitute products).

The company's estimate is forward looking information based on the legislation in the field and on the company's estimation in respect of its influence on the market. This forecast is liable to not be realized because of additional changes to legislation or because of other environmental changes that will cause the market to behave in a different way to that expected by the Group as of the date of this report.

3.1.7 The structure of the competition and the changes that occurred in the field

For details see section 3.8 below.

3.1.8 Changes to secondary insurance arrangements in the field

For a description of the changes to secondary insurance arrangements in the field see section 3.6 below.

3.2 Products and services

The products sold in this field are: in life insurance – insurance policies; and in the pension funds and provident funds – rights in accordance with the regulations. The

products are sometimes sold in a combined manner.

3.2.1 Life insurance

This section includes a general and brief description of insurance products and insurance cover. The full and binding conditions are those as set forth in each policy. The description is for the purpose of this report only and shall not be used for interpretation of the policy.

General description

The Group markets Executive Insurance Policies, insurance policies for self employed persons (subject to the provident funds regulations) and individual insurance policies. These policies (that are subject to the provident funds regulations or are not subject to them) may include a capital savings element or a pension element or a combination of these (as chosen by the insured and subject to the provisions of the law) as well as various kinds of risk elements, or each of the elements mentioned separately (various kinds of risk only or various kinds of savings only).

Capital plan

The capital plan grants the insured the option of withdrawal of the redemption values as a one-time sum, pursuant to the conditions of the policy and the provisions of the law.

Pension plan

The pension plan is one in which the insured is entitled to a monthly pension for all his life pursuant to a formula specified in the policy. The main plan grants a minimum period of pension payments to be paid even if the insured who began to receive a pension died earlier.

Risk policy

A risk policy is an insurance policy containing a risk element only.

Executive Insurance Policy

The Executive Insurance Policy is an insurance policy combining savings, risk (death), serious illness and cover for loss of work capability (as chosen by the insured). These policies constitute an element of the social benefits as part of employer-employee relations.

The premium constitutes an agreed percentage of the insured's salary (for Severance Pay, benefits, and loss of work capability), as updated from time to time. These policies are subject to the provident funds regulations.

The target audience for Executive Insurance Policies are employers and holders of a controlling interest in companies that wish to purchase Executive Insurance Policies for their workers, or for themselves, respectively, as part of employer-employee relations.

Policies combining savings for self employed persons

Insurance policies combining savings, risk (death), serious illness and cover for loss of work capability (as chosen by the insured). The target audience for the

individual insurance policy is private customers, self employed persons, or salaried workers wanting additional pension savings. The policies for self employed persons are subject to the provident funds regulations.

Policies combining savings for private customers

Individual insurance is insurance policies for private customers, that include savings, risk, or various kinds of cover, and sometimes all these elements combined.

The target audience for the individual insurance policy is private customers, self employed persons. The savings accumulated in these policies are liquid and may be withdrawn at any time.

a) Types of insurance plans in the life insurance branch

The following are details of the major types of products and plans for life insurance marketed by the Group:

Status policy

A policy that the Group began marketing in 2004. In this policy there is absolute separation between the elements of risk, savings, and the costs. The policy is marketed as an Executive Insurance Policy, as an individual insurance policy, and as an insurance policy for self employed persons. In status insurance policies the sum of the insurance and the premium may vary depending on the decision of the insured, subject to the underwriting conditions.

Starting from July 2008, the pension status policy embodies a guaranteed life expectancy as the pension factor. In the light of amendment 3 of the Provident Fund Law, the Group decided to also guarantee the pension factor for pension status policies issued since 2004. From 2009 the company has marketed status policies for executives and self employed persons, approved as a provident fund paying a pension or as a provident fund not paying a pension, as the case may be, with a guaranteed pension factor, as well as capital status policies intended to absorb capital accumulated monies deducted prior to December 2008.

The savings accumulated in the policy are invested in one or more of a variety of investment plans available to the insured and as decided by him. Management fees are deducted from the aforesaid invested savings based on an agreement made between the company and the insured and as set forth in the policy.

Top finance policy²

An insurance policy containing a savings element only, that is marketed as an individual policy. The savings accumulated in the policy are invested in one or more of a variety of investment plans available to the insured and as decided by him. Management fees are deducted from the aforesaid invested savings based on an agreement made between the company and the insured and as set forth in the policy.

Top finance policy, central Severance Pay fund³

² The data in respect of the premiums and the redemptions of these policies are not included in the report of life insurance transactions.

An insurance policy containing a savings element only, that permits the employer to accumulate its obligations for payment of Severance Pay for its employees, all subject to the regulations of the provident funds. The savings accumulated in the policy are invested in one or more of a variety of investment plans available to the insured and as decided by him. Management fees are deducted from the aforesaid invested savings based on an agreement made between the company and the insured and as set forth in the policy.

In the light of the amendment to the Provident Fund Law, according to which it will no longer be permitted to market policies of this kind, the company was entitled to continue to receive deposits for the existing policies until the end of 2010 only in respect of workers for whom the employer transferred deposits up to the end of 2010.

Adif policy

Until the end of 2003 the Group marketed the Adif insurance policy in which the premiums were split between the risk element (including costs) and the savings element, where the ratio between the aforesaid elements was chosen by the policy holder or the insured.

The savings accumulated in policies of this kind that were marketed until 1990 are linked to the consumer price index with the addition of interest as set forth therein. The policies that were marketed from 1991 until the end of 2003 are profit sharing policies (yield dependent). The insured cannot choose the investment plan and the management fees are as set forth in the conditions of the policy.

Adif policies may be capital or pension. In the light of the amendment to the Provident Fund Law, the monies accumulated in respect of the deposits from January 2008 onwards (in these policies that are subject to the provident funds regulation) are intended for pension.

Mixed policy (traditional)

Until the end of June 2001 the Group marketed a "mixed" (traditional) insurance policy in which the sum of the insurance combined the savings element and the risk element. In the occurrence of an insurance event (death or the end of the period) the sum of the insurance, as fixed in advance, is paid.

The savings accumulated in policies of this kind that were marketed until 1990 are linked to the consumer price index with the addition of interest as set forth therein. The policies that were marketed from 1991 until the end of 2003 are profit sharing policies (yield dependent). The insured cannot choose the investment plan and the management fees are as set forth in the conditions of the policy.

This policy is generally of the capital type (although there is a pension appendix in some of the policies). In the light of the amendment to the Provident Fund Law, the monies accumulated in respect of the deposits from January 2008 onwards (in these policies that are subject to the provident funds regulation) are intended for

³ The data in respect of the premiums and the redemptions of these policies are not included in the report of life insurance transactions.

pension.

In all the aforesaid types of policies the insured/ the policy holder is entitled to redeem the policy before the end of the period, based on the redemption values as set forth therein, and subject to the provident funds regulations or any other legislative arrangement applying to the policy, as the case may be.

Pure risk life insurance

Policies of the risk type award a payment to beneficiaries of the sum of the insurance, in a single payment, in the event of death of the insured, except in the event of suicide during the first year.

Pure risk life insurance policies are marketed by the Group to individuals as private risk life insurance policies and as an expansion to other life insurance policies, such as status.

As part of the private risk insurance policies the Group markets risk insurance policies used as security in the event of death for the granter of a mortgage ("secure home"). The sum of the insurance equals the balance of the loan. The policy also permits incorporating insurance of the structure of the apartment in respect of which the loan is taken.

Continuous income

Policies of the pure risk type award monthly compensation to beneficiaries in the event of the death of the insured, starting from the month following the death and until the end of the period of insurance.

Continuous income policies are marketed by the Group to individuals as private risk life insurance policies and as an expansion to other life insurance policies, such as status.

Group risk

Policies of the group risk type are generally marketed to employers who wish to insure their workers with cover for the case of death only and are subject to the group life insurance regulations, where the premium is generally collected by means of the policy holder for all the insured in the group and is financed by the employer and/or the workers, as the case may be.

Insurance of loss of work capability

Cover of loss of work capability awards the insured, after a waiting period of a number of months from the date of the insurance event, a monthly payment and release from payment of a premium in the period of loss of capability in the event of disability that causes loss of work capability, in whole or in part, as a result of illness or accident. This cover is generally sold as additional cover in other insurance policies such as status or risk.

The aforesaid policy is sold to customers who are salaried workers, self employed persons, and private individuals.

Group loss of work capability

Policies of the group loss of work capability type are subject to special regulations enacted for this matter that apply since April 2007, where the premium is

generally collected by means of the policy holder for all the insured in the group and is financed by the policy holder and/or the members of the group, as the case may be.

Insurance for the case of death in an accident

Death from an accident is additional cover that awards the beneficiaries in the event of the death of the insured a one-time financial sum in addition to the basic insurance sum.

Insurance for the case of disability from an accident

Disability from an accident is additional cover that awards a one-time payment in the event of disability from an accident. In the event of full and permanent disability the sum of the insurance shall be paid in full, and in the event of partial disability a proportional sum of insurance shall be paid from the full insurance sum, based on the table as set forth in the policy.

Insurance for the case of professional disability

Professional disability is expansion of the policy granting the insured a one-time financial sum in the event of an accident or an illness as a result of which the insured is absolutely and permanently deprived of the ability to engage in his profession or in another reasonable and suitable occupation. In the event of full and permanent disability the aforesaid insurance sum shall be paid, and the policy and all the other cover therein shall be canceled.

All the aforesaid policies are sold to customers who wish to improve their life insurance policies.

b) Major investment plans

In all the insurance products in which there is a savings element the insured may choose the investment plans for the savings monies. The following are details of the major investment plans:

Menora Short term

In this plan at all times at least 70% of the value of the assets are invested in assets whose average life span is less than a year, including government bonds, concern bonds traded in Israel, non negotiable bonds, and deposits in banks, where there is no investment in shares and in stock purchase warrants.

Menora linked to the index

In this plan at all times at least 70% of the value of the assets are invested in assets in index linked channels, including government bonds, concern bonds traded on the Tel Aviv Stock Exchange Ltd., non negotiable concern bonds, deposits in banks and loans. The rate of investment in shares and securities convertible into shares at any time does not exceed 10% of the value of the assets in the plan.

The balance of the assets accumulated in the plan are invested at the company's discretion, subject to the provisions of the legislative arrangement.

Menora Shekels

In this plan at all times at least 70% of the value of the assets are invested in assets in shekels plans bearing interest in shekels, including government bonds, concern bonds traded on the Tel Aviv Stock Exchange Ltd., non negotiable concern bonds, deposits in banks and loans. The rate of investment in shares and securities convertible into shares at any time does not exceed 10% of the value of the assets in the plan.

The balance of the assets accumulated in the plan are invested at the company's discretion, subject to the provisions of the legislative arrangement.

Menora General

In this plan the assets accumulated in the plan are invested in a wide variety of investment channels, at the company's discretion, subject to the provisions of the legislative arrangement, including assets non negotiable in Israel and abroad.

Menora shares abroad

In this plan at all times at least 70% of the value of the assets are invested in assets in a shares plan abroad, and/or in basket certificates traded in Israel that imitate share indexes abroad and/or instruments that imitate share indexes abroad, and/or in other securities that may be converted into shares traded abroad and/or in trust funds that invest abroad and/or in structured products by means of shares abroad.

The balance of the assets accumulated in the plan are invested at the company's discretion, subject to the provisions of the legislative arrangement, including assets non negotiable in Israel and abroad.

Menora Shares

In this plan at all times at least 70% of the value of the assets are invested in assets in a plan of shares negotiable in Israel and abroad or in other securities that may be converted into shares negotiable in Israel and abroad.

The balance of the assets accumulated in the plan are invested at the company's discretion, subject to the provisions of the legislative arrangement, including assets non negotiable in Israel and abroad.

In this plan at all times at least 70% of the value of the assets are invested in assets in channels linked to foreign currency and/or expressed in foreign currency in Israel and abroad, including government bonds and concern bonds that are negotiable and/or non negotiable on the Stock Exchange in Israel and abroad, in deposits and/or loans and/or financial structures linked to foreign currency and/or expressed in foreign currency in Israel and abroad.

The rate of investment in shares and securities convertible into shares at any time does not exceed 10% of the value of the assets in the plan. The balance of the assets accumulated in the plan are invested at the company's discretion, subject to the provisions of the legislative arrangement.

Menora government shekel bonds

In this plan at all times at least 90% of the value of the assets are invested in assets in government bonds that are not linked and/or in short term loans. The balance of the assets accumulated in the plan are invested at the company's

discretion, subject to the provisions of the legislative arrangement.

Menora government index linked bonds

In this plan at all times at least 90% of the value of the assets are invested in assets in government bonds linked to the index. The balance of the assets accumulated in the plan are invested at the company's discretion, subject to the provisions of the legislative arrangement.

Menora Kahalacha

In this plan the investment is made subject to the rules of the Jewish Halacha, with the sole authority of the investments committee. The assets in the investment plan shall be invested in negotiable and non negotiable assets in Israel and abroad.

3.2.2 Pension

a) New comprehensive pension fund: the New Mivtahim

A new comprehensive pension fund, that was established in 1995, in which salaried and self employed workers (self employed workers, salaried workers who deposit monies independently and who are not workers) are insured, who started to become insured in a pension fund from 1995 onwards. From March 2005 the fund is managed pursuant to the provisions of pension circular 9/2004, that addresses provisions for the management of a new comprehensive pension fund as a "yield fund".

Pursuant to the provisions of the regulations of the yield fund an accumulated sum is accumulated to the credit of each insurer in the fund, whose division by a suitable actuarial factor will yield the old age pension to which he will be entitled on retirement age, based on the pension data chosen by the insured.

The fund awards cover in the event of death (dependents pension), loss of work capability (disability pension), and retirement for a pension on old age (old age pension), as set forth in the regulations of the fund. These types of cover shall be financed by monthly deduction of the cost of the risks from the insured's account.

The extent of the cover shall be based on the pension plan chosen by the insured (from a variety of possible insurance plans) based on his age on the date of joining the fund and the development of his salary (in accordance with the principle specified by the Commissioner, according to which the cost of the insurance cover given to the insured during the entire period of his insurance shall not exceed 35% of the contribution fees deposit for him in the benefits elements in the fund in the said period).

The deposits to the fund are limited to a monthly ceiling of up to 20.5% of double the average salary in the economy (currently a deposit in the sum of about NIS 3,500 per month), calculated cumulatively for each tax year separately.

The extent of the contribution fees collected by the management company from planholders in the New Mivtahim pension fund during the periods as set forth in the report and the assets managed in it are as set forth below (millions of shekels):

	2011	2010	2009
Contribution fees	4,904	4,154	3,610
Assets	37,279	33,815	27,579

The contribution fees increased by 18% in 2011 compared to 2010, and the extent of the assets increased mainly because of the increase in collection. In addition, during the period of the report there were redemptions by planholders and return of Severance Pay to employers on a scale of about NIS 676 million compared to about 616 million last year.

The rights and obligations of planholders in the fund are determined pursuant to the provisions of the regulations that state that an accumulated sum is credited to each planholder in the fund, whose division by a suitable actuarial factor will yield the old age pension to which he is entitled on reaching retirement age, based on the pension data chosen by the planholder.

Furthermore, the planholder shall be granted insurance cover in the event of disability and death prior to the retirement age. The extent of the cover shall be based on the pension plan chosen by the insured (from a variety of possible insurance plans) based on his age on the date of joining the fund and the development of his salary, all subject to the legislative arrangement.

The regulations are amended from time to time, with the approval of the Commissioner or on his demand, and they were last amended in January 2011.

The following are details in respect of the insurance plans as set forth in the regulations:

General plan – This is the default option plan in the New Mivtahim, in which the maximum permitted insurance cover is granted in the event of disability, and in which balanced cover is also given to dependents, so that the dependents pension is intended to resemble the old age pension expected on retirement age; until March 2009 the insurance cover in the event of disability awarded in this plan was also a balanced cover as aforesaid.

Savings intensive plan – Intended for persons who wish to receive a higher old age pension and in return wish to receive a significantly lower disability or dependents pension.

Maximum savings plan for early retirement – Also intended for persons who wish to receive as high an old age pension as possible, in which insurance cover is given only until the planholder reaches the age of 60, so that the cost of the risks deducted from the planholder's account is minimal.

Insurance intensive plan – Intended for persons who wish to receive a higher disability or dependents pension in return for receiving a significantly lower old age pension than that in the general plan.

Maximum insurance plan – In which the highest permitted cover is given

pursuant to the instructions of the Commissioner at any age of joining the fund in respect of disability or dependents pension, but the said cover is given only until the planholder reaches the age of 60.

Equal plan – A balanced plan, intended for persons who wish that the disability or dependents pension paid to them or to their family will be close to the old age pension expected at retirement age.

Increased dependents insurance plan – Intended for persons who wish to receive a higher dependents pension in return for the receipt of significantly lower old age and disability pensions than those in the general plan.

Savings biased combined plan – A combination of the general plan and the savings intensive plan.

Insurance biased combined plan – A combination of the general plan and the insurance intensive plan.

In the New Mivtahim there are 14 investment plans, as well as two portfolios to cover the fund's commitments to recipients of a pension, as follows:

General plan – In which the assets are managed subject to the limitations applying pursuant to the provisions of the legislative arrangement in this subject, without any additional administrative limitation; this is the default option plan in the New Mivtahim.

General plan B – In which the assets are managed subject to the limitations applying pursuant to the provisions of the legislative arrangement in this subject, but at least 10% of the assets managed in this plan are invested in shares (including the instruments as set forth in respect of the shares plan).

Shares plan – In which the assets are managed subject to the limitations applying pursuant to the provisions of the legislative arrangement in this subject, but at least 60% of the assets managed in this plan are invested in shares (including derivatives of various kinds, convertible bonds in a shares plan, and additional financial instruments that invest in shares or follow up investment activities in shares).

Bonds plan – In which the assets are managed subject to the limitations applying pursuant to the provisions of the legislative arrangement in this subject, but at least 50% of the assets managed in this plan are invested in bonds (including designated bonds, basket certificates that follow up bonds and loans).

Halachic plan (general C) – In which the assets are managed subject to the limitations applying pursuant to the provisions of the legislative arrangement in this subject, pursuant to the decisions of the company management, and in accordance with the rules of the Jewish Halacha.

Nine target plans for retirement – The assets managed in them shall be invested, based on the assumption that they are intended to be converted into an old age pension during the years specified in the name of the plan (retirement target 2015, retirement target 2020, etc, up to retirement target 2055).

b) New general pension fund – New Mivtahim Plus

New Mivtahim Plus is a new general pension fund (called general fund or Supplement fund) intended mainly for deposits of contribution fees from a salary

exceeding double the average salary in the economy and for one-time deposits for the purpose of purchase of a pension at retirement age. The fund was set up in 1997.

The extent of the contribution fees collected by the fund during the period described in the report and the assets managed therein (in millions of shekels) are as set forth below:

	2011	2010	2009
Contribution fees	71.6	49.6	40.7
Assets	348.9	299.2	232.6

The contribution fees increased by about 44.3% in 2011 compared to 2010, and the total assets increased mainly as a result of the increase in collection despite the negative returns that reduced the scale of the assets in the fund. In addition, during the period of the report there were redemptions of planholders and return of Severance Pay to employers on a scale of about NIS 6.2 million compared to about NIS 4.3 million last year.

Pursuant to the regulations of New Mivtahim Plus, comprehensive pension cover is given (for old age pension, for disability pension in the event of loss of work capability at a working age and for a dependents pension in the event of death at a working age) for a planholder who wants it, in various insurance plans from which the planholder can choose, but the option is retained of choosing a basic pension plan (without insurance cover in the event of disability or death at a working age). The regulations are amended from time to time, with the approval of the Commissioner or at his demand, and were last amended in March 2010.

Pursuant to the instructions of the Commissioner in this context, Menora Mivtahim pension purchases secondary insurance for the New Menora Mivtahim Plus insurance plans. The insurance was purchased from Menora Mivtahim Insurance and is expected to continue to be purchased until a critical mass of planholders in the new Menora Mivtahim is reached, to whom insurance cover applies, as aforesaid.

The withdrawal of monies from the pension fund, not by means of pension, is done pursuant to the provisions of regulation 41/29 of the provident funds regulations, and pursuant to this, such a withdrawal of monies is of the sum accumulated to the planholder's credit in the fund.

For details in respect of investments of the monies of the insured and the planholders and the profits obtained by the company from them in the pension branch, see section 9.3.7 below.

3.2.3 Provident funds

Personal provident funds for benefits and Severance Pay are intended for salaried and self employed persons, unless stated otherwise in the regulations. The deposits in the fund are made on a monthly basis for salaried workers, while self employed persons may deposit the monies periodically.

As set forth in sections 3.1.1 and 3.1.2 above, as part of the amendment to the Provident Fund Law it was specified that deposits in these provident funds made from 2008 onwards shall be intended for the purpose of pension, and the funds

shall become (in respect of these deposits) provident funds not paying a pension.

Menora Mivtahim Provident Funds manages four different types of provident funds – Provident funds not paying a pension (that in respect of the monies deposit in them up to the end of 2007 continue to be managed as personal provident funds for benefits and Severance Pay), further education funds, central funds (for Severance Pay, as well as a central provident fund for participation in a budgetary pension), and provident funds for a different purpose.

3.2.3.1 Personal provident funds for benefits and Severance Pay

Menora Mivtahim Provident Funds manages a number of provident funds of this kind, as set forth below:

Menora Benefit, that operates seven investment plans:

1) Menora Benefit General – The investment policy in this is subject to the decisions of the investments committee of the fund,

2) Menora Benefit up to 10% of the shares – The investment policy in this is subject to the decisions of the investments committee of the fund, and subject to the provisions of the law, but at all times the rate of holdings of shares and securities convertible into shares shall not exceed 10% of the assets of the plan.

3) Menora Benefit shares – The investment policy in this is subject to the decisions of the investments committee of the fund, but at all times the rate of holdings of shares and securities convertible into shares shall not be less than 50% of the assets of the plan.

4) Menora Benefit for immediate retirement – In which monies shall not be invested in shares or securities convertible into shares and shall not be invested in assets whose residual period until redemption exceeds one year, and the investment policy therein is subject to the assumption that all the monies in this plan must be liquid at all times.

5) Menora benefit for retirement 2015 – In which monies shall not be invested in shares or securities convertible into shares and the investment policy therein is subject to the assumption that all the monies in this plan (except for liquid monies existing because of entries in the accounts in the plan) will be redeemed by 2015. In August 2010 the merger of the investment plan "Quatro Menora bonds without shares" into this plan was completed, from the Quatro Menora Benefits, with the approval of the Commissioner.

6) Menora benefit for retirement 2020 – The investment policy in this is subject to the decisions of the investments committee of the fund, but all the monies in this plan (except for liquid monies existing because of entries in the accounts in the plan) will be redeemed by 2020.

7) Menora benefit for retirement 2030 – The investment policy in this is subject to the decisions of the investments committee of the fund, but all the monies in this plan (except for liquid monies existing because of entries in the accounts in the plan) will be redeemed by 2030.

Mivtahim provident funds and Severance Pay – A personal provident

fund for benefits and Severance Pay for salaried and self employed persons

Menora Mivtahim Amir – that operates three plans:

1) Menora Mivtahim Amir General – A general plan open to new planholders, in which the assets will be invested at the discretion of the management company as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified in accordance with it.

2) Menora Mivtahim Amir known index – A plan guaranteeing a return within the meaning of this term in the provident funds regulations, that is a plan blocked for joining by new planholders. The rate of the guaranteed return is 5.5% per year with the addition of linkage differentials based on the rate of increase of the index, in accordance with the ratio of the last index published before crediting the profits and the index known in the month in which the monies were deposited to the planholder's credit.

3) Menora Mivtahim Amir index in respect of – A plan guaranteeing a return within the meaning of this term in the provident funds regulations, that is a plan blocked for joining by new planholders. The rate of the guaranteed return is 5.5% per year with the addition of linkage differentials based on the rate of increase of the index, in accordance with the ratio of the last index published before crediting the profits and the index known in the month in which the monies were deposited to the planholder's credit.

As set forth in section 3.1.1 above, these provident funds operate in respect of deposits made in them in 2008 and onwards, as provident funds not paying a pension, and continue to act as personal provident funds for benefits and Severance Pay in respect of monies deposited in them up to the end of 2007.

Mor – Menora Mivtahim – A personal provident fund for benefits intended for persons serving in the regular army. The fund operates three plans:

1) Mor Menora Mivtahim general plan – In which the assets will be invested at the discretion of the management company as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified in accordance with it.

2) Mor Menora Mivtahim general plan 2 – In which up to 10% of the assets of the plan shall be invested in shares, and the balance of the assets of the plan, subject to the limitation in respect of investment shall be invested in shares, at the discretion of the management company as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified in accordance with it.

Mivtahim TAUS that operates two investment plans:

1) Mivtahim TAUS- general plan – In which all the assets of the plan will be invested at the discretion of the management company as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified in accordance with it. In December 2011 the merger between the Menora Benefit Meitar provident fund (MH 981) with this investment plan was completed.

2) Mivtahim TAUS – shares plan – In which at least 75% of the assets of the plan will be invested in shares, in securities convertible to shares, in shares indexes, in participation certificates in trust funds investing in shares or in derivatives of each of the aforesaid in Israel and abroad. The balance of the assets will be invested at the company's discretion, according to the provisions of the legislative arrangement.

Menora Mivtahim Yeter – a provident fund for benefits having four investment plans: three plans guaranteeing a return within the meaning of the provident funds s and in connection with which there is a commitment to guarantee a return pursuant to the provisions of the fund; and a fourth plan that does not guarantee a return.

3.2.3.2 Further education funds

A further education fund intended for salaried and self employed persons. The deposits in the further education fund are on a monthly basis for salaried workers.

Self employed persons may deposit the monies periodically.

The group manages the following further education funds:

a. Menora further education fund, by means of Mivtahim Benefit, that operates five plans:

1) Menora further education fund general – In this plan all the assets of the plan will be invested at the discretion of the management company as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified in accordance with it.

2) Menora further education fund up to 10% shares – Up to 10% of the assets of the plan will be invested in shares and in securities convertible into shares, and the balance of the assets of the plan will be invested at the discretion of the management company as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified in accordance with it.

3) Menora further education fund shares – At least 50% of the assets of the plan will be invested in shares, securities convertible into shares, and the balance of the assets of the plan will be invested at the discretion of the management company as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified in accordance with it.

4) Menora index further education fund– At least 75% of the assets of the plan will be invested in assets linked to the index and there shall be no investment in shares. In January 2010 this plan was merged with this further education fund from the Menora Massad further education fund.

5) Menora shekels further education fund– At least 75% of the assets of the plan will be invested in assets bearing interest in shekels and up to 25% in any other investment. In January 2010 this plan was merged with this further education fund from the Menora Massad further education fund.

b. Menora Mivtahim further education fund, by means of Mivtahim

benefit, operates six plans:

1) Menora Mivtahim further education fund general Lehava plan – The investment policy in it is subject to the decisions of the investments committee of the fund, subject to the provisions of the law. On January 1, 2012, the merger was completed of the investment plan "Lehava general plan (MH 561) with this plan pursuant to approval by the Commissioner. Following the completion of the merger the name of the plan was changed from "Menora Mivtahim further education fund general plan" to its current name.

2) Menora Mivtahim further education fund concern bonds plan – That employs an investment policy according to which at least 75% of the assets of the investment plan will be invested in concern bonds of public companies, and under no circumstances shall there be investment in shares.

3) Menora Mivtahim further education fund linked government bonds plan – That employs an investment policy according to which at least 75% of the assets of the investment plan will be invested in securities included in the government index or in securities linked to that index.

The balance of the assets of the investment plan shall be invested in government bonds, in bonds of other countries, or in cash, at the discretion of the management company. Under no circumstances shall there be investment in shares.

4) Menora Mivtahim further education fund shekels government bonds plan – That employs an investment policy according to which at least 75% of the assets of the investment plan will be invested in securities included in government shekel index or in securities linked to that index.

The balance of the assets of the investment plan shall be invested in government bonds, in bonds of other countries, or in cash, at the discretion of the management company.

On January 1, 2012, the merger was completed of the investment plan "Lehava shekel plan" (MH 1380) with this plan pursuant to approval by the Commissioner.

5) Menora Mivtahim further education fund shares abroad plan – That employs an investment policy according to which at least 75% of the assets of the investment plan will be invested in securities traded on Stock Exchanges abroad, based on a geographic distribution determined for this matter, or in securities that are linked to shares indexes abroad. The balance of the assets of the investment plan shall be invested in bonds, deposits, or cash. On January 1, 2012, the name of the plan was changed from "Menora Mivtahim further education fund abroad" to its current name.

6) Menora Mivtahim further education fund shares plan – That employs an investment policy according to which at least 75% of the assets of the investment plan will be invested in shares, securities convertible into shares, shares indexes, participation certificates in trust funds that invest in shares, or in derivatives of each of these in Israel and abroad. The balance of the assets accumulated in the plan are invested at the company's discretion, subject to the provisions of the legislative arrangement.

c. Lehava further education fund

Starting from January 1, 2011, the management of the fund was transferred from Lehava Management of Further Education Funds Ltd. and Lahav Organizations for Self Employed Persons and Business Israel Ltd. (registered society) to Menora Mivtahim Benefit, in accordance with approval from the Commissioner. On January 1, 2012, the merger of the Lehava further education fund was completed as follows: "Lehava general plan" (MH 561) was merged with "Menora Mivtahim Further Education Fund General Plan", that was called after the merger "Menora Mivtahim Further Education Fund Lehava General Plan".

"Lehava shekel plan" (MH 1380) was merged with "Menora Mivtahim further education fund shekel government bonds plan" (MH 1408).

The investment plans "Lehava index plan" (MH 1379), Lehava shares plan" (MH 1381) and "Lehava foreign currency plan" (MH 1382) were cancelled on completion of the aforesaid merger.

d. Omega further education fund

In September 2008, 60% of the shares of Menora Mivtahim and Engineers Histadrut Provident Funds Ltd., that manages omega further Education Fund (formerly Further Education Fund for Engineers) (hereinafter: "**the fund**") were transferred to Menora Mivtahim Finance. This was in accordance with purchasing agreements according to which all the means of control of the State and 20% of the means of control of the Engineers Histadrut in Menora Mivtahim Engineers were transferred to Menora Mivtahim Finance.

Together with the transfer of control to Menora Mivtahim Finance, the fund ceased to be a branch fund acting in accordance with actual costs and intended for engineers only, and consequently the regulations of the fund were amended.

The fund operates a general plan in which its investment policy is subject to decisions by the investments committee of the fund, subject to the provisions of the law, as well as two additional plans as set forth below:

Omega bonds plan – In this plan at least 75% of the assets of the plan are invested in government bonds in Israel and/or abroad and up to 25% of the assets of the plan are invested in concern bonds.

Omega shares plan – In this plan at least 50% of the assets of the plan are invested in shares and securities convertible into shares. The balance of the assets of the plan are invested at the company's discretion, as existing from time to time, and subject to the provisions of the law.

3.2.3.3 Central funds (for Severance Pay and participation in budget pension)

Menora Mivtahim Provident Funds manages central funds for Severance Pay intended for an employer who wishes to accumulate monies to guarantee Severance Pay for its workers. The fund is not personal. The planholder is the employer and the monies are accumulated in a concentrated manner in the name of the employer, for its employees. The provision for the fund is recognized as an expenditure for the employer and the monies remain in its

ownership until their release for the benefit of its employees.

As set forth in sections 3.1.1 and 3.1.2 above, it was stated in the amendment to the Provident Fund Law that from 2008 onwards it was forbidden to make deposits in central provident funds for Severance Pay (transition instructions in the aforesaid amendment state that deposits in funds would be permitted by existing planholders- employers and only in respect of the worker of the said employers in respect of whom monies had been deposited in funds between December 2007 and the end of 2010). Pursuant to the provisions of the amendment to the Provident Fund Law, starting from January 2011 the central funds for Severance Pay were closed to new deposits.

Menora Mivtahim Provident Funds manages two central funds for Severance Pay and one central fund for participation in budget pension, as set forth below:

a. Central fund for Severance Pay – The investment policy in this is subject to the decisions of the investments committee of the fund, subject to the provisions of the law.

Menora Central fund for Severance Pay operates three plans:

1) The Menora Central fund for Severance Pay general plan – The investment policy in this is subject to the decisions of the investments committee of the fund, subject to the provisions of the law.

2) The Menora Central fund for Severance Pay up to 10% shares plan – The investment policy in this is subject to the decisions of the investments committee of the fund, subject to the provisions of the law. However, at no time shall the rate of holdings of shares exceed 10% of the assets of the plan.

3) The Menora Central fund for Severance Pay without shares plan – The investment policy in this is subject to the decisions of the investments committee of the fund, subject to the provisions of the law.

b. Menora Mivtahim – participation in budget pension – This is a special fund for the purpose of depositing monies deducted from the salaries of workers entitled to a budget pension, in accordance with the rates and conditions as set forth in sections 89 and 90 of the Law for Improvement of the Israeli Economy (legislation amendments to achieve targets of the budget and the economic policy for the financial years 2003 and 2004), 5763-2003.

Two investment plans are managed in this fund:

1) General plan – In this plan all the assets of the plan will be invested at the company's discretion, as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified therein.

2) Without shares plan – In this plan all the assets of the plan will be invested at the company's discretion, as existing from time to time, and subject to the provisions of the legislative arrangement and the limitations specified therein, without investment in shares or in securities convertible into shares.

3.2.3.4 Provident funds for other purposes

Menora Mivtahim Provident Funds manages a provident fund for another purpose: Menora Mivtahim Provident Funds for the aim of vacation, festivals, and convalescence. This is a personal provident fund for another purpose, that is intended for salaried workers. Deposits are made in the fund` by the employer, and are registered in the name of the worker.

The deposits in the fund are for the purpose of cover of the employer's obligations to pay vacation, festivals, and convalescence benefits to its employees. The rates of the deposits from the guaranteed salary are as set forth in the regulations of the fund as a default option, but it is possible to specify in the collective agreement rates of deposits differing from those specified as the default option.

The provisions for this fund are recognized as expenditure by the employer. The fund pays its planholders the monies accumulated in their account once a year (on a date fixed in coordination with the employer) or the date of retirement (when the worker is entitled to withdraw his money without the need for approval by the employer).

For details of the investments of the monies of the insured and the planholders and the provident fund attributed to the company from them in the provident funds branch, see section 9.3.7 below.

The following are details of the assets managed by the funds for the periods as set forth in the report (in millions of shekels):

	2011	2010	2009
Personal provident funds for benefits and Severance Pay	8,292	8,330	7,769
Further education funds	4,060	3,626	3,091
Central funds for Severance Pay	689	634	472
Provident fund for other purposes	27	28	26

3.3 Breakdown of data for products and services

3.3.1 Life insurance

The income from life insurance premiums⁴ in the periods as set forth in the report are as set forth below (thousands of NIS).

	2011	2010	2009
Total income from premiums in life insurance	1,680,902	1,700,745	1,537,349
Rate of income from premiums of the Group	38.5%	39.6%	37.4%

The following are data describing the proportional part of the premium in the various life insurance policies marketed by the Group:

⁴ The data in respect of the premiums and the claims of top finance policies are not included in the report of life insurance transactions.

Data for 2011 (thousands of NIS)

Premiums	Profit sharing	Guarantees a return	Other	Total
Executive Insurance Policy:				
Adif	335,951	26,512	-	362,463
Mixed (traditional)	10,409	20,130	-	30,539
Policies issued starting from 1.1.2004	499,414	55	-	499,469
Individual insurance:				
Adif	84,914	6,564	-	91,478
Mixed (traditional)	48,883	30,269	-	79,152
Policies issued starting from 1.1.2004	122,886	-	-	122,886
Pure risk insurance:				
Individual risk insurance	240,541	5,601	-	246,142
Group risk insurance			7,470	7,470
Loss of work capability insurance	166,295	9,754	1,246	177,295
Nursing insurance	477	60	-	537
Serious illnesses	24,044	3,352	-	27,396
Other	33,612	1,413	1,050	36,075
Total premiums	1,567,426	103,710	9,766	1,680,902
Receipts in respect of investment contracts	407,685	9	-	407,694
Total premiums including receipts in respect of investment contracts	1,975,111	103,719	9,766	2,088,596
Gross insurance commitments as of December 31, 2011	11,744,453	4,727,272	47,705	16,519,430

Data for 2010 (thousands of NIS)

Premiums	Profit sharing	Guarantees a return	Other	Total
Executive Insurance Policy:				
Adif	332,702	33,640	-	366,342
Mixed (traditional)	11,266	19,868	-	31,134
Policies issued starting from 1.1.2004	419,453	124,738	-	544,191
Individual insurance:				
Adif	88,594	7,142	-	95,736
Mixed (traditional)	52,069	30,491	-	82,560
Policies issued starting from 1.1.2004	91,877	-	-	91,877
Pure risk insurance:				
Individual risk insurance	221,455	5,966	-	227,421
Group risk insurance	-	-	9,975	9,975
Loss of work capability insurance	169,624	9,966	6,627	186,217
Nursing insurance	445	49	-	494
Serious illnesses	24,211	3,494	-	27,705
Other	34,199	1,447	1,447	37,093
Total premiums	1,445,895	236,801	18,049	1,700,745
Receipts in respect of investment contracts	399,622	12	-	399,634

Total premiums including receipts in respect of investment contracts	1,845,517	236,813	18,049	2,100,379
Gross insurance commitments as of December 31, 2010	11,862,772	4,542,217	48,041	16,453,030

Data for 2009 (thousands of NIS)

Premiums	Profit sharing	Guarantees a return	Other	Total
Executive Insurance Policy:				
Adif	353,245	28,736	-	381,981
Mixed (traditional)	12,562	22,632	-	35,194
Policies issued starting from 1.1.2004	361,206	36,331	-	397,537
Individual insurance:				
Adif	89,312	6,698	-	96,010
Mixed (traditional)	58,609	36,947	-	95,556
Policies issued starting from 1.1.2004	43,358	-	-	43,358
Pure risk insurance:				
Individual risk insurance	199,880	6,307	-	206,187
Group risk insurance	-	-	15,379	15,379
Loss of work capability insurance	177,592	9,429	13,439	200,460
Nursing insurance	420	66	-	486
Serious illnesses	25,480	3,850	-	29,330
Other	30,660	3,816	1,395	35,871
Total premiums	1,352,324	154,812	30,213	1,537,349
Receipts in respect of investment contracts	237,798	84	-	237,882
Total premiums including receipts in respect of investment contracts	1,590,122	154,896	30,213	1,775,231
Gross insurance commitments as of December 31, 2009	10,204,011	4,283,888	46,106	14,534,005

The total premiums for Executive Insurance Policies, not including receipts in respect of insurance contracts, constitute about 53.1% of the total premiums for life insurance in 2011 compared to about 55.4% in 2010.

3.3.2 Pension

The following are details of the income of Menora Mivtahim pension from the pension funds managed by it (thousands of NIS):

	2011	2010	2009
Income from management fees:			
Management fees from assets	180,271	152,853	119,462
Management fees from contribution fees	293,947	250,691	218,178
(less management fees intended to increase planholders' accumulated monies in the fund)	(150,905)	(124,097)	(90,676)
Total net income from management fees	323,313	279,447	246,964
Profit before tax	90,986	96,015	91,872
Contribution fees collected	4,976,058	4,203,323	3,650,839
The sum of the assets managed	37,628,016	34,114,481	27,811,825

The income from management fees increased by about NIS 44 million, as a result of the increase in collection of contribution fees by about 18% and an increase in the scale of the assets managed by about 10%. (For additional details see section 3.1.3.2 above.)

3.3.3 Provident funds

The following are data in respect of the income of Menora Mivtahim Provident Funds from the provident funds managed by it (thousands of NIS):

	2011	2010	2009
Income from management fees:			
Total management fees	84,796	76,259	63,302
Profit (loss) before tax	(4,909)	52,743	50,574
Contribution fees collected	798,342	715,827	700,341
The sum of the assets managed	13,069,008	12,618,235	11,357,486

The income from management fees increased by about NIS 9 million, an increase of about 11% compared to the corresponding period last year. This increase results from an insurance in the sum of the assets as a result of an increase in the collection of contribution fees and as a result of the purchase of the Lehava provident fund, as well as in respect of the increase in the rate of the management fees starting from October 2011 in the Omega further education fund. (For additional details see section 3.1.4.3 above.)

3.4 Customers

The customers of the Group in the fields of activity are varied, so that the Group is not dependent on a single customer or on a limited number of customers. Furthermore, the Group has no single customer, the total income from whom constitutes 10% or more in the financial statements.

3.4.1 Life insurance

The following is a table containing data regarding breakdown of the premium between employers, private, self employed, and approval insured (percentage):

The customer	2011	2010
Employers	58.8%	61.3%
Private and self employed	40.6%	37.6%
Group	0.6%	1.1%
Total	100.0%	100.0%

It should be noted that, to the best of the Group's knowledge, there are no permanent customers or customers having permanent characteristics apart from the classification appearing in the above table.

3.4.2 Pension

The following is the breakdown of contribution fees between employers and self employed persons (percentage):

The customer	2011	2010
Employers	97.3%	97.1%
Private and self employed insured	2.7%	2.9%
Total	100.0%	100.0%

The following is the breakdown by types of planholder in the pension funds managed by the Group:

The customer	New Mivtahim		Supplementary Mivtahim	
	2011	2010	2011	2010
Active	456,788	421,613	6,064	4,864
Frozen	375,346	338,783	17,303	15,410
Other	-	-	-	-

3.4.3 Provident funds

The following is the breakdown of contribution fees by employers and self employed persons (percentage):

The customer	2011	2010
Employers – salaried planholders and central funds for Severance Pay	71%	80%
Self employed persons	29%	20%
Total	100%	100%

3.5 Marketing and distribution

3.5.1 General

As part of the Becher reform (see also section 3.1.3.1 above), two types of distributors were defined for pension products:

1) Pension marketer – An insurance agent or a pension marketing agent (who is an employee of the institutional entity) who is associated with the insurer or any other manufacturer of the pension product, who mediates in the purchasing transaction of the pension product in continuation of the personal consulting process held with the customer.

2) Pension consultant – A person or a corporation that is not associated with the insurer and/or any other manufacturer of the pension product and who offers the pension product in continuation of the personal consulting process held with the customer.

Pursuant to the Becher reform the distributors and the consultants in the field are obligated to furnish best advice.

The best advice is divided by law into two major stages. The first stage focuses on

adjustments of the type of pension product and the second stage focuses on selection of the pension product and selection of the institutional entity managing the product (insurance company, pension fund, or provident fund). The pension marketer is obligated, *inter alia*, to disclose its association with the institutional entities whom it is marketing, and in all cases is obligated to adjust the type of pension product to the needs and preferences of the customer. (However, after adopting the type of product, the pension marketer is not obligated to recommend products of institutional entities with which it is not associated.)

Further to the obligation imposed on the banks as part of the Becher reform to sell their holdings in the provident funds and the trust funds, the banks were permitted to act as pension consultants, by means of workers who have been trained for this and who receive suitable licensing, including execution transactions as a result of the said advice.

In the first stage the banks were permitted to distribute pension funds, personal provident funds, and further education funds, and from 2009 onwards they are also entitled to distribute life insurance plans. This means that the banks, when acting as pension consultant, will almost certainly, because of their extensive deployment and great accessibility to the public, cause expansion of the distribution activities in the field.

However, in actual fact, the banks have not yet started to engage in the distribution of life insurance plans. The Group's estimation is forward looking information based on the legislation in the field and in the company's estimation in respect of its influence on the marketing. This forecast is liable not to be realized because of additional changes to legislation or because of other environmental changes that may cause different behavior of the market from that expected by the Group, as of the date of this report.

An additional aspect related to differentiation between the banks and the insurance agents is the fact that the banks are entitled to advise and distribute the pension products solely inside the walls of the branches, while the insurance agents are entitled to contact the customer and market the aforesaid products anywhere, including in their place of work or in their homes and at a time convenient to the customer. For details **in respect of the memorandum of the Law for Supervision of Financial Services (consulting, marketing, and pension clearing system) (amendment __), 5771-2011**, that is intended to change this limitation in respect of the banks, see the details in section 3.1.1.7 above.

It should be noted that also the requirements for licensing and qualification of a new pension agent have been expanded and have become more complex, and this is consequently likely to influence the supply of insurance agents. Furthermore, recently, following the formulation of regulations regarding the ceiling for management fees in life insurance and provident fund products there is likely to be a negative influence on the commission received by insurance agents and on their profitability. For details of the draft circular regarding commission for insurance agents, see section 9.1.2 below.

The Group has a subsidiary, the Orot Agency, that is an insurance agency, that handles all the fields of long term savings and serves as an arrangement agency, that handles, *inter alia*, factories most of whose workers are insured in the

pension funds managed by Menora Mivtahim pension. The Orot Agency also works with additional insurers. (For additional details see section 9.4.3 below.)

The Group traditionally markets its products by means of self employed agents. For a description of the organization of the agents of the Group, see section 9.4.1 below.

3.5.2 Life insurance

In the field of life insurance the Group acts by means of districts giving overall service of sales and maintenance of the policies. Insurance claims are handled by the central designated department in the company's head offices. In addition a customers relations center exists in the company that provides service for every request from the customer, by phone, by means of the company's Internet website, or by a personal meeting in the company's offices in 115 Allenby St., Tel Aviv.

The remuneration for insurance agents comprises four major elements: current commission, remuneration for meeting sales targets, collection charges, and prices for special offers, and is not intended for all the marketers.

The following are details of the rates of commission from life insurance premiums:

	2011	2010	2009
Rate of commission from premiums	12.3%	14.8%	13.2%
Rate of commission from a premium from a new annualized premium	38.5%	44.3%	41.5%

The organization of insurance agents constitutes the main distribution channel of life insurance products. No agent exists in the Group whose income from the premiums negotiated by him exceeds 10% of the total overall premiums of the life insurance branch.

Following the Becher legislation and in the light of the change that occurred in the field of long term savings, the insurance agents expanded the variety of products that they market, and they currently market to the customer life insurance, pension, and provident funds, naturally subject to the obligation to give the best advice.

Following various regulatory changes, the Group, starting from 2004, changed the structure of most of the commissions in life insurance, to commission paid at a rate similar to those for long products.

In January 2005 the Commissioner published a circular regarding provisions for giving loans to insurance agents, that describes the conditions and limitations for giving the loans. In accordance with the circular, the giving of loans to an agent is subject to the agent furnishing guarantees. Furthermore, limitations were specified in the circular regarding the giving of loans to an agent against encumbrance of the future commission due to him.

Costs of purchasing life insurance

A significant element in the remuneration of the insurance agents is made in the first years of the life of the policy, and especially in the first year (for example, target commission), because of the increased costs of the agent during this period.

As a result of the aforesaid, it is specified in the regulations for details of reports, *inter alia*, that the purchasing costs of life insurance policies shall be spread over the life of the policy (hereinafter: "**deferred acquisition costs – DAC**").

The DAC are the purchasing costs for life insurance transactions recorded as an expenditure at the time of their payment, and are executed as aforesaid in the first year of the policy. Since the premiums, that are collected during the entire life span of the policies, include an element that covers these costs, they may be regarded, in the accounting sense, as deferred costs that may be deducted. In the event of cancellation or redemption of the policy, the balance of all the DAC in respect of that policy is canceled.

In accordance with the DAC method the DAC will be deducted at a constant rate over not more than 15 years, unless the policy was cancelled earlier. The Group deducts the DAC in equal annual amounts over the period of the policy, but not more than 15 years, and in health insurance not more than six years. The DAC referring to cancelled policies is deleted on the date of the cancellation.

DAC in respect of policies issued up to December 31, 1998, will continue to be included, as aforesaid, based on the Zillmer deduction method, based on rates of the premium or of the sum at risk, in accordance with the various insurance plans. For additional details see note 6 of the financial statements.

As of December 31, 2011, the balance of DAC is about NIS 602 million. As of December 31, 2010, the balance of DAC was about NIS 584 million.

3.5.3 Pension

Menora Mivtahim Pension markets its pension products by means of an organization of business portfolio managers and personal customer managers for employers and for its customers, who are spread throughout the country and maintain continuous contact with employers and the insured of the fund.

Menora Mivtahim Pension also operates as part of the customer relations an organization of pension marketers for retention of customers and insured and for recruiting new planholders. The service organization for the insured and for employers includes national deployment of the business divisions and service offices, personal service given by the contact centers, the Internet website (that supplies, in addition to general information in insurance matters, personal information for the insured and the employer).

The marketing organization supplies marketing and sales services, including the addition of new employers and of new insured, supplying consulting and guidance in the range of pension products of Menora Mivtahim Pension, treatment of the termination of employer-employee relations, etc.

Menora Mivtahim Pension cooperates with arrangement agencies and insurance agents. This cooperation is created following the desire of some of the employers for overall treatment of the social conditions of their workers, treatment including collection and combination of various products, such as pension funds, Executive Insurance Policies, provident funds, and sometimes even general insurance. Menora Mivtahim Pension expects that this cooperation will continue and even expand in coming years.

The company's estimation is forward looking information based on the company's

estimation in respect of the influence of the aforesaid cooperation on its business affairs. This forecast is liable not to be realized in the event of changes to the taste of the planholders and their estimation of the aforesaid services that will cause behavior of the market in a manner differing from that predicted by the company as of the date of this report.

Some of combined treatment of employers, most of whose workers are insured in pension funds managed by Menora Mivtahim Pension, was carried out by the Orot Agency, that is an insurance agent owned by Menora Mivtahim Insurance; this agency serves as an arrangement agency in all respects.

Prior to the end of June 2011 the arrangement agencies and the agents were rewarded in general by Menora Mivtahim Pension for the addition of new insured to new pension funds, pursuant to the rules customary in Menora Mivtahim Insurance and in the other insurance companies. The treatment of the aforesaid insured was carried out by the agents. Starting from July 2011, the agents are rewarded by Menora Mivtahim Pension by means of Menora Mivtahim Insurance.

In addition, Menora Mivtahim Pension is connected to a number of banks by means of distribution agreements, for the purpose of distribution by them of the pension funds managed by it, but the distribution activities of the pension funds by the banks is at this stage very limited.

At this stage Menora Mivtahim Pension has no employers yielding 10% or more of the contribution fees collected in the pension funds managed by it.

Pension acquisition costs

The Group also markets pension products by means of insurance agents. The accounting *vis-a-vis* the insurance agents in respect of the activities of the Group is done by means of Menora Mivtahim Insurance. In the light of the method of remuneration of the agents as set forth in section 3.5.2 above, the acquisition costs are spread over 15 years, similar to the practice for life insurance.

It should be noted that until June 2011 the acquisition costs, also in respect of the sale of the pension by the Group's agents, were capitalized to DAC in Menora Mivtahim Insurance, and starting from July 2011 are capitalized in Menora Mivtahim Pension. Accordingly, from the said date the entire balance of the DAC in respect of pension transactions was transferred from Menora Mivtahim Insurance to Menora Mivtahim Pension. As of December 31, 2011, the balance of the DAC is about NIS 94 million. As of December 31, 2010, the balance of the DAC was 67 million, that as aforesaid was recorded in Menora Mivtahim Insurance.

3.5.4 Provident funds

Menora Mivtahim Provident Funds markets the provident funds managed by it in a number of marketing and distribution channels, the main ones being the pension marketers of Menora Mivtahim Pension, pension insurance agents (including the agents of Menora Mivtahim Insurance), investment consultants in the banks, direct contact with customers, *inter alia* by means of participation in tenders published by employers/ workers' committees/ unions, the holding of professional/ marketing conferences, and advertising in the press and in the

Internet.

Menora Mivtahim Provident Funds is connected by means of distribution agreements with a number of banks, for distribution by them of the provident funds managed by the company.

The entry by bank corporations into distribution of provident funds embodies the potential for increasing the scale of the assets managed by provident funds, following the exposure of the management companies – the manufacturers – to new population segments.

On the other hand, the distribution commissions are liable to cause a change to the rate of the manufacturers' costs, and to a reduction in the profitability of their management of the provident funds. Furthermore, the entry of the bank corporations to the field of pension consulting may be accompanied by erosion of the existing market shares, that are mainly marketed by the insurance agents, for whom there are rates of profitability that are liable to be eroded.

The company's estimation is forward looking information based on the entry of additional players to the field. This forecast is liable not to be realized in the event of additional changes to legislation in the field, or a different preference by consumers.

Menora Mivtahim Provident Funds has no distribution channel yielding 10% or more of the extent of the contribution fees collected in the provident funds managed by it.

3.6 Secondary insurance

The Group's secondary insurance agreements in the life insurance branch are long term and are based on the insurance plans and are not time limited, except for catastrophe cover (including war) that is renewed annually. The secondary insurance contracts are signed and/or renewed every year and the changes are generally only valid in respect of new insurance policies.

Secondary insurers whose premiums form more than 10% of the total secondary insurance premiums in the field of life insurance and long term savings in the periods addressed in the report are as follows:

Name of the secondary insurer	S&P rating	Country	2011		2010		2009	
			Premium for secondary insurance	% of all the premiums for secondary insurance	Premium for secondary insurance	% of all the premiums for secondary insurance	Premium for secondary insurance	% of all the premiums for secondary insurance
insuranceSwiss Re	AA-	Switzerland	71,022	59.9%	66,466	58.7%	63,208	56.3%
Munich Reinsurance	AA-	Germany	22,806	19.2%	22,697	20.1%	19,731	17.6%
Colonge & General Life Re of America	AA+	USA	14,121	11.9%	14,862	13.1%	18,475	16.4%

For details of the subject at the level of the Group, including a description of the major types of secondary insurance and the company's policy in respect of secondary insurance in the life insurance branch, see section 9.1 below. For additional details in respect of

secondary insurance see also note 2(14)(2) of the financial statements.

3.7 Suppliers and service providers

The Group purchases products and services for the purpose of its current activities in the fields of activity from a large number of suppliers, including suppliers of equipment and maintenance, suppliers of legal services, investigators, suppliers of hardware and software, suppliers of medical services, etc, and in respect of the provident funds, their management companies made agreements with a number of banks for the purpose of current operation of the funds.

The Group is not dependent on suppliers and service providers, except as set forth below:

In 2003 the Group made an agreement with Sapiens Israel Software Systems Ltd. (hereinafter: "**Sapiens**") in a project for development of an overall pension for management of a life insurance organization ("**Topaz Life**"). Against the background of the purchase of Menora Mivtahim pension in 2004 and the regulatory changes in the field of activity as well as the business development of the Group, the Group made an agreement in the period 2004-2005 with the aforesaid supplier in an additional project for development of a system for management of pension and provident fund organizations ("**Topaz pension and provident fund**") ("**Topaz life and Topaz pension and provident fund**", together, below: "**the Topaz system**").

The Topaz life system is in a stage permitting the issue and operation of the new policies sold by Menora Mivtahim Insurance. The Topaz pension and provident fund system is in the stage of full operation. In addition, current maintenance of the systems is being carried out, including the updates required from time to time. The Group paid Sapiens the sum of about NIS 46.7 million in 2011, and the sum of about NIS 62.5 million in 2010.

Further to the aforesaid, the Group made a long term agreement in October 2011 with Sapiens in connection with the Topaz system and additional software systems to be supplied to the Group, *inter alia*, in the field of life insurance, pension, secondary insurance and health insurance (hereinafter: "**the systems**") and for services to be supplied to the Menora group in connection with the said systems (hereinafter: "**the agreement**").

The agreement addresses the licenses for use of the systems by the Menora Mivtahim group and the rights of use by the Menora Mivtahim group of the source programs of the systems, as well as the intellectual property of specific unique elements in the systems developed in the past and if developed in the future by Sapiens for the Menora Mivtahim group.

In the light of the sharing of the professional information of employees of the group as part of the development process for the systems, rights for royalties were also addressed in the agreement in respect of the sale of Topaz and secondary insurance for third parties with no time limitation and up to the ceiling of the investment in products.

In addition, the agreement creates a framework for the continuation of supply of various services to the Group in connection with the aforesaid systems, including services regarding development, tests, correction of malfunctions, support, supply of versions and editions and maintenance services for the systems, in accordance with agreed annual work programs.

The agreement is for a period of 48 months, from January 1, 2011, until December 31,

2014, and the minimum extent of the transaction for this period is in the sum of about NIS 110 million.

After the end of the aforesaid period, the agreement will be extended automatically for additional periods of 12 months each time, as long as no party notifies the other of non extension and/or termination of the agreement pursuant to the mechanisms as set forth therein.

3.8 Competition

3.8.1 Conditions of competition in the field of activity and the major competitors

The reforms that occurred in the field in recent years, that are mainly reforms in the field of life insurance, the reform in the pension branch, and the entry of the insurance companies into pension activities while expanding the organization for distribution of the pension by means of agents, cancellation of barriers to transition between the various products and reform in the capital market (the Becher reform), have increased the competition in the field of long term savings assets, mainly because of the blurring of the dividing lines between the various products in the field.

A result of this is the increased exchangeability between life insurance products and other long term savings products, such as pension funds, provident funds, and savings plans in the banks.

It should be noted that following the limitations imposed on the banks for the holding and management (as owners) of provident funds, the share of the banks in the competition in the fields of activity focuses on management of long term savings plans and pension consulting for the public.

In 2011 the influence of the amendment to the Provident Fund Law on deposits in the various products continued, and led to a large decrease in the extent of the deposits in provident funds on the one hand, and the conversion of pension funds, together with Executive Insurance Policies, to the major deposits target of salaried workers in Israel, on the other hand.

In addition, since all the large insurance groups currently operating in the aforesaid market offer virtually the entire range of long term savings products (one stop shopping), the competition focuses on two major aspects: first, reduction of the management fees, that is reflected in ongoing erosion of the average management fees over the years; and second, the quality of the products and the service provided in respect of them and the degree to which they match the customer's needs and preferences.

In this context it should be noted that in November 2010 the Commissioner published a program for increased competition in the pension savings market with the aim of reducing the differences between the various pension savings products, increasing the transparency of the pension savings market including all the players therein, improving the quality of the products offered and their prices, and creating a uniform basis of comparison between the products. Furthermore, during 2011 the Ministry of Finance published a number of draft regulations and circulars for the purpose of installation of the program. For additional details see section 3.1.3.1 above.

In the Group's estimation, the formulation of a compulsory pension arrangement

in the economy, the enactment of regulations for mobility and change of designation of the capital provident funds, and the program for increased competition in the capital market (see sections 3.1.1, 3.1.3, and 3.1.3.1 above) are likely to influence competition in the market.

For example, the granting of licenses to provident funds that functioned until now as capital provident funds, to purchase and market insurance cover for their planholders against the background of compulsory monies in the economy, is likely to open additional competition in the field. Since these complex reforms began during recent years it is still impossible to estimate the means and degree of their influence on the competition.

The Group's estimation in forward looking information based on the recent reforms in the field. This forecast is liable not to be realized in the event of legislative amendments that the company is unable to predict or in the event of behavior by the market in a way differing from that estimated by the Group on the date of this report.

In respect of the ramifications of the program for increased competition in the capital market, see section 3.1.3.1 above.

Details shall be given below of specific characteristics of the competition in the various branches in which the company operates as part of its activities in the field.

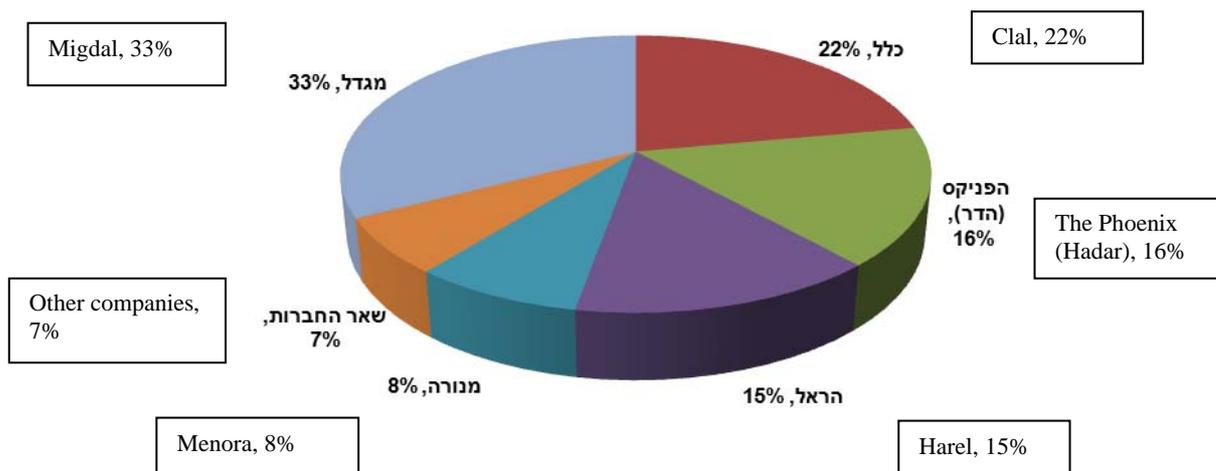
3.8.1.1 Life insurance

The competition in the life insurance branch concentrates mainly on a variety of insurance plans offered by the insurance companies, including payment of the pension in them, the yield obtained on the assets over the course of time, the level of risk of the assets related to the yield achieved/guaranteed, the service given to the insured, and the ratio of the premium and the management fees.

As a result of the Becher reform and the regulatory provisions intended to increase transparency and the capability of the insured to choose the most suitable product, the interchangeability of long term savings products increased, as well as the accessibility and awareness of the end customer to these products.

The major competition is conducted between the five large insurance companies, with the following division of market shares:

Based on data from the capital market, insurance, and savings department in the Ministry of Finance, the breakdown of the premiums from life insurance transactions for the year of the report (up to September 30, 2011), between the competing companies in the branch is as follows:



The capability of the Group to cope with competition in this field depends, *inter alia*, on expansion of the sales organization, improved efficiency of production inputs while maintaining the level of service, developing unique products, retaining the existing portfolio, and leadership in the field of yields for the insured.

The major factors influencing competition in the system are the insurance companies competing for their market shares and the insurance agents who also influence the size of the market share of the various insurers.

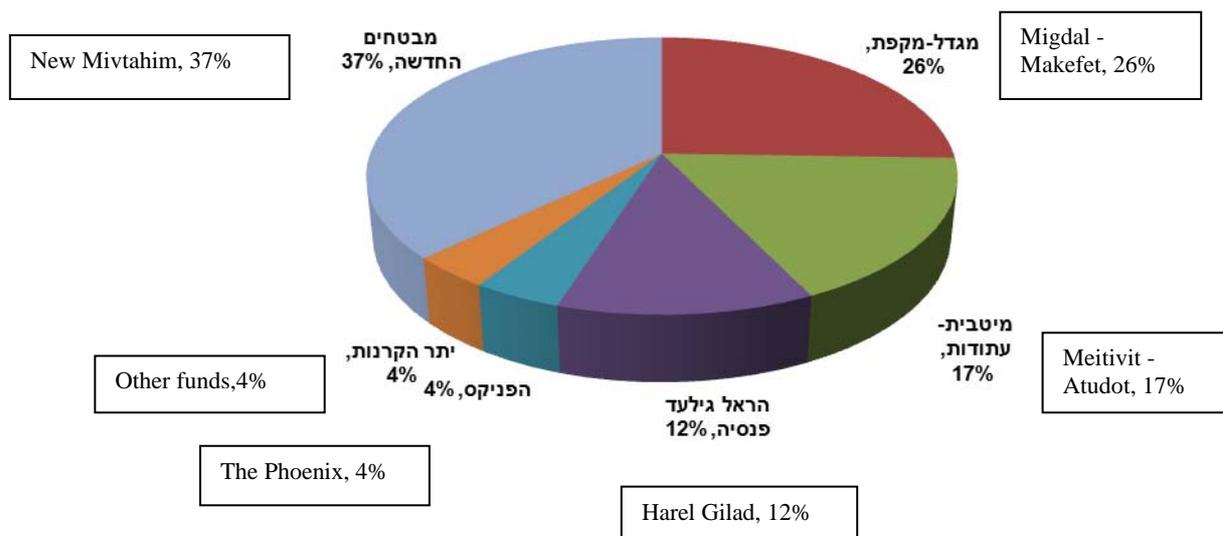
The factors strengthening the competitive status of the Group are: the rate of the remuneration of the agents and the attractiveness of the range of products and the insurance tariffs offered by the Group, as well as the yield for the insured.

3.8.1.2 Pension

The competition in the system is mainly between the insurance companies that own the management companies for the pension funds. The pension funds controlled by the insurance companies constitute more than 90% of the market share of the new pension funds in the long term pension market.

The major competitors in the pension branch are: Makefet Personal controlled by the Migdal group; Meitivit Atudot, controlled by the Clal group; Harel Gilad, controlled by the Harel group.

According to data from the capital market, insurance and savings division in the Ministry of Finance, the distribution of assets of the pension funds between the competitors in the branch as of December 31, 2011, are as follows:



The competition in this branch focuses on efforts to move planholders between the various pension funds and to recruit new customers.

Following the Becher reform, the competitive structure changed, as aforesaid, in the entire field as well as in the pension branch. Following the implementation of the Financial Consulting Law and the amendment to this law as set forth in section 3.1.3.1 above, the banks began giving advice to the public in the subject of pensions. Compulsory pension arrangements also influence the competition in the field. (For additional details see section 3.1.3.1 above.)

Furthermore, the company estimates that the aforesaid changes also influence the preferences of the public and additional distribution channels (such as agents) in all matters related to the desired pension product. As a result of the aforesaid, a new population began to join the pension funds, who had not been insured in the past.

The granting of licenses to provident funds, that had operated until now as capital provident funds, to purchase and market insurance cover for their planholders, against a background of the compulsory pension in the economy, is likely to develop additional competition in the field. In the company's estimate this is reflected both against a background of the marketing of provident funds not paying a pension as substitute product for the pension funds, and in the preparations for the establishment of pension funds by entities whose dominant activities in the field of pension savings is in the provident funds branch, such as investment houses.

In addition, as a result of the determination of a ceiling for management fees that is expected to mainly influence the provident funds, it is likely that a process will develop of acquisitions and mergers in the provident funds branch, so that provident fund entities will be created having greater competitive strength than those currently existing.

The Group's estimation is forward looking information based on the recent reforms in the field. This forecast is liable not to be realized in the event of

behavior in the market differing from that estimated by the Group as of the date of this report.

In order to retain and expand the existing customers portfolio, Menora Mivtahim Pension is taking steps to minimize the movement of its planholders to competing pension funds, and, at the same time, to recruit new customers. As part of these activities Menora Mivtahim Pension participates in pension tenders. Furthermore, Menora Mivtahim Pension acts in order to emphasize its great advantage over the competing funds. In addition Menora Mivtahim Pension is attempting to achieve a high return for the insured on the monies accumulated by him in the pension fund; to maintain a high demographic return; and to carry out medical and business underwriting.

3.8.1.3 The provident funds

Constant competition exists in the provident funds branch on the part of a large number of competitors, where the competition focuses on the achievement of yield (relative to the level of risk), the sum of the management fees, and the quality of the service.

Following the Becher reform the pattern of competition in the provident funds branch changed, so that most of the banks sold their ownership of the provident funds that they had managed and began acting as providers of operating services of the provident funds and as pension consultants.

As a result the main competitors of which are the Harel group, the Clal group, the Migdal group, the Phoenix group (holder of a controlling interest in Excellence NESUA), Pisgot Ofek, and smaller private entities such as Dash Securities and Investments Ltd., Meitav Benefit Ltd., Analyst IMS – Investment Management Services Ltd., and Altschuler-Shaham Ltd.

In recent years there has been a trend of growth in the branch in the scale of the assets of the provident funds. Based on the data published by the Ministry of Finance, the assets of the provident funds increased from about NIS 237 billion at the end of 2005 to about NIS 293 billion at the end of 2011.

However, in recent years there has been a trend of net redemptions in the provident funds branch, except for further education funds.

The Group estimates that as of the date of approval of the report, its share of the market in this branch is about 4.45%. (The Group's estimation is based on the assets managed by Menora Mivtahim Provident Funds and Menora Mivtahim Engineers, relative to the estimation in respect of the total assets managed in this branch.)

3.8.2 Methods of coping with the competition and the factors influencing the competitive status of the Group in the field

The major methods of the Group for coping with the competition are: synergy between the various companies in the Group in providing overall solutions for customers of the Group in all long term savings channels, while relying on the size and stability of New Mivtahim, the largest pension fund in Israel; improvement of the service to the customer while increasing operational

efficiency; enlargement of the organization of agents and making use of agents working the Group as a source for referring customers; participation in major tenders in the field, etc.

The major factors influencing the competitive status of the Group in this field are the fact that Menora Mivtahim Pension is a leader in the pending branch; the financial strength of the Group; leadership in yield for the insured/ planholders; the high level of service of the Group during management of claims and the payment of insurance benefits, as well as a long term connection with the agents marketing the products of the Group.

3.9 Material agreements and cooperation agreements

3.9.1 The Group has an agreement with Sapiens Israel Ltd. for development of computer systems. For additional details see sections 3.7 above and section 9.10.1 below.

3.9.2 In the period 2006-2009 Menora Mivtahim pension signed distribution agreements with Israel Discount Bank Ltd., Bank Igud Israel Ltd., Bank Misrachi Tefahot Ltd., First International Bank of Israel Ltd., Bank Leumi Le'Israel Ltd., Arab- Israel Bank Ltd., Bank Mercantile Discount Ltd., Bank Otzar Ha'hayal Ltd., Bank Poalei Agudat Israel Ltd., U-Bank Ltd., Bank Hapoalim Ltd., and Bank Massed Ltd.

It was specified in the distribution agreements that Menora Mivtahim Pension would pay the banks distribution commissions pursuant to the provisions of the law in consideration for distribution of its products.

Each of these agreements would not commence before the date on which the bank, with whom it signed the agreement, was duly permitted to engage in financial consulting. The distribution agreement between Menora Mivtahim Pension and Bank Hapoalim Ltd. was not extended by the parties, and consequently on September 30, 2010, this agreement was terminated. As of the date of this report the aforesaid agreement has not been renewed.

3.9.3 In the period 2006-2009 Menora Mivtahim Provident Funds and Menora Mivtahim Engineers signed distribution agreements with Israel Discount Bank Ltd., Bank Misrachi Tefahot Ltd., First International Bank of Israel Ltd., Bank Leumi Le'Israel Ltd., Arab- Israel Bank Ltd., Bank Mercantile Discount Ltd., Bank Otzar Ha'hayal Ltd., Bank Poalei Agudat Israel Ltd., U-Bank Ltd., Bank Hapoalim Ltd., and Bank Massed Ltd.

It was specified in the distribution agreements that Menora Mivtahim pension would pay the banks distribution commissions pursuant to the provisions of the law in consideration for distribution of its products.

3.9.4 In May 2010 the Clearing House for Long Term Savings Ltd. (hereinafter: "**the clearing house**") was incorporated, with the aim of setting up an information and monies clearing house in the field of long term savings. The clearing house was incorporated after staff work conducted on the initiative of the Commissioner and with his active involvement since July 2009, with the aim of creating the required understandings between the various entities that the operation of the clearing house will influence (institutional entities, pension brokers, salary offices and

employers), and the construction of a contractual and legal basis that would permit the setting up of the clearing house.

Menora Mivtahim Pension has participated, in the name of the Group, in the staff work conducted since July 2009, and it is a shareholder in the clearing house, in the amount of 7.14%, and is entitled to appoint one director therein. In July 2010 an owners loan agreement was signed between the clearing house and its shareholders, including Menora Mivtahim Pension, for the purpose of financing its activities, pursuant to the regulations of the clearing house and the decisions of its Board of Directors. Consequently Menora Mivtahim Pension gave the clearing house, in July 2010, a loan in the sum of about NIS 154,000 for a period of 15 years starting from the date of giving the loan, pursuant to the conditions as set forth in the agreement.

In March 2011 an additional owners loan agreement was signed between the clearing house and its shareholders, including Menora Mivtahim Pension, for the purpose of continued financing its activities, pursuant to the regulations of the clearing house and the decisions of its Board of Directors. For additional details see section 3.1.1.5 above.

3.9.5 In July 2010 Menora Mivtahim Provident Funds signed an agreement with Lehava Management of Further Education Fund Ltd., and with Lahav Office of the organizations of self employed persons and business affairs in Israel, for the purchase of management rights in the further education fund "Lahav further education fund for self employed and salaried workers", that was amended with the agreement of the parties in an amendment appendix to the agreement dated December 16, 2010. The acquisition was approved some time ago by the capital market division in the Ministry of Finance, and management rights were transferred to Menora Mivtahim Provident Funds starting from January 1, 2011.

3.9.6 In August 2008 Menora Mivtahim Insurance won a tender in respect of the purchase of policies for immediate pension for workers advancing their retirement in government ministries and likely to retire in the period 2008-2010. In consideration for a one-time payment transferred to Menora Mivtahim Insurance for each person retiring, the company undertakes to pay a fixed monthly pension linked to the consumer price index during the entire life time of the said person and to his dependents during their entire lifetime, subject to the Government Service Law, Pensions, 5730-1970.

4 Compulsory vehicle insurance

4.1 General information about the field of activity

Compulsory vehicle insurance is insurance that constitutes a necessary preliminary condition for use of a motor vehicle. Every owner of a motor vehicle must purchase compulsory vehicle insurance.

The activity of the Group in the field of compulsory vehicle insurance is carried out by Menora Mivtahim Insurance and by Shomera.

The following are a number of characteristics, trends, and developments that influence, or are liable to influence the activities of the Group in this field in the future.

4.1.1 The structure of the field of activity and the changes that occurred in it

General

The motor vehicle insurance order [new version] 5730-1970 (hereinafter: "**the motor vehicle insurance order**") states that a driver shall be entitled to use a motor vehicle only if the vehicle has a valid compulsory vehicle insurance policy as set forth in the motor vehicle insurance order.

Compulsory vehicle insurance covers bodily injuries only, to the driver of the vehicle, the passengers in the insured vehicle, and to pedestrians injured by the insured vehicle. The insurance cover is based on the provisions of the law for compensation for victims of road accidents, 5735-1975 (hereinafter: "**the Compensation Law**" or "**the Law for compensation for victims of road accidents**"), that states that the user of a motor vehicle must compensate the injured person in respect of bodily injuries caused to him in a road accident in which the vehicle was involved. The liability is absolute and is independent of guilt on the part of the driver or on the part of others, subject to the exceptions as set forth in the Compensation Law.

The sum of the compensation in compulsory vehicle insurance is not limited except for specific heads of damage such as "pain and suffering" as well as compensation in respect of loss of salary, limited to triple the average salary in the economy.

Starting from October 2010 a standard compulsory vehicle insurance policy is customary in the branch pursuant to the Regulations for Supervision of Financial Services (insurance) (conditions of a compulsory insurance policy for a motor vehicle), 5770-2010. For additional details see section 4.1.3 below.

Residual insurance ("the Pool")

The insurance cover in this branch is given by the various insurers authorized to act in the branch, but every insurance company is entitled to reject an insured at its discretion. The owner of motor vehicle who has been rejected as aforesaid and has not obtained insurance cover from one of the companies active in the branch may purchase compulsory insurance by means of the Pool. The Pool, that is the Israeli pool for vehicle insurance (owned jointly by all the insurance companies active in the branch, that assume its profits or losses, based on their proportional share in the branch), is obligated, by virtue of the law, to insure persons who have been rejected, as aforesaid.

The Pool acts as an insurer in all respects, and its tariffs are higher than those of other insurance companies in the branch. The residual insurance has, since December 31, 2002, been regulated by means of motor vehicle insurance regulations (residual insurance arrangement and mechanism for determination of tariffs), 5761-2001, as well as by means of the Commissioner's circular published in this matter. For details of the aforesaid regulatory provisions and the company's share of the premiums see section 4.1.3 below.

Karnit

In addition, there operates in this field the fund for compensation for victims of road accidents (hereinafter: "**Karnit**"), that is a statutory corporation set up by virtue of the Compensation Law, whose function is to compensate victims of road

accidents who are unable to claim compensation from the insurer because of the causes as set forth in the Compensation Law.

The activities of Karnit are financed by provision made by the insurance companies at a specified rate of the premiums, as set forth in the Order for Compensation for Victims of Road Accidents (financing of the fund), 5762-2002. Pursuant to the order, the insurance companies must transfer, prior to the 10th of each month, directly to Karnit, 1% of the net premium in respect of the compulsory vehicle insurance policies that came into effect from this date onwards.

Termination of the activities of Avner

In the past all compulsory vehicle insurance in Israel was carried out by means of the Avner corporation – Association for Insurance of Victims of Road Accidents Ltd. (hereinafter: "**Avner**"). Compulsory vehicle insurance was executed as joint insurance, in which all the insurance companies participated. In 1997, the Motor Vehicle Insurance Law was enacted (insurance with controlled conditions of competition, arrangements for a transition period, and provisions in respect of Avner), 5757-1997 (hereinafter: "**the Conditions of Competition Law**"), that formulated the reform in the field of compulsory vehicle insurance, in which Avner's share of compulsory insurance was progressively reduced until it reached the sum of 1% in 2003, and in addition it was stated that insurers engaging in motor vehicle insurance would act, at the end of the transition period, that ended on January 1, 2003, in accordance with the conditions of controlled competition.

The treatment of claims in respect of insurance policies for the years preceding 2003 was transferred in 2010 to Karnit, based on the Motor Vehicle Insurance Order (insurance with controlled conditions of competition, arrangements for a transition period, and provisions in respect of Avner) (the date of transfer of assets and obligations from Avner to Karnit), 5770-2010, based on section 10(e)(c) of the motor vehicle Insurance Law, 5757-1997. Starting from January 2010 Avner ceased to operate and all its rights and obligations were transferred to Karnit.

Further to the aforesaid reform, most of the insurance companies adopted a differential tariff, that was determined in accordance with rules based on pure risk calculations made by the operator of a database, in accordance with accepted actuarial principles based on the results for the entire branch, including the Pool, while taking into account various parameters as set forth in section 4.1.1 below.

The setting up of a database for identification of suspicions of fraud in compulsory vehicle insurance claims

During 2005 an overall branch project was completed for prevention of fraud in compulsory vehicle insurance, that was based on a central database to be operated by Insurance Services Office Israel Ltd. (hereinafter: "**ISO (Claim Search Israel)**"), that was intended to significantly reduce the extent of fraud in the field of compulsory insurance.

Starting from January 2006 the insurance companies are entitled to use the database for identification of suspicions of fraud in compulsory vehicle insurance claims. The costs of setting up and use of the database are divided between the insurance companies. The activities of the database and the methods of use of it

by the companies are as set forth in a branch agreement and are backed by suitable legislation. Conditions were specified in circulars issued by the Commissioner in respect of perusal of the information located in the database and the criteria for determination of the qualification of those authorized to address a query in connection with details in the database, pursuant to the Motor Vehicle Insurance Regulations (setting up and management of databases), 5765-2005.

Transfer of responsibility for supply of medical services to health funds

As part of the Law for Economic Efficiency (amendments to legislation for implementation of the economic program for 2009-2010), 5769-2009 (hereinafter in this section: "**the law**"), it was stated that the responsibility for treatment of victims of road accidents would be transferred to the health funds.

Pursuant to the law, since the insurance companies are responsible for financing the treatment of victims of road accidents, while the health funds supply the major services for these injured persons, while charging the insurance companies *a posteriori*, for the cost of the treatment, while employing a heavy administrative system, it was decided to transfer responsibility for treatment of the health services included in the second supplement to **the State Health Insurance Law, 5754-1994 (hereinafter: "the Health Insurance Law")**, and a list of the drugs included in the order pursuant to section 8(g) of the aforesaid law, to the health funds, when speaking of victims of road accidents.

In this matter it was stated that the health funds would not charge payment for the deduction in respect of these services. For this purpose a mechanism was specified in the law for the transfer of sums, as specified by the Ministry of Finance, from the insurance companies to the health funds (by means of the fund for compensation for victims of road accidents). The services that are not included in the basket pursuant to the Health Law and the deductibles paid by the injured persons for these services will remain the responsibility of the insurance companies.

For this purpose amendments were made, as part of the law, to the motor vehicle insurance order [new version], 5730-1970, to the Law for Compensation for Victims of Road Accidents, 5735-1975, and to the Health Law. The amendments came into effect in January 1, 2010.

For the purpose of financing the supply of the medical services for victims of road accidents that were given by the health funds, it was stated that the insurers must transfer to Karnit, up to the 10th of each month, a percentage of the premiums charged in the preceding month in respect of all the compulsory vehicle insurance policies issued.

The rate that the insurance companies must transfer to Karnit is 9.4% of the premiums ("**premiums**" means the total payments charged to the insured in the compulsory vehicle insurance branch, less the supplement for financing Karnit pursuant to the Order for Compensation for Victims of Road Accidents (financing of the fund), 5762-2002, and the supplement for financing the cost of supplying the services pursuant to the Order for Compensation for Victims of Road Accidents (financing the costs of supply of the services), 5769-2009). For additional details see section 4.1.3 below.

For additional details of the influence of the aforesaid legislation on the company,

see section 4.1.3 below.

4.1.2 Description of the field of insurance and the insurance covers included in the field

A compulsory insurance policy, pursuant to the motor vehicle insurance order, awards insurance cover to the owner and the driver of a vehicle against liabilities to which he may be obligated pursuant to the Compensation Law, and against other liabilities to which he may be obligated as a result of bodily injury caused to the driver of the vehicle, to its passengers, and to pedestrians injured as a result of use of a motor vehicle.

As set forth above, the insurance cover in the field of compulsory vehicle insurance is fixed and uniform between the insurance companies, and is determined in accordance with the provisions of the law. Consequently the competition in this field focuses mainly on the price, as set forth in section 4.8 below.

The major characteristics of compulsory vehicle insurance are:

- 1) Compulsory vehicle insurance comes into effect only after payment of the premium in full.
- 2) The obligation of the insurance and the extent of the cover are as set forth in the law, where no limitation of liability is specified for this insurance. It should be noted that the element of cover for loss of earning capability is limited to three times the average salary in the economy.
- 3) The compulsory vehicle insurance tariff is based on the risk tariffs recommended by the operator of the database (in the past, ISO, and starting from 2010, Ron Actuarial Intelligence Ltd.) that received a concession for operation of the database (hereinafter: "**the operator of the database**"), that collects information from the insurance companies for the purpose of publication of an average risk tariff based on various risk parameters.

The parameters currently approved for use are: engine capacity, vehicle weight (for a commercial vehicle), the sex of the youngest driver who regularly drives the vehicle, the age of the youngest driver who regularly drives the vehicle, and the time since first issue of the driver's license of the youngest driver who regularly drives the vehicle, the number of bodily injuries claims in respect of road accidents of all the persons regularly driving the vehicle in the 3 years preceding the insurance, the number of license disqualifications of all the persons regularly driving the vehicle in the 3 years preceding the insurance, the ownership of the vehicle, the aim of the use of the vehicle, and the existence of air bags.

Every insurer is entitled to choose which parameters to use for the purpose of determination of the tariff. (In the matter of consideration of parameters by the insurers in the Group, see also section 4.1.4 below.)

- 4) The eligibility of the injured person in a road accidents for compensation does not depend on proving guilt.
- 5) Insurance claims in this field are characterized by a relatively long period of clarification, taking several years, between the date of occurrence of the insurance event and the date of determination of the injury and termination

of the claim ("**the long claims tail**").

4.1.3 Restrictions, legislation, standards, and special constraints applying to the field of activity

The field of the activity is subject to the provisions of the law applying to insurers, including the provisions of the State of Israel Law and the regulations issued by virtue of it, the motor vehicle insurance order, the law for compensation for victims of road accidents, and the motor vehicle Insurance Law, as set forth below, and the regulations issued by virtue of them, and the instructions of the Commissioner, as published from time to time.

The following is a summary of the major provisions of the law applying to the activities of the Group in the field, as well as the major regulatory provisions (provisions of the law, bills, circulars and drafts of the Commissioner), published in the last year:

The provisions of the law

The motor vehicle insurance order

As set forth above, the motor vehicle insurance order states that a driver shall be entitled to use a motor vehicle only if the vehicle has a valid compulsory vehicle insurance policy as set forth in the motor vehicle insurance order. Furthermore, the motor vehicle insurance order specifies the insurance obligations applying to drivers, the obligations of the insurers and the arrangements published in connection with the conditions of the insurance policies. As part of the amendment to the motor vehicle insurance order, the Commissioner is empowered to issue instructions obligating insurers or ordering them to include in the insurance contract provisions in respect of deductibles.

The Compulsory Motor Vehicle Insurance Regulations (deductibles) (temporary order), 5768-2008

Pursuant to his authority in accordance with the Order, the Minister of Finance enacted The Compulsory Motor Vehicle Insurance Regulations (deductibles) (temporary order), 5768-2008. In the regulations it was specified that an insurer is entitled to include in a compulsory insurance policy that covers use of a privately owned motor cycle or one with other ownership, if the insured is the drivers specified in the insurance certificate only, a stipulation in respect of deductibles and the conditions in which the aforesaid deductibles stipulation is included.

Further to the motor vehicle insurance order and the aforesaid amendment, the Commissioner published in September 2008 a circular addressing **deductibles in compulsory vehicle insurance, according to which the insurer is entitled to offer a compulsory vehicle insurance contract including a stipulation in respect of deductibles** (hereinafter: "**the stipulation**") that shall not exceed the sums as set forth therein.

In respect of the manager of the arrangement ("**the Pool**"), within the meaning of the motor vehicle insurance regulations (arrangement of residual insurance and mechanism for determination of the tariff), 5761-2001, it was specified that it must offer to each applicant an insurance contract including a stipulation. In the event of the policy including a stipulation, the insurer and the manager of the arrangement shall charge a reduced premium, as set forth in the circular.

In November 2009 the Commissioner published an update to the circular in respect of the sum of the deductibles that it is permitted to charge. In August 2011, an amendment was published to the motor vehicle insurance order (No. 19), 5771-2011, that addressed the loading element in the insurance tariff. The aim of the amendment is to make life easier for users of motor cycles by means of reduction of the motor cycle premium and an increase in the premiums for others insured with compulsory insurance.

In February 2012 **amendment (No. 20) to the motor vehicle insurance order 5772-2012** was published, according to which section 7(a) to the Order was amended, in respect of the loading element in the insurance tariff, so that the loading element would change from 6% to between 5.5% and 6.5%. Furthermore temporary orders were issued for the period 2012-2013 according to which in 2012 the loading element would be not less than 6.3%, and if the authority fixed insurance tariffs for the Pool for 2013, that increase the average tariff for the insurance of privately owned motor cycles by means of the Pool, the expected loading element for the said year would not be less than 6.2%.

Motor vehicle insurance regulations (setting up and management of databases) 5764-2004 (hereinafter: "the database regulations")

The regulations address the method of operation of databases in the field of compulsory vehicle insurance that are intended to cope, on the one hand, with insurance fraud, and on the other hand to serve as a tool for amendment of the recommended risk tariff, while specifying reciprocal relations between the managers of the databases and the insurers, for the purpose of guaranteeing the aim of the motor vehicle insurance order and the law for conditions of competition. The regulations specify, *inter alia*, who shall be permitted to receive approval for the setting up of databases, the obligation of the insurers to transfer relevant information to the operator of the database, definition of "insurance fraud", appointment of a supervisor for notifying the Commissioner of fraud, appointment of persons authorized to peruse the databases, etc. (see also sections 4.1.1 and 4.1.2 above).

The insurers bear the full costs of setting up and operating the databases. The payments to be made by the insurers for the database services are determined, *inter alia*, by taking into account of the proportional part of each insurer in the field based on the data for the previous year, as well as the quality and dates of the reports to the database.

The Compensation Law

The law is intended to create an efficient and rapid mechanism for clarification of eligibility for compensation and estimation of the sum, while divorced from the issue of guilt. The law states, *inter alia*, what is a road accident, who is eligible for compensation, and what are the court procedures in such cases.

The motor vehicle insurance regulations (arrangement of residual insurance and mechanism for determination of the tariff), 5761-2001 (hereinafter: "the arrangement regulations")

The regulations address the setting up of a joint corporation of all the insurers that will manage the residual insurance that is intended to provide insurance cover for users of motor vehicles who did not obtain insurance cover directly by means of

insurers in Israel. This residual insurance arrangement is managed by the Pool, as set forth in section 4.1.1 above, and is based on joint insurance by all the insurers in the branch based on their proportional part of the branch, as existing in the previous year and pursuant to the provisions of the agreement between them. The Group's share in the Pool in 2011 was about 13.7%, and was about 13.9% in 2010.

In September 2009 the Commissioner published a circular in respect of the residual insurance tariffs starting from November 1, 2009. The aim of the circular is to update the residual insurance tariffs ("the Pool") that are specified by the Commissioner for insurance, in accordance with the mechanism specified in regulation 5 of the motor vehicle insurance regulations (arrangement for residual insurance and mechanism for determination of the tariff), 5761-2001, in such a way that the differentiation in compulsory vehicle insurance for motor cycles will increase, so that older drivers holding driver's licenses for a long time without a history of accidents and convictions will pay lower premiums than young drivers holding driver's licenses for a short time with a history of accidents and convictions.

In November 2009 an additional update to the circular was published, according to which, in the event of purchase of insurance with a stipulation of deductibles, the sum of the deductibles will increase to the sum of NIS 25,000 (compared to NIS 10,000 before the update), in respect of damage that is not financial, while on the other hand the rate of the discount from the premium was increased from 10% to 20%.

Further to the aforesaid, the Commissioner published in March 2012 a draft circular in respect of updating the residual insurance tariffs starting from May 1, 2012, that, if it comes into effect, will cancel the previous circulars in this matter, as set forth above.

The Order for Supervision of Financial Services (convalescence services and ambulatory services in hospitals for victims of road accidents), 5766-2006

This order fixes the maximum price for ambulatory services for victims of road accidents given in a hospital, that is "the maximum price specified for the said service, when sold to the health fund, not for a person injured in a road accident", as well as the price for treatment in an emergency ward. In the light of the amendment to the arrangements law for the period 2009-2010, the applicability of the Order is relevant for payments in respect of medical services given prior to January 1, 2010. Following the increased prices for the maximum tariff, an application was submitted to the Supreme Court by the Association of the insurance companies. The parties are currently conducting negotiations for a compromise, by means of a mediator.

The Regulations for Supervision of Financial Services (insurance) (conditions of a compulsory vehicle insurance contract), 5770-2010

As set forth in section 4.1.1 above, starting from October 2010 a standard uniform policy has been adopted in the branch that constitutes a standard insurance contract, that is binding in this branch (hereinafter: "**the standard policy**"). The standard policy grants the insured the required insurance cover, while maintaining the aim of the law for guarantee of compensation for victims of road accidents

without the need for proving guilt.

In addition, the formulation of a standard policy permits the public to choose the insurer while knowing that the insurance contract ("**the product**") is uniform and that competition will focus on the price and the service. The regulations specify minimum conditions for compulsory vehicle insurance that the insurer is not entitled to change but only to add expansion in respect of the extent of the insurance cover.

The regulations also specify the wording of the insurance certificate that the insurer must issue as part of the motor vehicle insurance. The aforesaid regulations apply to insurance policies and to insurance certificates for compulsory vehicle insurance, in which the period of insurance as set forth therein is on October 1, 2010 or on a later date. The aforesaid regulations cancel the motor vehicle regulations (insurance certificate), 5730-1970.

The standard policy states that the insurer's obligation is pursuant to the provisions of section 3 of the motor vehicle insurance order and covers every liability that an insurers is liable to assume pursuant to the Compensation Law as well as any other liability as a result of bodily injuries caused to a person by use of a motor vehicle or following the use of it, and bodily injuries caused to the insured in a road accidents.

In addition the standard policy contains provisions in respect of the obligation of disclosure and its infringement, the method of treatment of third party claims, irregularities that may be included in the standard policy, the method of cancellation of the policy, territorial application, the claims report that must be sent to the insured, and provisions in respect of the insurance certificate to be sent to the insured.

The regulations regarding compensation for victims of road accidents (furnishing information from the fund), 5770-2010 (hereinafter: "the furnishing of information regulations")

These regulations address the possibility of eligible entities, as set forth below, receiving information from the fund for compensation for victims of road accidents (hereinafter: "**the fund**"), for the purpose of exercise of their rights in connection with road accidents, and also to address the method of receipt of the information. The eligible entities include the insurance companies, MADA, the health funds, the Ministry of Defense, etc.

The Order regarding compensation for victims of road accidents (arrangements for sharing the burden of compensation between the insurers), 5761-2001

Pursuant to the provisions of the Order, in the event of an accident involving a vehicle defined as "light" (whose weight is less than 4 tons) and a vehicle defined as "heavy" (whose weight exceeds 4 tons, not including buses), the insurer of the "light" vehicle is entitled to the return of half the sum of the cost of the claim from the insurer of the heavy vehicle or the other vehicle, and in the case of a motor cycle, 75% of the sum of the cost of the claim. For this purpose a "light heavy" clearing house was set up, based on approval by the Commissioner for restrictive practices, for the purpose of mutual accounting between the insurers. For additional details see section 4.9 below.

Proposed legislation

In September 2011 **two memorandums were published for the Compensation Law**. Pursuant to the first memorandum it was proposed to change the definition of a "road accident" so that a road accident is only an event that falls in the category of the basic definition, and that a person injured in a road accident made deliberately in order to injure him does not lie in the category of an injured person within the meaning of the Compensation Law.

An additional amendment proposed in the first memorandum is the amendment to the definition of a "vehicle" or a "motor vehicle" and an amendment to the definition of "use" – that were intended to cause, as part of the law, that compensation would be paid to persons injured in road accidents within their simple meaning and not persons injured in situations or by use of tools that the law was not intended to address.

The amendment also wishes to increase the ceiling limiting the sum of the compensation in respect of non financial injury, as set forth in section 4 of the Compensation Law for disabled persons where it is found that their disability as a result of road accidents, in respect of which the Action was submitted, exceeds 10%.

In the second memorandum of the law a number of changes are proposed in connection with the method in which the medical disability is determined of a person injured in a road accidents and who has submitted an action to the Court pursuant to the Compensation Law in respect of bodily injuries caused to him. It is consequently proposed to authorize court presidents to order the transfer of an action submitted pursuant to the Compensation Law, in which an application was submitted for determination of disability, to a hearing before a recorder, in suitable cases, or, in exceptional cases, also with the agreement of the parties, where in this case the disability will be determined by a committee of medical specialists. In cases not transferred for a hearing before a recorder, the disability shall be determined by an expert on behalf of the Court, who shall be appointed by the judge hearing the case.

In the event of the committee deciding that the disability of the injured person does not exceed 10%, the recorder shall determine the compensation to the injured person based on the rules as set forth in the regulations. If the disability of the injured person exceeds 10%, the case shall be returned to the Court for continuation of the hearing by the judge.

Furthermore, it was proposed in the aforesaid memorandum to address the way in which medical experts are appointed for the purpose of determination of the disability in actions submitted to the Court pursuant to the Compensation Law, as well as prohibition of conflict of interests on the part of the expert, and to establish an ethics committee from the members of the advisory public committee, that shall be authorized to give an opinion in ethical issues related to the determination of disability in cases pursuant to the law.

For details of the major legislative restrictions applying to the Group in all its activities see section 9.2 below.

4.1.4 Changes to the scale of activities in the field, to profitability, and to the mix of customers

The scale of activities

In recent years there has been a significant decrease in compulsory vehicle insurance tariffs. Further to the amendment to the legislation in respect of transfer of responsibility for medical treatment following road accidents (including in the health services basket) to the health funds (as set forth in section 4.1.3 above), the scale of the premiums in this field has decreased accordingly, as a derivative of the sum of the collection transferred to the health funds by means of Karnit. On the other hand, the cost of the claims is expected to decrease by a similar amount to the sum of the premiums transferred to the health funds.

Income

Based on the financial statements of the insurance companies, in the field of compulsory vehicle insurance in the first nine months of 2011 there was an increase of about NIS 155 million to the scale of the premiums compared to the corresponding period in 2010.

The income of the Group from premiums during 2011 totaled the sum of about NIS 635 million compared to the sum of about NIS 602 million in 2010, an increase of about 5%. The increase was due to an increase in the scale of the customer's portfolios, and to an increase in the average premiums following change to the portfolio mix.

Profitability

In this field, in the light of the long claims tail, a conservative approach exists for recognition of the profit, according to which in the first three years from the date of commencement of the insurance (hereinafter: "**the open years**") any surplus of income over expenditure, including payments of claims, is included in the item of pending claims (hereinafter: "**the accumulated monies**") and is not recognized as profit.

In addition, income from investments of the accumulated monies at a real rate of 3% is also listed as accumulated monies. Consequently the profit in this field mainly reflects the profitability of the underwriting year that ended in the three years preceding the year of the report, together with profit from the investment accumulated up to the said year, as well as adjustments in respect of the underwriting years that were released in the previous years (hereinafter: "**the closed years**") and activities not included in calculation of the reserves.

Based on publications of the Association of the insurance companies, in the first nine months of 2011 the cumulative loss of the branch totaled about NIS 44 million, compared to a profit of about NIS 634 million in the corresponding period last year.

The profit before tax of the Group in 2011 came to the sum of about NIS 74 million, compared to a profit of about NIS 84 million in the corresponding period last year. The reduction in profit is mainly due to the following factors: the decreases in the capital markets in Israel and abroad, both in the shares markets and in the bonds markets, that caused a difference between income from investments and the sum attributed to insurance commitments as a result of the yield, at an annual real rate of about 3%, on investments in open years, in 2011 compared to 2010, in the sum of about NIS 91 million; an increase in management and general costs that were not attributed to calculation of the

accumulated monies, in the sum of about NIS 7 million; and on the other hand an increase in the release of accumulated monies in the sum of about NIS 38 million; and from an improved development in claims (change of estimations in respect of the closed years) in the sum of about NIS 49 million.

The major factors influencing profitability in the field of activity (or that may influence the road accidents) are as follows:

Changes to regulation: as set forth in section 4.1.3 above, the responsibility for medical treatment of victims of road accidents was transferred, starting from 2011, to the health funds. In addition, as set forth in section 4.1.3 above, the Regulations for Supervision of Financial Services (insurance) (conditions of a compulsory vehicle insurance contract), 5770-2010, were published, that address the formulation of a uniform standard policy that shall be a standard and binding insurance contract in the compulsory insurance branch.

The transfer of responsibility for medical treatment of the insured to the health funds is liable to influence profitability, since the rate of the premium transferred to the health funds in respect of this risk element was based on past data, and is liable to be higher than the cost of this element in the future.

This information is forward looking information and to the best of the company's knowledge, the company's forecast in this matter is liable to not be realized, for example as a result of income from investments greater than expected or, alternatively, an increase in the insurance tariffs in the field.

The insurance companies fix differential tariffs (matching the risks) that are subject to receipt of approval by the Commissioner. The tariffs of most of the companies currently take into account the characteristics of the vehicle and the driver, and consequently careful insured pay less than dangerous insured. The aim of the use of the parameters is to adjust, as far as possible, the insurance premium to the risk of the insured.

As a result of the aforesaid, the differences have increased between the premiums for compulsory vehicle insurance demanded from different insured by the same insurance company.

As of the date of this report, from all the parameters permitted to be used, the Group takes into account five major parameters, that are the age of the youngest driver who regularly drives the vehicle, the period elapsed since the issue of the licensing of the youngest driver who regularly drives the vehicle, the revoking of a driver's license in the last three years, bodily injuries claims in the last 3 years, and the existence of air bags in the vehicle, all while differentiating between private and commercial vehicles.

For a description of the method of recognition of the profit of the Group in this field, see this section above and also note 1(19) of the financial statements. In addition, since we are speaking of the maintenance of long term reserves, the method of the investment of the monies and the yield derived from them also influence profitability.

The Group's capability of conducting careful monitoring of payments to suppliers of services in the field

In recent years there has been an increase in the scale of recourse claims of the

National Insurance Institute against the insurers in respect of benefits paid by the National Insurance Institute to victims of road accidents, that are also recognized as work accidents. The reserves for pending claims include provision for these claims. The increase in the scale of the recourse claims by the National Insurance Institute influence profitability.

It should be noted that the National Insurance Institute has notified the insurance companies of the termination of the agreement between them that was signed for the period of the existence of Avner. It should be noted that the Association of the insurance companies, after receiving a permit from the Commissioner for restrictive practices, is conducting joint negotiations with the National Insurance Institute for settlement of the subject by means of an agreement.

A change to the average salary in the economy and to the standard of living is liable to influence the increase/decrease of claims and consequently the profitability.

4.1.5 Changes to secondary insurance arrangements in the field

For a description of the changes to the secondary insurance arrangements in the field see section 4.6 below.

4.1.6 Critical success factors in field of activity and the changes that occurred to them

The critical success factors in the field of compulsory vehicle insurance are, *inter alia*, the Group's capability of identification of the relevant risk factors for determination of homogeneous and significant market shares, and for determination of a suitable tariff for them, and efficient management of claims.

4.2 Products and services

This section contains a brief general description of the insurance products and the insurance covers. The full and binding conditions are as set forth in each insurance contract and/or policy, as the case may be. The description is for the purpose of this report only and may not be used for interpretation of the policy.

The compulsory vehicle insurance policy marketed by the Group awards uniform insurance cover pursuant to the provisions of the Motor vehicle insurance order and the Compensation Law, as set forth in section 4.1.1 below. For a description of the unique characteristics of the field of activity, see section 4.1.2 below.

As we have said, the condition of the insurance cover is pursuant to the provisions of the Motor vehicle insurance order and the Compensation Law, and consequently a variety of products does not exist in this field.

4.3 Breakdown of data for products and services

As of December 31, 2011, the total insurance sum in the field of compulsory vehicle insurance constitutes about 27% of the total premiums in the general insurance branches.

The following is a table containing data regarding the activities of the Group in the field of compulsory vehicle insurance (thousands of NIS):

	2011	2010	2009
Gross premium (including charges)	634,780	602,065	621,979

Premium with personal residue	620,373	490,029	600,968
Payments and changes to commitments in respect of insurance contracts (gross)	491,199	605,126	615,264
Payments and changes to commitments in respect of residual insurance contracts	452,428	534,792	589,445

For explanations regarding development of income from premiums see section 4,1,4 below.

4.4 Customers

The following are details of the breakdown of the premiums in respect of private insured for vehicle fleets and collectives for private and commercial vehicles (up to 4 tons only):

	Premiums (thousands of NIS)	% of total income	Premiums (thousands of NIS)	% of total income
	2011	2011	2010	2010
Private insured and small businesses	587,806	92.6%	562,329	93.4%
Vehicle fleets and collectives	46,974	7.4%	39,736	6.6%

The Group has no customer in the field of compulsory vehicle insurance, the income from whom constitutes 10% or more of the total income of the Group in the field of activity, and the Group is not dependent on a single customer or a limited number of customers in this field.

In addition, the Group is unaware of fixed characteristics of its customers in the field of compulsory vehicle insurance. In the Group's estimation the rate of renewals in 2011 was 62%, compared to 59% in 2010, and the percentage of customers who purchased compulsory vehicle insurance and property vehicle insurance was 62% in the corresponding period last year.

Premiums by number of years of seniority of customers in the field of compulsory vehicle insurance for the periods as set forth in the report:

Number of years of seniority	Premiums (thousands of NIS)			% of total income		
	2011	2010	2009	2011	2010	2009
Without seniority	228,521	216,743	273,671	36%	36%	44%
Seniority of 1 year	145,999	144,496	124,396	23%	24%	20%
Seniority of 2 year	101,565	96,330	65,308	16%	16%	11%
Seniority of more than 3 years	158,695	144,496	158,604	25%	24%	25%
Total	634,780	602,065	621,979	100%	100%	100%

4.5 Marketing and distribution

The Group markets its insurance policies by means of self employed agents, who are paid commission mainly determined by the rate of the premiums less charges.

For a description of the subject at the level of the Group, see section 9.4 below.

The Group has no agent, the scale of whose activities in the field exceeds 10% of the field of activity.

The following are details of the gross rate of commission (including VAT) from the premium in the field of compulsory vehicle insurance:

	2011	2010	2009
Gross rate of commission from the premium	5.6%	5.4%	5.2%

4.6 Secondary insurance

The Group's agreements with secondary insurers in all the insurance branches, including the following compulsory vehicle insurance, are renewed annually. In the field of activity the Group makes agreements with its secondary insurers by means of excess of loss contracts (in respect of contracts of this kind see details in section 9.1.3 below). As is customary in contracts of this type, no commission is received from the secondary insurers.

A change occurred in the secondary insurance contracts of the company starting from 2007, that limits the maximum return received by the company from the secondary insurers in the event of damage. Although the insurance for the customers is unlimited regarding the amount of the return, in the light of checks made by the company and in the light of the relatively high ceiling fixed, this change does not materially influence the company's residue.

In 2010 the company made an agreement with SwissRe in a quota share insurance transaction at a rate of 25% in the field of activity, in a number of general insurance branches, including compulsory vehicle insurance. The transaction was not renewed in 2011 in respect of the field of compulsory vehicle insurance.

Starting from 2011 the secondary insurance contract in the field protects both Menora Mivtahim Insurance and Shomera, in order to improve the efficiency of the secondary insurance contract.

It should be noted that starting from 2009 the secondary insurance contracts of the company in the field of activity are shekel based contracts. This change neutralizes the currency risk in the secondary insurance protections.

In 2011 the company signed contracts in the field of activity with secondary insurers graded AAA, AA-, A-, and A+ by S&P.

As of December 31, 2011, the rate of transfer of the risk of the Group to its secondary insurers in the field of activity was estimated at about 2.3% of the premiums.

The following are details of secondary insurers whose share of the premium in the field constitutes more than 10% of the total secondary insurance premiums in the field in the years as set forth in the report (thousands of NIS):

Name of secondary insurer	S&P rating	Country	2011		2010		2009	
			Premium for secondary insurance	% of premium for secondary insurance	Premium for secondary insurance	% of premium for secondary insurance	Premium for secondary insurance	% of premium for secondary insurance
Swiss Reinsurance Co	AA-	Switzerland	3,684	26%	96,869	86%	9,263	44%
Aspen Insurance UK Ltd	A	Switzerland	1,635	11%	-	-	-	-
XL RE EUROPE Paris Re	A AA-	France France	1,489 -	10% -	- -	- -	2,388	11%

For a description of the agreements between the Group and the secondary insurers at the level of the Group, see section 9.4 below.

4.7 Suppliers and service providers

Menora Mivtahim Insurance from time to time makes agreements with hospitals, medical institutions, operators of medical monitoring, and providers of other health services for the purpose of providing various medical services for its insured, including convalescence, ambulatory treatments in clinics and referral for rehabilitation medicine, all in respect of services that have not been transferred to the responsibility of the health funds as set forth above in this section.

The Group operates an automated system for monitoring payments to suppliers in general and to suppliers of medical services in particular. The system checks matching between the accounts received and the agreed tariffs, as well as the connection between the medical treatment and the injury. The use of this system has led to savings in the costs of the suppliers and to improved efficiency when working with them.

In addition the Group purchases accompanying services for the settlement of insurance claims in various fields, including in the field of activity, from lawyers, investigators, and specialist doctors.

The Group has no dependence on any supplier whatsoever. It should be noted that in the light of the transfer of responsibility for most of the treatment of victims of road accidents to the health funds, starting from 2010 (as set forth in section 4.1.3 above), the scale of activities *vis-a-vis* the suppliers has decreased. However, and in the light of the fact that responsibility for some types of medical treatment still lies with the insurance companies, the company continues to make agreements with medical suppliers, as necessary.

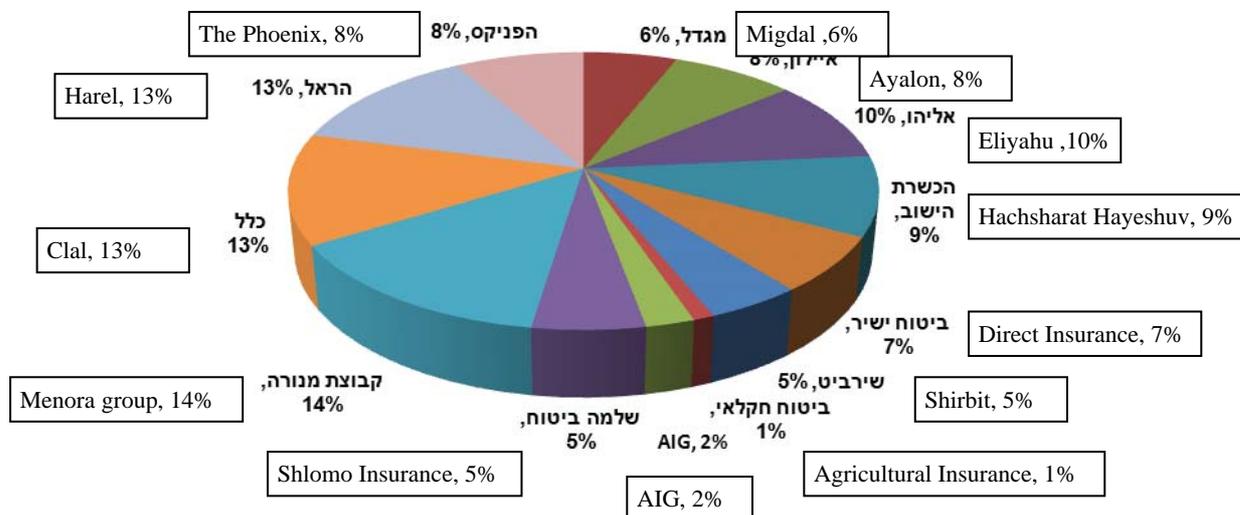
For a description of the subject at the level of the Group see section 9.5 below.

4.8 Competition

Thirteen insurance companies compete in the field of compulsory vehicle insurance, including direct insurance companies. The large companies in the field of compulsory vehicle insurance are the Clal group, the Harel group, and the Group. Based on the financial statements of the insurance companies, the share of the three largest entities in the field in the first nine months of 2011 came to about 39% of the total premiums in this field, compared to about 41% in 2010.

As of the third quarter of 2011, the Group (Menora Mivtahim Insurance and Shomera) lead in the field and hold a market share of about 14% (a similar figure to that for the corresponding period last year).

The following are details of market share data, by companies:



The uniform insurance cover in all the insurance companies and the availability of comparative information about prices cause the product price to be the major variable in the decision for purchase of the insurance policy. The insurance companies are distinguished from one another by the variables determining the tariff and consequently the market shares on which they focus. A factor liable to harm the competitive status of the Group is the use by other insurance companies of parameters differing from those used by the Group.

The factors strengthening the Group's competitive status are its organization of insurance agents and a tariffs model that permits focusing on more profitable market shares.

4.9 Material agreements and cooperation agreements

An agreement was signed between the insurance companies and the Clearing Center run by the association of the insurance companies in January 2004 (called "light-heavy") that regulates the treatment of accounting following claims in which heavy and light vehicles and/or motor cycles are involved, within the meaning of the Order for compensation for victims of road accidents (arrangements for sharing the burden of the compensation between the insured), 5761-2001, and following claims in which vehicles insured by the parties to this agreement are involved and sustain joint damage, as well as to pedestrians injuries outside the vehicles.

In the light of the fact that in numerous cases the insurance companies did not reach agreement in respect of the liability, it was decided in 2006 to extend the authority of the manager of the scheme and award him powers of arbitration in respect of disputes regarding liability, from both the legal and factual aspects. The original scheme and the extension have been approved by the Commissioner for restrictive practices.

5 Property vehicle insurance

5.1 General information about the field of activity

The insurance cover awarded in the property vehicle insurance policy is subject to the limitations as set forth in the law and the regulations, as set forth below.

The activity of the Group in the field of property vehicle insurance is carried out by Menora Mivtahim Insurance and by Shomera.

The following are a number of characteristics, trends, and developments that influence, or are liable to influence the activities of the Group in this field in the future.

5.1.1 The structure of the field of activity and the changes that occurred in it

The property vehicle insurance policy includes insurance cover in respect of self damage caused to the insured's vehicle, theft, and damage to property caused by the insured's vehicle to a third party. It is possible to purchase a policy for third party damage only or in combination with additional insurance cover.

Property vehicle insurance is split into two major groups by type of vehicle:

- 1) Insurance for a private or commercial vehicle up to 4 tons awards insurance cover depending on the conditions during the standard policy as set forth in the Regulations for Supervision of Insurance Transactions (conditions of an insurance contract for a private vehicle) 5746-1986, as set forth below; and
- 2) Insurance for vehicles that are not private or commercial vehicles up to 4 tons, based on a policy that is not subject to the conditions of the standard policy.

5.1.2 Description of the field of insurance and the insurance covers included in the field

The policy for insurance of property damage and third party property damage for a private or commercial vehicle up to 4 tons (comprehensive and third party insurance, not including motor cycles), is specified in the Regulations for Supervision of Insurance Transactions (conditions for an insurance contract for private vehicles) 5746-1986, and the supplement to the regulations (hereinafter: "**the property vehicle insurance regulations**" and "**the standard policy**", respectively).

The standard policy specifies a wording and the minimum conditions for comprehensive vehicle insurance that the insurance company may change only if the change is for the benefit of the insured. The standard policy may be extended in respect of the extent of the cover, the risks, the liabilities and the property of the insured.

As set forth above, the following vehicle insurance also includes insurance of vehicles that are not private or commercial vehicles up to 4 tons – trucks, buses, trailers, semi-trailers, forklifts, and motor cycles, that are not subject to the provisions of the standard policy.

5.1.3 Characteristics of property vehicle insurance

A property vehicle insurance policy is generally for a period of up to one year.

As set forth above, the policy is subject to the limitations imposed by the legislator and by the Commissioner in the standard policy. For additional details see section 5.1.4 below.

The tariff for property vehicle insurance is not uniform and depends on a number of variables, such as the type of vehicle insured, its accumulated claims history, the driver's age and the limitation to the number of drivers permitted to drive the vehicle. The tariff is approved by the Commissioner as the maximum tariff.

Claims in this field are characterized by being quickly handled and by the short period of time between the occurrence of the insurance event and settlement of the claim ("**short claims tail**"). However, in respect of third party cover the period of time for settlement of the claim is longer.

5.1.4 Restrictions, legislation, standards, and special constraints applying to the field of activity

The field of the activity is subject to the provisions of the law applying to insurers, including the provisions of the Supervision Law and the Insurance Contract Law and the regulations issued by virtue of them, and the instructions of the Commissioner, as published from time to time.

For the major legislation limitations applying to the Group in its general activities, see section 9.2 below.

The following is a summary of the major provisions of the law applying to the activities of the Group in the field of compulsory vehicle insurance, as well as the major regulatory provisions (provisions of the law, bills, circulars and drafts of the Commissioner), published in the last year:

5.1.5 The provisions of the law

* **The Regulations for Supervision of Insurance Transactions (conditions of an insurance policy for a private vehicle) 5746-1986 (hereinafter: "property vehicle insurance regulations")**

The regulations specify the wording of the standard policy for property vehicle insurance. The standard policy constitutes the minimum basket of insurance cover that may be extended solely for the benefit of the insured.

Pursuant to the amendment to the property vehicle insurance regulations, that addresses the change to the standard vehicle policy, the policy permits the insured, at the stage of the insurance proposal, to waive specific covers (see section 5.2 below) so that the insured may choose between comprehensive insurance, comprehensive without theft cover, comprehensive insurance without cover against accidents, and third party insurance only, provided that the joint waiver was made in an explicit notice documented by the insured.

In July 2010 the Commissioner published the third draft amendment to the property vehicle insurance regulations. For details regarding the amendments proposed in the draft, see the following section.

* **The Law for restriction of use and registration of activities in used spare parts (prevention of theft) 5758-1998**

The law specifies procedures in respect of the sale of vehicles for general

dismantling or repair as well as procedures for registration of spare parts. The law obligates the insurer to return the vehicle license to the licensing authority if the vehicle has been sent for general dismantling. If the insurer sells the vehicle not for the purpose of dismantling but for repair, it is obligated to hold the vehicle license and not transfer it to the purchaser until the purchaser furnishes the insurer with approval from an authorized garage that the vehicle has been duly repaired or, when replacing a part, approval that the part replaced was duly registered pursuant to the provisions of the aforesaid law.

By virtue of the aforesaid law, the regulations for restriction of use and registration of activities in used spare parts (prevention of theft) (keeping a log and recording in it, reporting the theft of a part and restriction of the use of vehicle parts), 5767-2007, were published in 2007, and regulate the subject of the registration of spare parts for vehicles.

* **The Law for the sale of used vehicles (eligibility for information and proper disclosure), 5768-2008 ("the law for sale of used vehicles")**

The law states, *inter alia*, that a person who purchased a used vehicle is entitled to receive information from any insurer who insured the vehicle regarding the sum of the insurance benefits paid for the vehicle and details regarding the damage or reduction of value for which they were paid. The insurer is entitled to make a charge for the costs involved in the supply of the information as aforesaid. The law imposes on the insurer the obligation to keep details in respect of vehicles that were insured by it for a period of seven years.

* **The regulations for the prevention of hazards (prevention of noise) (amendment), 5771-2011**

In January 2011 the regulations for the prevention of hazards (prevention of noise) (amendment), 5771-2011, were published, that **amend the Regulations for the prevention of hazards (prevention of noise) (amendment), 5752-1992**, with the aim of reducing noise annoyances in the citizen's private surroundings, so that the limitations regarding causing a noise will be made more strict. The amendment extended the times in which it is prohibited to cause noise from various sources and, *inter alia* the prohibition to operate an audio alarm system in vehicles.

The date of applicability of the prohibition regarding the operation of an alarm system in a vehicle, as set forth above, is within six months of the date of publication of the regulations, and in the event of old vehicles in which there was an alarm system prior to the date of publication of the regulations, the owners of the vehicles shall be obligated to remove and/or disconnect the alarm by the end of 6 years from the date of applicability of the regulations.

In the company's estimation, it is likely that as a result of the prohibition of operation of audio alarm in vehicles the number of cases of theft will increase insurance by a specific amount, that these alarms prevent, but it seems that this amount is not significant.

The company's estimation is forward looking information, based on the company's activities in this field. This estimation is liable to not be realized because of circumstances in which there is high under uncertainty on the date

of the report.

Proposed legislation

- * **The Bill for Supervision of Financial Services (insurance) (amendment – prohibition of the repair or renovation of a vehicle to which at least 50% damage has been caused) 5770-2010**

In May 2010 the Bill the Law for Supervision of Financial Services (insurance) (amendment – prohibition of the repair or renovation of a vehicle to which at least 50% damage has been caused) 5770-2010 was passed in a preliminary reading. Pursuant to the bill, insurers shall be restricted from the repair or renovation of a vehicle to which at least 50% damage has been caused relative to its value prior to the accident.

- * **Amendment to the standard policy in the motor vehicle insurance branch**

In July 2010 the third draft of the Regulations for Supervision of Insurance Transactions (conditions of a private vehicle insurance contract), 5746-1986, was published. The major changes in accordance with the draft are the determination of the value of vehicle that is not included in the price list based on the estimation of value attached to the specification; a provision according to which after payment of insurance benefits or replacement of the vehicle the insurer shall be entitled to receive from the insured his rights to the vehicle, except for accessories and assemblies for which the insured is not entitled to insurance benefits; provisions in respect of payment of insurance benefits in respect of partial damage; a ruling that the obligation for disclosure in respect of damage that occurred to the vehicle or to a third party in the last three years as a result of risks included in the insurance, shall not apply to the period in which the vehicle was not owned by the insured; and a provision in respect of the option of offsetting for the insurer from the insured's debt in respect of policies.

Arrangements in the branch

- * **Vehicle insurance assessor arrangement**

Following the ruling of the Supreme Court dated April 2001 in respect of vehicle assessment,⁵ the Commissioner published a circular with the aim of reducing the conflict of interests in activities of vehicle assessors, while giving the insured the option of choosing a vehicle assessor from a broad national list. The circular also gave, *inter alia*, rules for the conduct of assessors and the appeal mechanism against the assessments.

In April 2007 a circular was published that addressed the treatment of the subject of reduction of conflicts of interests as aforesaid, in the matter of vehicle insurance assessment (property and third party), that states, *inter alia*, provisions in respect of extension of disclosure regarding the rights of the insured, increase of their involvement in selection of the assessor, and enlargement of the transparency *vis-a-vis* the insured during assessment of the damage.

⁵ FC 96/7721, Association of Israeli Insurance Assessors et al v. the Commissioner for insurance, court ruling 55(3) 625.

* **Setting up a database regarding vehicle history**

In June 2010 the Commissioner for restrictive practices decided to grant an exemption for conditions for an arrangement between the Association of the insurance companies, the clearing house of the insurance companies Ltd., and additional insurers, for the setting up of a database regarding vehicle accidents history. The database shall contain details of the vehicles recorded in it – details of the vehicle, previous insurers, details about insurance claims, details about damage in accidents.

The information in the database shall be available both to the purchasers of used vehicles and to the insurers who participate in the database. As decided, and in the light of the fear that the cooperation in information will harm competition, the Commissioner decided to make the exemption dependent on the conditions as set forth in the decision, and to limit it to a period of three years.

5.1.6 Changes to the scale of activities in the field, to profitability, and to the mix of customers

The scale of activities

Pursuant to the financial statements of the insurance companies in the first nine months of 2011, in the field of property vehicle insurance, stability in premiums was recorded in 2011 compared to the corresponding period last year. It should be noted that the rate of growth in the field of property vehicle insurance differs from the growth of the field in the economy, *inter alia* in the light of the fact that most of the leasing companies that constitute a significant element in the vehicle market do not insure themselves by means of the insurance companies.

The gross premiums of the Group totaled in 2011 the sum of about NIS 904 million, compared to the sum of about NIS 902 million in 2010. After neutralization of non renewal of the agreement in 2011 with an agent in connection with the insurance of heavy vehicles, the gross premium increased in 2011 compared to 2010 by about 8%, resulting from the increase in the number of insured vehicles.

Profitability

The profitability in the field is influenced, *inter alia*, by the validity and correctness of the tariff used by the insurer, income from investments, the rate of expenditure, maintenance of underwriting procedures, and the incidence of theft.

In the first nine months of 2011 the branch in general produced a cumulative loss of NIS 139 million, compared to a profit of NIS 170 million in the first nine months of 2010. The reduction in profit was mainly due to deterioration of the underwriting results and, more marginally, to a decrease in income from investments.

The loss before tax of the Group in 2011 was in the sum of about NIS 55 million compared to a profit in the sum of about NIS 7 million in 2010. The loss mainly resulted from the competition in the branch that caused erosion of the average premium collected and from increase in payments of claims and updating the estimation of the insurance commitments in the sum of about NIS 29 million (resulting mainly from provision for premium deficits in the sum of about NIS 18

million), from reduction in income from investments in the sum of about NIS 15 million, and from an increase in management and general costs in the sum of about NIS 14 million. The increase in management and general costs was mainly due to an increase in the establishment of workers.

5.1.7 Changes to secondary insurance arrangements in the field

For a description of the changes to the secondary insurance arrangements in the field see section 5.6 below.

5.2 Products and services

This section contains a brief general description of the insurance products and the insurance covers. The full and binding conditions are as set forth in each insurance contract and/or policy, as the case may be. The description is for the purpose of this report only and may not be used for interpretation of the policy.

The property vehicle insurance policies are based on the standard policy (except for commercial vehicles above 4 tons and motor cycles), where the insurance company is entitled to change the conditions of the aforesaid policy only for the benefit of the insured.

The insurance policies of the Group grant insurance cover as follows:

- a) **Comprehensive vehicle insurance (private and commercial including trucks)** – Cover in respect of a vehicle as a result of an accident, damage to a vehicle as a result of fire, and theft of the vehicle, damage caused during theft of the vehicle, damage caused as a result of natural causes (floods, storms, snow and hail), malicious damage to the vehicle (except by the insured or anyone acting on its behalf), damage caused by the vehicle to third party property.
- b) **Comprehensive insurance without cover for accidents** – Insurance cover of all the risks as set forth in section (a) above, except for the clause of damage as a result of an accident.
- c) **Comprehensive insurance without cover for theft** – Insurance cover of all the risks as set forth in section (a) above, except for the clause of theft of the vehicle.
- d) **Insurance of liability *vis-a-vis* a third party** – Protection of the insured against his liability for damage caused to third party property as a result of use of his vehicle.
- e) **Insurance of motor cycles.**
- f) In addition to the basic cover, **the Group permits the insured to extend the cover as follows:** cover for damage by an earthquake, a new vehicle instead of the old one that was damaged (for vehicles of the most recent model years only and in the event of insurance of total loss), insurance of a replacement radio tape or radio disk, insurance of breakage of windows, towing services and the supply of a substitute vehicle.
In addition there is a unique plan for private vehicles only, that permits a more extensive basket of services and benefits for the insured, with the option of a reduced premium.
- g) The property vehicle insurance tariff is under supervision and is updated from time to time in accordance with the damages history and trends. The policy of the Commissioner, as of the date of this report, is non involvement in tariffs in this field.

5.3 Breakdown of data for products and services

The following is a table issue data in respect of the breakdown of the activities of the Group in the field of property vehicle insurance (thousands of NIS):

	2011	2010	2009
Gross premiums (including charges)	904,352	902,069	877,843
Premium with personal residue	740,669	668,572	675,426
Payments and changes to commitments in respect of insurance contracts (gross)	705,041	638,300	607,760
Payments and changes to commitments in respect of residual insurance contracts	549,852	477,377	488,990

For explanations regarding development of income from premiums see section 5.1.4 above.

Breakdown of claims paid in the field of property vehicle insurance, gross (thousands of NIS):

	2011	2010	2009
Theft	69,062	62,860	66,232
Accidents	523,036	502,814	472,758
Damage from nature	1,162	1,534	1,221
Others	68,869	59,776	54,635
Total claims paid	662,129	626,984	594,846
Changes of commitments in respect of insurance contracts, gross	42,912	11,316	12,914
Total payments and Changes of commitments in respect of insurance contracts, gross	705,041	638,300	607,760

5.4 Customers

In the field of property vehicle insurance, the Group mainly insures private customers.

The Group has no customer in the field of property vehicle insurance, the income from whom constitutes 10% or more of the total income of the Group in the field of activity, and the Group is not dependent on a single customer or a limited number of customers in this field.

	Premiums (thousands of NIS)	% of total income	Premiums (thousands of NIS)	% of total income
Private insured and small businesses	804,873	89%	838,924	89%
Vehicle fleets and collectives	99,479	11%	63,145	11%

In addition, the Group is unaware of fixed characteristics of its customers in the field of compulsory vehicle insurance. In the Group's estimation the rate of renewals in 2011 was 66%, compared to 71% in 2010. The decrease in the rate of renewals is due to non-renewal of a large transaction in the field of vehicle insurance that is not private and commercial vehicles up to 4 tons. The percentage of customers who purchased property vehicle insurance and compulsory vehicle insurance out of the total number of customers

who purchased vehicle insurance in 2011 is 64%, compared to 67% in the previous year.

Premiums by number of years of seniority of customers in the field of compulsory vehicle insurance for the periods as set forth in the report:

Number of years of seniority	Premiums (thousands of NIS)			% of total income		
	2011	2010	2009	2011	2010	2009
Without seniority	361,741	369,848	359,915	40%	41%	41%
Seniority of 1 year	198,957	207,476	201,904	22%	23%	23%
Seniority of 2 year	126,609	144,331	140,455	14%	16%	16%
Seniority of more than 3 years	217,044	180,414	175,569	24%	20%	20%
Total	904,352	902,069	877,843	100%	100%	100%

5.5 Marketing and distribution

The Group markets its insurance policies by means of self employed agents. The following are details of the rate of commission (including VAT) from the gross premiums in the field of property vehicle insurance:

	2011	2010	2009
Rate of commission from gross premiums	20%	20%	20%

The company has no agent whose activities in the field exceeds 10% of the field of activity. For a description of the subject at the level of the Group see section 9.7 below.

5.6 Secondary insurance

The Group's agreements with secondary insurers in all branches of the insurance, including the following property vehicle insurance, are renewed every year.

The extent of the transfer of the Group's risk to its secondary insurers in the field of activity is estimated at about 18.1% of the premiums, as of the date of this report. In the field of activity the Group makes agreements with its secondary insurers both by means of relative contracts and by means of excess of loss contracts, for protection against irregular events.

In the period 2010-2011 the company made agreements in the field of activity with secondary insurers graded by S&P as A-,A+, AA-.

Secondary insurers whose share of the premium in the field constitutes more than 10% of the total secondary insurance premiums in the field in the periods as set forth in the report (thousands of NIS):

Name of the secondary insurer	S&P rating	Country	2011		2010		2009	
			Premium for secondary insurance	% of all the premiums for secondary insurance	Premium for secondary insurance	% of all the premiums for secondary insurance	Premium for secondary insurance	% of all the premiums for secondary insurance
Swiss Reinsurance Co	AA-	Switzerland	134,861	82%	131,293	56%	137,697	68%

Trans Re Zurich	A+	Switzerland	-	-	43,992	19%	47,102	23%
PARTNER RE	AA-	England	-	-	26,225	11%		

As is customary in contracts of this kind, delivery commission is received from the secondary insurers, that is calculated as a percentage of the total premium transferred. The rate of the commission varies depending on the business results.

It should be noted that in the year of the report a change occurred to the secondary insurance agreement in respect of some of the activities in the field of commercial vehicles above 4 tons, so that the secondary insurance premium includes the charges element, and in parallel the commission received from secondary insurer increased.

For a description of the agreements of the Group with the secondary insurers, in particular the multi-line secondary insurance agreement, see section 9.4 below.

5.7 Suppliers and service providers

The Group has agreements with various garages for the purpose of the provision of the services to the insured in the occurrence of an insurance event. Furthermore the Group has made agreements with additional service providers according to which an insured whose policy includes the relevant type of service will receive service pursuant to the service deed that he purchased. The various services given to the insured are, *inter alia*, towing services for the vehicle, glass breakage services for the vehicle, substitute vehicle services, etc.

In addition, the Group purchases accompanying services for the removal of insurance claims in various fields, including in the field of activity, from lawyers, investigators, assessors, garages, suppliers of spare parts, and additional suppliers.

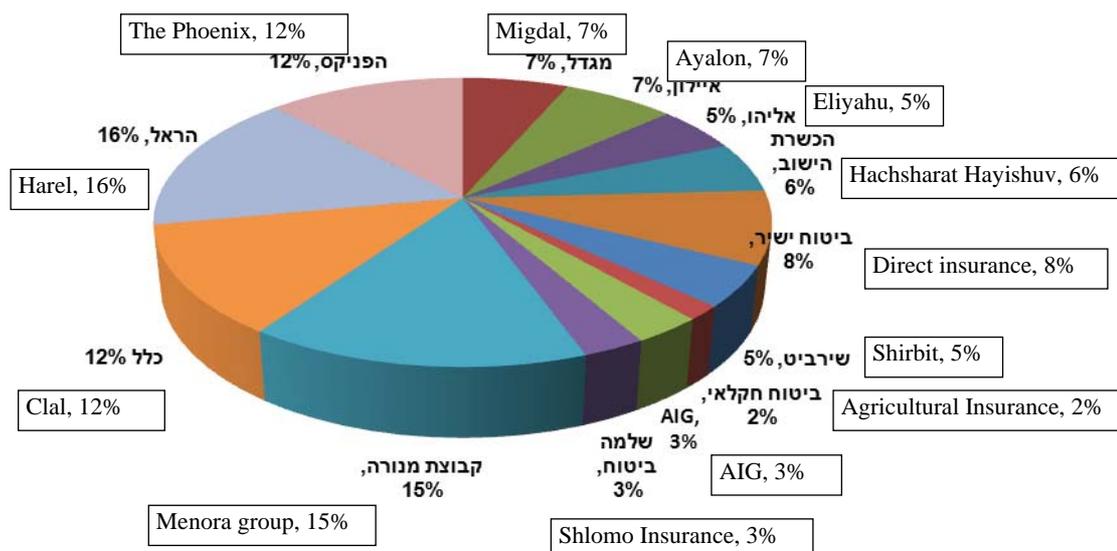
The Group is not dependent on any supplier whatsoever in its activities in this field. For a description of the subject at the level of the Group see section 9.5 below.

5.8 Competition

Most of the insurance companies engage in the field of property vehicle insurance, including companies for direct insurance.

Based on the financial statements of the insurance companies, the Harel group was the leader in the field in the year of the report. In the first nine months of 2011 Harel held a market share of 15.7% compared to 16.6% in the corresponding period last year in 2010. The Group holds a market share of 15.2% and is located in second place in the economy, similar to the corresponding period last year in 2010.

Market share data by companies are presented in the following diagram:



The uniform insurance cover based on the standard policy leads to the price of the product being the major variable in the insured's decision to purchase an insurance policy. Consequently the Group has placed emphasis in this field on a competitive tariff and unique products that match the discerned population, and include unique benefits for the said populations.

The factors strengthening the competitive status of the Group are its organization of insurance agents, the tariff model used by it, and the agreement with a network of garages for the convenience of its insured.

Since the price is a major variable in the consumer's purchasing decision, deliberate erosion of prices by one of the competitors is liable to affect the company's competitive status. The Group makes current examination of the tariff and the level of discounts in order to match itself to developments in the market.

5.9 Material agreements and cooperation agreements

In May 2002 a cooperation agreement was signed between the association of the insurance companies and the Israeli Center for Arbitration and Settlement of Disputes Ltd. (hereinafter: "**Benoam**"), according to which disputes in the subject of recourse claims between the insurance companies (both those who are and are not members of the association) in respect of property vehicle insurance in a sum not exceeding NIS 100,000, will not be submitted to the Court but will be clarified by means of Benoam. (This institution is privately owned and was chosen by the association of the insurance companies.)

The decision of the arbitrator in these proceedings is binding, and collection is done by means of the clearing house of the association of the insurance companies. Payment for Benoam in a claim or in arbitration is borne by the insurance companies. This agreement was approved by the Commissioner for restrictive practices and is in effect until May 2011. The parties contacted the Commissioner for restrictive practices for the purpose of renewal of this agreement, after May 2011, and received a permit for an additional period of three years.

6 Other general insurance

The activity of the Group in this field focuses on three major branches: liabilities insurance, property insurance, and short term health insurance (such as personal accidents, trips abroad, and foreign workers). Furthermore, this field includes the other branches of general insurance whose the scale of activities is not material.

The activity of the Group in the field of general insurance is carried out by Menora Mivtahim Insurance and by Shomera.

The following are the relevant provisions applying to all the branches in this field, as well as the unique provisions for the various branches in the field.

6.1 General information about the field of activity

The liabilities insurance branch includes all kinds of liability insurance, except for compulsory vehicle insurance. The major insured in this branch are: employer's liability insurance, professional liability, liability of directors and position holders, third party liability, product liability, Sales Law guarantee, insurance of aircraft and insurance of marine vessels.

The property insurance branch awards the insured insurance cover against physical damage to property and includes comprehensive insurance for apartments, insurance of loss of property, comprehensive insurance for businesses, structure insurance for borrowers from mortgage banks (hereinafter: "**mortgage insurance**"), marine insurance, engineering insurance, and diamonds insurance.

The health insurances in this field include short term insurance policies, including insurance of journeys abroad, personal accidents insurance, and insurance of foreign workers and tourists.

The other branches of insurance include insurance branches that are not included in the aforesaid field of activity and are not sufficiently material regarding the business results of the company, whether separately or as a group. These insurances include insurance of guarantees (execution guarantees and financial guarantees), sick leave insurance, and the insurance of other risks.

The following are a number of characteristics, trends, and developments that influence, or are liable to influence the activities of the Group in this field in the future.

6.1.1 The structure of the field of activity and the changes that occurred in it

Liabilities insurance

Liabilities insurance covers the insured in respect of his third party liability, as a result of the acts or omissions of the insured. Liabilities insurance policies do not specify an insurance sum but a limit of liability that is the maximum sum borne by the insurer in the event of damage with the addition of reasonable legal costs. The insurance policies are generally valid for one year, but since we are speaking of damage to a third party who is in fact not the insured, clarification of these claims is complex and takes a long time ("**long claims tail**").

Property insurance

In the field of property insurance the Group offers insurance for individuals and for businesses.

Property insurance is generally a policy for a period of up to one year, except for freight insurance (marine and air) that is included in an open policy (the cover is given for each shipment separately), and engineering insurances that are assessed in accordance with the period of time of each project.

Health insurance (short term)

In (short term) health insurance the Group offers insurance for individuals and for groups.

Health insurances in this field include policies that are generally for a period of one year. In the insurance of journeys abroad and for tourists the cover is adjusted to the period of the stay abroad or in Israel, as the case may be.

6.1.2 Description of the field of insurance and the insurance covers included in the field

6.1.2.1 Liabilities insurance

The liabilities branches cover the insured against a liability that he is liable to assume as a result of his responsibility by law, and in particular by virtue of the provisions of the Damages Order [new version] (hereinafter: "**the damages order**").

The major insurance branches in which the Group engages in the liabilities branch are as follows (in respect of the policies and the products proposed in this branch see additional details in section 6.2 below):

Employer's liability insurance

Compulsory vehicle insurance for the insured in respect of its responsibility for bodily injuries caused to the worker as a result of and during his work with the insured. The liability covered is pursuant to the Damages Order or pursuant to the Law for liability for defective products, 5740-1980, and the insurance is residual insurance, beyond the cover pursuant to the National Insurance Institute Law (combined version), 5755-1995. The insurance is generally based on an event.

Third party insurance

The third party liability insurance covers the insured's liability by law, in respect of bodily injuries or property damage caused to a third party who is not a worker of the insured, as a result of damage caused by an accidental event that occurred during the period of the insurance in connection with the activity in respect of which the insured purchased the insurance cover. This insurance is generally based on an event.

Professional liability insurance

Insurance that covers the liability of a professional in respect of a failure in execution of his professional obligation, resulting in damage to a third party, whether or not he is a customer of the insured. Professional liability insurance is based on the submission of a claim.

Production liability insurance

Insurance that covers the liability of the insured in respect of damage caused by products manufactured or marketed by him, after they ceased to be owned by him. This insurance is based on the submission of a claim.

Insurance of directors and position holders

Insurance that covers directors and position holders in respect of a legal obligation infringed by the directors and the position holders within the period of the insurance. The insurance is based on the submission of a claim. The liability covered is mainly by virtue of the Liabilities Law, that imposes personal liability on the position holders in the company. The holder of this insurance policy is the company that purchases the cover for the position holders and directors who serve and/or served in the past, and who are specified as the insured.

The liabilities insurance branch is regarded as fluctuating because of the high level of uncertainty in settlement of the claims, that results, *inter alia*, from the period of time that elapses from the occurrence of an insurance event and the payment of the damage to the insured ("**long claims tail**"), from the changes in the judicial climate, and from the cultural change that increases the frequency and gravity of the claims.

6.1.2.2 Property insurance

The following are the major types of property insurance marketed by the Group in the property insurance branch:

Apartments insurance (comprehensive insurance for apartments)

Insurance of the structure of the apartment and insurance of the contents of a residential apartment.

The Regulations for Supervision of Insurance Transactions (conditions of a contract for the insurance of apartment and their contents), 5746-1986 (hereinafter in this section: "**the regulations**") specify the extent of the minimum insurance cover for the structure of the apartment and its contents, within the meaning of the regulations (hereinafter: "**the standard apartment policy**").

Pursuant to the regulations, apartment insurance includes cover for the contents and the structure against risks of fire, burglary, risks of nature, earthquake, and piping damage. The insurance company may only change the standard policy if the change is for the benefit of the insured. The insured is given the option of waiver in writing of the cover for earthquake.

Loss of property and comprehensive insurance for business premises

Insurances covering the loss of property (such as merchandise, machines, equipment, factories, stocks of various kinds, etc.) and that is not a residential apartment and its contents or a motor vehicle. The insurance of business premises includes cover for the contents and structure against risks of fire, burglary, damage from nature and earthquakes. In these insurance policies it is possible to purchase cover against resultant damage following loss of profits. The business premises policies are generally sold as umbrella policies that also include liabilities insurance.

Mortgage insurance

Structure insurance for borrowers who take a mortgage to finance the purchase of apartments. These policies are encumbered for the benefit of the loaner. This insurance is generally sold combined with life insurance (risk) for cover of the balance of the mortgage in the event of the death of the insured.

Marine, aircraft, and marine vessels insurance

Insurance that covers damage or loss related to flight or sailing risks. Marine vessels insurance covers the hulls of the ships; aircraft insurance include insurance of the fuselages of the aircraft and insurance of travelling accidents; marine insurance covers the shipment of freight by sea and air.

Freight shipping

Insurance that covers the loss or damage to freight caused during land shipping.

Engineering insurance (insurance of mechanical breakage)

Insurance that covers damage to equipment as a result of its operation, in contrast to damage caused by independent external entities.

Engineering insurance (contractual work)

Cover of contractual work, equipment and materials against accidental damage.

Engineering insurance (constructional work)

Cover of constructional work of mechanical systems, equipment and materials against accidental damage.

Engineering insurance (engineering mechanical equipment)

Cover against accidental damage to engineering mechanical equipment.

Insurance of electronic equipment

Cover against accidental damage to low voltage systems and cover of costs of restoration of computer information and the hiring of replacement equipment.

Insurance of terrorism risks

Cover against physical damage to property and loss of gross profit as a result of a terrorist attack. It may be purchased as residual insurance (beyond receipts from property tax) or as full cover.

6.1.2.3 Health insurance (short term)

Short term health insurance consists of two insurance branches: personal accident insurance and insurance of illnesses and hospitalization (insurance

of trips abroad and insurance of foreign workers and tourists).⁶

6.1.2.4 Other insurance branches

*** Insurance of execution guarantees and financial guarantees**

The Group markets execution guarantees that address commitments for the indemnification of the beneficiary in respect of infringement of the insured's commitment *vis-a-vis* it. The policies are issued for the benefit of the customers in projects and intended to guarantee the meeting of commitments by contractors, entrepreneurs, and additional large entities in execution of projects, as agreed between the parties.

In addition the Group markets financial guarantees that address a commitment for indemnification of the beneficiary in respect of infringement of a financial commitment of the insured *vis-a-vis* it.

*** Insurance of a Sales Law guarantee**

The Group markets insurance that covers the investment of the purchasers of housing units, as derived from the Sales Law (apartments), 5733-1973, and the Sales Law (apartments) (guarantee of the investments of purchasers of apartments), 5734-1974. This insurance complies with the directions of the Sales Law and in most cases the period of the insurance is long (more than a year).

The risk in these policies decreases over time as a result of progress in construction and the receipt of possession of the asset. Pursuant to the provisions of the supervision, recognition of the profit from the company's income in this branch is deferred for a period of five years. The company issues these policies to contractors, either by means of direct marketing to the Contractor or by means of banks that provide finance for the construction project.

*** Insurance of sick leave**

The Group markets insurance of sick leave that covers the liability of the insured (the employer) *vis-a-vis* its employees for payment of sick leave. The employer's liability to pay is liable to the provisions of the law (legislation, regulations, collective agreements, and expansion orders) in respect of the workers' rights.

The Group markets policies directly by means of the infrastructure of the companies insured in the pension fund of the Group, as well as by means of its agents.

*** Other risks**

The Group issues policies that cover various risks that were not included in the aforesaid branches since the covers are in non material sums. For

⁶ The illnesses and hospitalization branch also includes insurance of medical costs and dental insurance that are long term insurance policies and consequently these insurance policies are included in the field of health insurance. It should be noted that these branches were transferred to the field of health insurance, starting from January 1, 2012. For additional details see sections 1.3.2 and 1.3.3 above.

example, the company issues policies to cover legal costs.

6.1.3 Restrictions, legislation, standards, and special constraints applying to the field of activity

The field of the activity is subject to the provisions of the law applying to insurers, including the provisions of the Supervision Law and the Contracts Law, as set forth below, and the regulations issued by virtue of them, and the instructions of the Commissioner, as published from time to time.

The following is a summary of the major provisions of the law applying to the activities of the Group in the field, as well as the major regulatory provisions (provisions of the law, bills, circulars and drafts of the Commissioner), published in the last year:

For the major legislation limitations applying to the Group in its general activities, see section 9.2 below.

6.1.3.1 Insurance of liabilities

The following are details of the major legislation limitations applying to the Group in its activities in the branch of liabilities insurance.

The provisions of the law

The Insurance Contract Law

Pursuant to the provisions of the Insurance Contract Law (known as the Liability Insurance Law), the claim for insurance benefits is not limited as long as the third party claim against the insured has not been limited. This law also specifies that liabilities insurance also covers reasonable legal costs to be borne by the insured as a result of its liability, even if these costs exceed the sum of the insurance.

6.1.3.2 Property insurance

The provisions of the law

For details of the main regulations applicable in this branch, see section 6.1.2.2 above.

The draft regulations

The Regulations for Supervision of Financial Services (insurance) (maximum commission in structure insurance associated with a loan for the apartment), 5771-2011 – Draft

In December 2011 the Commissioner published draft Regulations for Supervision of Financial Services (insurance) (maximum commission in structure insurance associated with a loan for the apartment), 5771-2011. It was proposed in the draft regulations that the maximum commission paid to insurance agents in structure insurance associated with a loan for the apartment would not exceed 20% of the premium. This ceiling is similar to the existing commission in the property vehicle insurance system and in the comprehensive insurance for apartments branch.

The determination of a ceiling for commission was intended to verify

fairness in the determination of the commission, prevent unreasonable differences between the commission paid in insurance associated with a loan for the apartment and that paid in other apartment structure insurance contracts, and to prevent increases in the premium paid by the insured, while maintaining the quality of the secondary insurers.

6.1.3.3 Health insurance (short term)

The following are details of the major legislation limitations applying to the Group in its activities in the branch of Health insurance (short term).

The provisions of the law

* **The Foreign Workers Law (prohibition of illegal employment and guarantee of fair conditions), 5751-1991**

Pursuant to the law the employer is obligated to arrange for a foreign worker employed by it, health insurance that shall include a services basket as specified by the Minister of Health in an order.

* **The Regulations for Supervision of Insurance Transactions (conditions in the insurance contract) (provisions for the previous medical condition), 5764-2004**

The regulations address the method of use by the insurer of the reservation to the insurer's liability in respect of the previous medical condition; guarantee proper insurance cover for the entire period of the insurance; and prevent execution of underwriting during a claim for payment of insurance benefits.

Position papers

In November 2011 the Commissioner published a draft position paper in respect of the sale of insurance for journeys abroad – clarification – update. Pursuant to the position paper for the position of the capital market, insurance, and savings, there is a fear that the involvement of health funds or travel agencies in the sale of insurance for trips abroad constitutes brokerage in insurance.

Furthermore, involvement of health funds or travel agencies in the sale of insurance for trips abroad is liable to mislead the insured into thinking that this sale reflects relevant professional know-how in respect of this insurance. Consequently, in the position paper the Commissioner specified, *inter alia*, the following provisions:

- a) The insurer shall not pay commission for brokerage between any person and it except to those holding an agent's license;
- b) The insurer shall not make an agreement with a policy holder unless the policy holder declares and undertakes, prior to commencement of the period of insurance, that he is acting in trust and devotion for the benefit of the insured only, and that he did not and will not receive any benefit from his being the policy holder;
- c) Without limitation to the aforesaid in section (a), the insurer shall be entitled to market a program except for the insurance of trips abroad by

means of advertising areas in the offices of various entities, such as health funds and travel agencies (hereinafter: "**the entity**"), without any involvement of employees of the entity or any person not duly holding an insurance agent's license, subject to receipt of approval from the Commissioner for insurance, in advance and in writing, for the distribution model requested;

- d) The determination of activities included in the category of brokerage for the purpose of the program except for insurance of trips abroad.

6.1.4 Changes to the scale of activities in the field, to profitability, and to the mix of customers

The scale of activities

The company is exposed to changes in the judicial climate, *inter alia*, in respect of directors insurance policies and the liability of position holders, that it markets. In the light of development of the judicial climate and court rulings in respect of companies and the position holders therein, there is a clear demand for insurance cover of professional liability as well as insurance cover for directors and position holders.

On July 27, 2010, amendment 59 of the Courts Law was published in Reshumot, according to which an economic department was set up in the District Court in Tel Aviv - Yaffo, to which were appointed judges having know-how and professional experience in the field of Corporate and Securities Law, as special judges. At this stage it is impossible to estimate the full influence of the setting up of the economic department on the company's profitability. In the company's estimation the setting up of the economic department will have at least some influence on the rate of handling cases, compared to the current situation.

In addition, in January 2011 the Law for improved efficiency of enforcement proceedings in the securities authority (amendments to legislation), 5771-2011, was published, that addresses a new enforcement process that includes a list of administrative infringements in respect of the three main laws enforced by the securities authority: the Securities Law, the Consulting Law, and the Joint Investment Trust Law.

At this stage it is impossible to estimate the influence of the legislation on the profitability of the branch of insurance of position holders and professional liability. On the one hand, the fines imposed are not insurable and the aforesaid enforcement program is expected to reduce legal proceedings involving high costs to the insurance company. On the other hand, an increase is likely in the frequency of claims against corporations and position holders therein that will be submitted in parallel to enforcement by the Securities Authority.

The aforesaid estimations of the company are forward looking information based on the company's activities in this field. These estimations are liable to not be realized as a result of the method 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 influenced by the economic state of the economy. *Inter alia*, as a result of expansion of the business activities reflected in the setting up of new businesses and the increase in the turnover of existing ones.

Pursuant to the financial statements of the insurance companies, in the first nine months of 2011 there was an increase of 2% in the profits in the field compared to the corresponding period in 2010 to a level of about NIS 5.3 billion.

The gross premiums of the Group in 2011 were in the sum of about NIS 816 million compared to in the sum of about NIS 775 million in 2010, an increase of about 5%. The insurance in premiums was due to other property branches in the sum of about NIS 48 million. On the other hand there was a reduction in premiums in other liabilities branches in the sum of about NIS 7 million. The increase in other property branches was due to an increase in the number of business customers.

Profitability

Although the following apartment, that is included in property insurance, is a product sold to private customers and is influenced by price considerations, the other property branches are more greatly influenced by the quality of the service and the professionalism of the underwriting by the Group, since we are speaking of business customers who frequently employ insurance consultants.

The profit before tax of the Group came in 2011 to the sum of about NIS 27 million, compared to a profit of about NIS 73 million in 2010. The profit before tax in the other property branches totaled in 2011 about NIS 26 million, compared to the sum of about NIS 36 million in 2010, a decrease of about NIS 10 million, and the profit before tax in other liabilities branches totaled about NIS 0.65 million in 2011, compared to the sum of about NIS 37 million in 2010, a decrease of about NIS 36 million.

The decrease in profit from the other property branches was due to a decrease in income in the sum of about NIS 5 million, an increase in management and general costs in the sum of about NIS 12 million, but on the other hand there was an increase in underwriting profits in the sum of about NIS 7 million, mainly because of the increase in premiums.

The reduction in profit in other liabilities branches resulted from decreases in the capital markets in Israel and abroad that caused a difference between the income from investment and the sum attributed to insurance commitments as a result of the yield, in an annual real amount of 3%, on investments in open years, in 2011 compared to 2010, in the sum of about NIS 23 million; from a worsening in the development of claims (a change of the estimation in respect of the closed years) in the sum of about NIS 25 million; from an insurance in management and general costs that were not attributed to calculation of the accumulated sums in the sum of about NIS 2 million; and from a loss in the sum of about NIS 5 million recorded in 2011 in respect of the current underwriting year. On the other hand the release from the accumulated monies in 2011 compared to 2010 was about NIS 18 million larger as a result of low release in 2010 as a result of claims in the branch of insurance of directors and position holders in respect of the underwriting year of 2007.

6.1.5 Changes to secondary insurance arrangements in the field

For a description of the changes to the secondary insurance arrangements in the field see section 6.6 below.

6.2 Products and services

This section contains a brief general description of the insurance products and the insurance covers. The full and binding conditions are as set forth in each insurance contract and/or policy, as the case may be. The description is for the purpose of this report only and may not be used for interpretation of the policy.

6.2.1 Liabilities insurance

6.2.1.1 General

The liabilities branches cover the insured in respect of a liability that it is liable to assume as a result of its responsibility by law, and in particular by virtue of the provisions of the Damages Order.

Liabilities insurance may be made in accordance with one of two indemnification bases:

Occurrence basis

The subject of the covered liability is the existence of the damage event during the period of the insurance.

Claims made basis

The subject of the covered liability is the submission of a claim to the insurance company during the period of the insurance, provided that the event that led to submission of the claim also falls into the period of the insurance or within the retroactive period as set forth in the policy.

6.2.1.2 The major products marketed by the Group in the liabilities branch are as follows:

Employer's liability insurance

Insurance cover for the insured in respect of its liability for bodily injuries caused to the worker as set forth in section 6.1.2.1 above. It is possible to purchase this insurance as an independent product or as additional cover as part of a business umbrella policy, an apartment insurance policy, or a policy for insurance of contractual work.

The premiums are determined as a function of a number of variables, the major ones of which are the number of workers employed, the extent of the annual salaries paid by the employer, the type of activities of the employer, the desired limit of liability, the insured's claims history, the means of protection existing in the business, etc. This insurance is generally made on an occurrence basis. The claim may be submitted after the period of the insurance within the period of limitation.

Third party insurance

The policy for insurance of liability *vis-a-vis* a third party covers the insured's liability by law, in respect of bodily injuries or property damage caused to a third party (not for use of a motor vehicle), who are not workers of the insured, as set forth in section 6.1.2.1 above. It is possible to purchase this insurance as an independent product or as additional cover as part of a

business umbrella policy, an apartment insurance policy, or as part of an insurance policy for contractual work.

The premiums are determined as a function of a number of variables, the major ones of which are the occupation of the insured, the scale of activities of the insured, the desired limit of liability, the insured's claims history, exposure to hazards or environmental risks, the means of protection existing in the business, etc. This insurance is generally made on an occurrence basis.

Professional liability insurance

This insurance covers the liability of a professional in respect of a failure in execution of his professional obligation, that results in damage to a third party as set forth in section 6.1.2.1 above. This insurance is sold as an independent policy or combined with product liability insurance. The insurance cover in the policy does not cover deliberate actions of the insured.

The major variable influencing the premium is the occupation of the insured, while the scale of activities, the desired limit of liability, the seniority in the profession, the number of workers, the income turnover, the claims history of the insured, and the territorial boundaries of the cover and the jurisdiction have significant influence on the premiums tariff. This insurance is based on submission of a claim.

Product liability insurance

The insurance covers the liability of the insured in respect of damage caused by the products manufactured by it as set forth in section 6.1.2.1 above. This insurance is sold as an independent policy or combined with professional liability insurance. The major variable influencing the premium is the occupation of the insured, while the existence of export activities, the retroactive period required, the desired limit of liability, the claims history of the insured, and the territorial boundaries of the cover and the jurisdiction also have significant influence on the premiums tariff. This insurance is generally based on submission of a claim.

Insurance of directors and position holders

The insurance covers directors and position holders in respect of legal liability that was infringed by the directors and position holders within the period of the insurance. This insurance is sold as an independent policy or combined with professional liability insurance to financial companies and to Hi-Tech companies only.

The premiums in this branch are based on a number of variables, the major ones of which are the desired limit of liability, the claims history of the insured, the field of activity of the company, the composition of the shareholders, the structure and financial strength of the company and whether the company is a public company or a private company. This insurance is generally based on submission of the claim.

Liabilities insurance is generally a policy for a period of up to one year.

6.2.1.3 Property insurance

The following are the major products and services marketed by the Group in

this branch:

6.2.1.4 Apartment insurance policies

The Group has three types of insurance policies for the structure and contents of an apartment (based on the standard apartment policy as set forth in section 6.1.2.2 above):

Top House

An insurance policy for the structure and contents of an apartment (based on the standard apartment policy. The product includes a broad package of covers that includes an electrical appliances repair service, doctor's house visits service, emergency services, etc.

Rimon apartments

An insurance policy for the structure and contents of an apartment (based on the standard apartment policy that covers the specified risks.

Rimon apartment 2000

A broad policy based on the standard apartment policy that supplies the insured with "all risks" insurance for the structure and contents of the apartment, except for the specified exceptions.

In the insurance policies as set forth above it is possible to purchase additional insurance cover supplied by external service providers, as set forth in section 6.7 below.

The premiums fixed are based on the risk characteristics of the insured, that include, *inter alia*, the story on which the insured lives, the claims history of the insured, and the required sum of the insurance. In order to estimate the risk, the company conducts periodical surveys and of the contents and of the risks and protection.

6.2.1.5 Insurance policies for business premises

The Group has a number of insurance policies for business premises (based on the standard property policy as set forth in section 6.1.2.2 above):

Rimon business

An extended policy for business premises that awards comprehensive cover for the structure of the business and all risks cover, not including the specified exceptions, for the contents of the business premises.

Top office

An insurance policy for the contents and structure of the office that awards all risks cover, including, *inter alia*, extensions such as: insurance cover for contents temporarily moved to a different location, rent for an alternative office, restoration of documents and personal accident insurance, not including the specified exceptions.

Rimon 2000 shopping mall store

An insurance policy for a store in a shopping mall that awards all risks

cover, not including specified exceptions. The insurance cover includes, *inter alia*, loss of profits, insurance of monies, personal accident insurance, insurance of electronic equipment, cover of damage or loss of data storage devices and information restoration.

The premiums in these branches are based, *inter alia*, on the claims history of the insured, the level of risk of the business, the business strategy of the company, and the desired sum of insurance. In order to estimate the risk the company conducts preliminary risk surveys from time to time.

6.2.1.6 Health insurance (short term)

The following are details of the types of health insurance policies marketed by the Group in this field:⁷

***Insurance of trips abroad**

Insurance of trips abroad awards a basket of insurance covers for the insured during their stay abroad. The basket includes, *inter alia*, cover in respect of illness, accidents, and various medical events, as well as third party damage and damage to luggage.

The period of the insurance in these policies is generally short term and given in days, depending on the period of the insured's stay abroad.

***Health insurance for foreign workers and tourists**

In order to meet the special needs of foreign residents coming to Israel as workers (hereinafter: "**foreign workers**") the government has enacted special legislation that addresses the obligation of health insurance applying to the employer, while specifying the minimum cover in the Order.

The Group markets an insurance program for foreign workers based on the requirements of the Order. The policy is marketed by means of authorized agents to individuals and to groups by means of employers. The insurance includes, *inter alia*, cover for the financing of hospitalization costs in a public hospital in Israel, including emergency ward costs (even if not involving hospitalization), operating theater, the salary of the surgeon and the anesthetist, intensive care, drugs included in the drugs basket, consulting and tests, financing of the costs of moving the insured by ambulance from the location of the event to the hospital, and the financing of an airline ticket for the insured if he is unable to work as a result of illness. In addition there may be added to this policy one-time compensation in the event of death or permanent disability from an accident, emergency dental treatment, and transfer of the corpse to the country of origin.

Furthermore, the Group markets compensation in the specified sum, based on the preferences of the insured, in respect of accidental events causing disability (temporary and/or permanent) and/or death of the insured. In addition the insurance cover sometimes includes weekly compensation in

⁷ Starting from January 1, 2012, after the period of the report, the health insurance branch, that currently includes (long term) health insurance policies (see section 1.4.5 above), will also incorporate most of the (short term) health insurance policies.

respect of loss of work capability as a result of accident and/or illness.

The period of the insurance in these policies is generally for a year. The insurance is mainly sold to individuals, but is sometimes also sold to groups.

6.2.1.7 Other insurance branches

For details of the major products see section 6.1.2.4 above.

6.3 Breakdown of data in respect of products and services

The following is a table that contains data in respect of the breakdown of the Group's activities in the field (thousands of NIS):

	2011	2010	2009
Gross premium (including charges)	815,760	775,153	777,996
Premium with personal residue	402,448	364,062	376,973
Payments and changes to commitments in respect of insurance contracts (gross)	433,665	487,540	441,911
Payments and changes to commitments in respect of residual insurance contracts	227,120	209,175	239,732

For explanations regarding the development of income from premiums see section 6.1.4 above.

Breakdown of claims paid for apartments, gross (thousands of NIS):

	2011	2010	2009
Burglary	30,889	29,417	35,725
Piping damage	28,672	19,574	16,161
damage from fire	17,209	12,449	10,959
Damage from nature	7,180	7,720	7,834
Other	38,421	37,149	36,113
Total claims paid	122,371	106,309	106,792
Changes of commitments in respect of insurance contracts, gross	(12,060)	3,498	(416)
Total payments and	110,311	109,807	106,376

6.4 Customers

In the field of general insurance the Group insures private, business, and institutional customers. The company executes individual underwriting for each insured, except for old collectives of mortgage banks. In the health insurance branch that is included in this field the Group mainly focuses on individual insurance.

The Group has no customer, the income from whom constitutes 10% or more of the total income of the Group in the field of activity, and in addition the Group is not dependent on a single customer or a small number of customers in this field. Furthermore, the Group is unaware of permanent characteristics of its customers in the field of general insurance.

Breakdown of premiums from customers, gross:*

Type of customer	Percentage of total income	
	2011	2010
Collectives and large factories	15%	11%
Private customers and small business customers	85%	89%
Total	100%	100%

* The breakdown by branches of liabilities was made in accordance with the limits of liability.

The insurance portfolio profile of the Group tends towards small business customers.

The rate of renewals in the field of comprehensive apartment insurance in 2011 came to about 90%, compared to a figure of about 92% in 2010.

Premiums by years of seniority (comprehensive apartment insurance only):⁸

Number of years of seniority	Premiums (thousands of NIS)			% of total income		
	2011	2010	2009	2011	2010	2009
Without seniority	41,228	39,606	41,358	16%	16%	17%
Seniority of 1 year	36,074	34,655	29,883	14%	14%	13%
Seniority of 2 year	28,344	24,754	32,751	11%	10%	14%
Seniority of more than 3 years	152,027	148,523	135,069	59%	60%	57%
Total	257,673	247,538	239,061	100%	100%	100%

6.5 Marketing and distribution

The company markets its insurance policies in the field by means of self employed agents and pays them sales commission of various kinds, mainly as a percentage of the premiums. In the property insurance branch the company maintains agreements with agencies owned by banks, for insurance associated with mortgage loans. Comprehensive apartment insurance, associated with a mortgage, is partly sold by means of the banks with a group policy.

The Group has no agent whose activities constitute more than 10% of the premiums in the field of activity.

For a description at the level of the Group see section 9.7 below.

The following are details regarding the rate of commission (including VAT) from gross premiums in the field of activity:

	2011	2010	2009
Rate of insurance commission from premiums (gross)	5.6%	5.4%	5.2%

6.6 Secondary insurance

The company's agreements with secondary insurers in all insurance branches in the field are renewed annually.

⁸ The data do not include mortgage banks.

In the field of activity the Group makes agreements with its secondary insurers by means of general conversions of the excess of loss type. The insurance branches of employer's liability, third party insurance, product liability insurance, and professional liability insurance are addressed in a single secondary insurance contract of the excess of loss type, based on the year of the damage. In the branch of directors liability insurance, there is a separate secondary insurance agreement, that is also based on excess of loss, and on the year of underwriting the policy. Starting from 2011 the insurance branches of professional liability and product liability were unified in a single contract with the directors liability insurance branch.

In the property insurance branch the company makes relative contracts and excess of loss contract, that protect the company against catastrophe.

In certain transactions in which the limits of liability exceed the limits permitted in the secondary insurance agreements, or where the cover required is not included in the secondary insurance agreements, specific secondary insurance is purchased (facultative). The type of secondary insurance purchased (relative/ non relative) varies in accordance with the nature of the risk and the supply of the cover in the secondary insurance market.

In relative secondary insurance agreements, in branches containing an element of catastrophe, the secondary insurers limit the payment in respect of a single event in an agreed percentage of the sum of insurance covered.

In insurance policies of apartments associated with a mortgage, that are sold by means of the banks, in most cases specific secondary insurance is purchased (facultative).

For a description of the agreement by the Group with the secondary insurer and especially the multi line secondary insurance agreement, see section 9.4 below.

In the trips abroad branch the company purchased in 2011 protection of relative secondary insurance.

6.6.1 Liabilities insurance

The S&P ratings of the secondary insurers with whom the company signed contracts in the field of liabilities insurance in the period 2010-2011 are:

AA-, AAA, A-, A+, A

The rate of transfer of the risk of the Group to its secondary insurers in the field of activity was estimated at about 42% of the premiums, as of the date of this report.

Secondary insurers whose share of the premiums in the liabilities branch constitutes more than 10% of the total secondary insurance premiums in the field during the period as set forth in the report, are as follows:

Secondary insurer	S&P rating	Country	2011	secondary insurance premiums	2010	secondary insurance premiums	2009	secondary insurance premiums
			% of total secondary insurance premiums		% of total secondary insurance premiums		% of total secondary insurance premiums	
Swiss Reinsurance Co	AA-	Switzerland	44,916	46%	42,534	37%	42,956	39%
s'Lloyd	A+	Britain	15,628	16%	18,929	17%	24,322	22%

6.6.2 Property and other insurance

The S&P ratings of the secondary insurers with whom the company signed contracts in the field of liabilities insurance in the period 2010-2011 are:

AAA, A-, A, A+, AA-

The rate of transfer of the risk of the Group to its secondary insurers in the field of activity was estimated at about 54% of the premiums, as of the date of this report.

Secondary insurers whose share of the premiums in the liabilities branch constitutes more than 10% of the total secondary insurance premiums in the field during the period as set forth in the report, are as follows:

Secondary insurer	S&P rating	Country	2011	2010	2009			
			% of total secondary insurance premiums	secondary insurance premiums	% of total secondary insurance premiums	secondary insurance premiums	% of total secondary insurance premiums	secondary insurance premiums
Swiss Reinsurance Co	AA-	Switzerl and	64,232	20%	49,644	17%	52,773	18%
Everest Reinsurance Co.	A+	US	38,675	12%	43,076	14%	44,612	15%

As is customary in contracts of this kind, no commission is received from the secondary insurers (except in facultative agreements).

6.7 Suppliers and service providers

In the field of general insurance the Group makes agreements with various service providers in connection with the company's commitment *vis-a-vis* the purchaser of the policy.

In the field of general insurance the Group mainly purchases accompanying services from lawyers, investigators, doctors, medical institutions, accountants, engineers, and additional suppliers, either for the purpose of settlement of claims in the liabilities insurance branch or for the purpose of supply of a service that the insured purchased as part of the insurance policy, including piping repair services, domestic electrical appliances repair service, and doctor's home visits.

In the branch of health insurance (short term) for foreign workers, the major supplier is General Health services. The agreement with the aforesaid supplier includes commitments by the supplier to provide medical services in accordance with the policy, in consideration for payment based on the actual nominal insured (capitation).

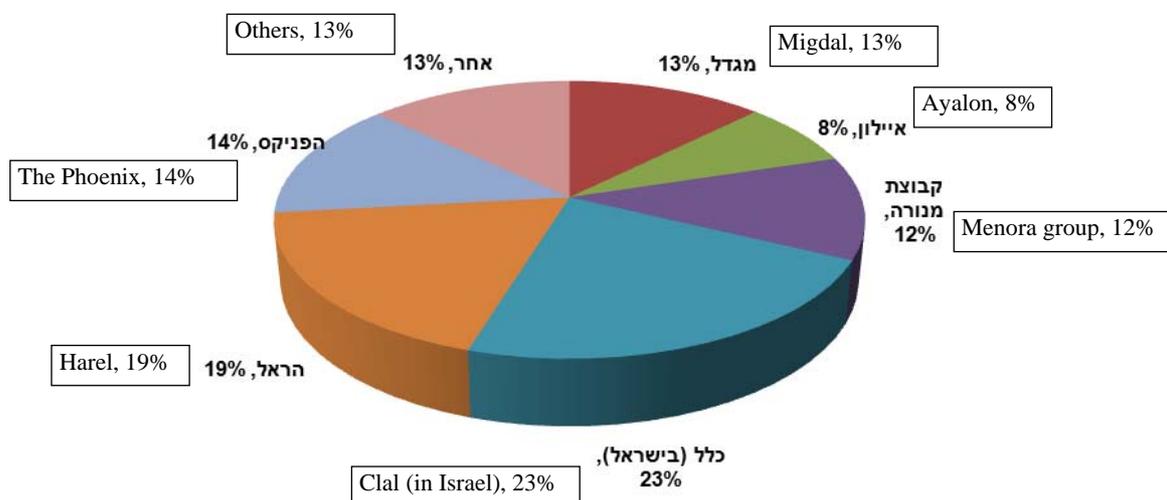
The Group is not dependent on any supplier whatsoever in its activities in this field. For a description of the subject at the level of the Group see section 9.5 below.

6.8 Competition

In this field the Group competes with all the insurance companies in the economy. Based on data from the association of the insurance companies, the three largest the insurance companies engaged in the field are the Harel group, the Clal group, and the Phoenix group. Based on these data the share of the three largest entities in the field during the first nine months of 2011 was about 55% of the total gross premiums, compared to about 56% in 2010.

In the first nine months of 2011 the Clal group leads in the branch and holds a market share of about 23%, similar to its market share in 2010. The Group holds a market share of about 12% and is positioned in the fifth place in the economy, compared to the fourth place in 2010 with an identical market share (about 12%).

Market share data by companies is presented in the following diagram:



The competition in the field is influenced by the demand, the various business companies in the economy, and the supply and quality of the products of the insurance companies. The secondary insurance market and the changes taking place in it in the field also constitute a major factor in the competition.

In addition, in insurance of the large businesses and in the branch of insurance of directors, the insured are represented by insurance consultants, thus increasing the importance of the quality of the cover while at the same time creating pressure for the lowering of tariffs.

The insurance products included in the property branch, such as marine, aircraft, engineering, and electronic insurance, demand specific expertise and award complex cover. Consequently the competition in them is based on the quality of the insurance cover awarded by the Group.

The factors strengthening the competitive status of the Group are: sales of liabilities policies (especially employer's liability and third party liability policies) together with other products of the Group (for example, business policies); the reputation of the Group in matching the product to the needs of the insured and providing a high standard for the insured, including management and efficient settling of claims. In addition the company has underwriting procedures and models intended for maintain the desired level of profitability that is monitored by systems, that permits strict and updated monitoring of the current results.

7 Health insurance

7.1 General information about the fields of activity

The health insurance field of activity awards insurance cover in respect of medical events that are interchangeable/ complementary or supplementary to the basic health basket

and/or the additional health services of the health funds in Israel.

The health insurance includes, *inter alia*, cover for private operations in Israel and abroad, treatments that replace operations, transplants, and special treatments abroad, drugs that are not included in the basic health basket, and numerous and varied ambulatory covers.

Furthermore, the health insurance includes dental insurance and insurance awarding financial compensation in the event of discovery of a grave illness.

In addition, the health insurance includes nursing insurance that awards the insured cover in the event of the insured being unable to carry out a number of basic functions (ADL), pursuant to the conditions of the policy; and personal accident insurance including a variety of kinds of insurance cover following an accident, such as compensation in the event of death, disability and partial disability from an accident, broken limbs, burns, etc.

The nature of the sales and the types of policies are greatly influenced by regulatory changes, the policy of the Group, and the varying preferences and needs of the customers.

Starting from January 1, 2012, after the period of the report, the health insurance branch, that currently includes health insurance policies (long term) (see section 1.4.5 above) will also comprise most of the short term health insurance policies.

7.1.1 The structure of the fields of activity and the changes that occurred in it

The health services in Israel consist of a number of layers. The first is the basic health basket, pursuant to the State Health Insurance Law and the regulation issued by virtue of it (hereinafter: "**the health basket**"); the second is the supplementary health services in the health funds, given by virtue of assignment in the State Health Insurance Law (hereinafter: "**AHS**"); and the third is the private health insurance by means of the insurance companies. The private health insurance is intended to supplement the first and the second layers by means of supplementary health services in the health funds, and sometimes by means of addition to the basic health basket.

The health insurance market is a developing field influenced by erosion of the health basket relative to the medical needs of the population that are increasing, *inter alia*, in the light of the technological improvements in the field of medicine, the insurance in life expectancy, and the improvement in the quality and standard of life.

The supplementary services of the health funds do not provide a full solution to the various needs, mainly regarding transplants and special treatments abroad, and drugs. In the light of the aforesaid, in recent years a trend has developed of expansion of the AHS by the health funds with the backing of the insurance companies.

Against a background of the initiative on the part of some of the health funds to include additional cover, as part of the AHS for life saving and life extending drugs, that are not included in the basic drugs basket, a public debate has developed regarding this expansion.

In the Arrangements Law passed by the Knesset in December 2007, the health funds were forbidden to include in the AHS programs life saving and life extending drugs. Furthermore, the selection of a surgeon obligates the payment of deductibles. In addition, in February 2008 the Commissioner issued a letter to the

managers of the insurance companies in which he announced that he did not intend to approve the program for insurance cover for life saving and life extending drugs as part of the program for group health insurance for members of the health funds.

The Commissioner gave reasons in his letter for this decision, according to which he wishes, *inter alia*, to prevent a potential conflict of interests between the services given as part of the health basket and those given in the group insurance, harm to the principle of equality in the provision of the public health services to all the citizens, and the possibility that this insurance would create transition barriers between the various health funds.

This decision by the Commissioner permits, in fact, the purchased cover for life saving and life extending drugs that are not covered in the health basket, from the insurance companies only. As of the date of this report it is possible to purchase this cover only as part of private insurance. In September 2010 the Group launched a special product for cover of drugs, "supplementary drugs", that provides a solution to the target population that wished in the past to purchase this cover as part of the AHS of the health funds.

In July 2010 there was added to the basket of health services, dental treatment for children up to the age of life insurance, who are insured in the health funds by virtue of the State Health Insurance Law, 5754-1994. The services included in the reform are preventative and preserving dental health services.

The Group is active in the marketing of dental insurance, mainly as part of the sale of collective insurance, but also by means of individual insurance. Since most of those insured in dental insurance policies are adults and since the aforesaid policies include a broad range of insurance cover, the company is convinced that no significant change has occurred in the preferences of the groups purchasing group dental insurance for their workers. For further details in the subject of products and services in the field of activity see section 7.7 below.

7.1.2 Restrictions, legislation, standards, and special constraints applying to the fields of activity

The field of the activity is subject to the provisions of the law applying to insurers, including the provisions of the State of Israel Law and the regulations issued by virtue of it, the motor vehicle insurance order, the law for compensation for victims of road accidents, and the motor vehicle Insurance Law, as set forth below, and the regulations issued by virtue of them, and the instructions of the Commissioner, as published from time to time.

For the major legislation limitations applying to the Group in its general activities, see section 9.2 below.

The following is a summary of the major provisions of the law applying to the activities of the Group in the field, as well as the major regulatory provisions (provisions of the law, bills, circulars and drafts of the Commissioner), published in the last year:

The provisions of the law

a) The State Health Insurance Law, 5754-1994

This law, that came into effect in January 1995, states that every Israeli

citizen is entitled to the health services as set forth in the basket of health services by virtue of the law. These services are given by the health funds.

The law states that the health funds are obligated *vis-a-vis* their members to provide all the health services included in the basket, so that they will be given in Israel, at the doctor's discretion, with a reasonable quality, within a reasonable time and within a reasonable distance from the place of residence of the insured.

In exceptional cases, as set forth in the State Health Insurance Regulations (health services in a foreign country), 5755-1995, the insured may receive financing for medical services abroad. In the amendment to the law from 1998 it is stated that the health funds shall be entitled to offer their members AHS programs.

For additional details in respect of the limitations and extensions in respect of the services given as part of the AHS see section 7.1.1 above and section 7.4 below.

b) The Regulations for Supervision of Insurance Transactions (conditions in the insurance contract) (provisions for previous medical condition), 5764-2004

The regulations address the method of use by the insurer of the reservation to the insurer's liability for the previous medical condition, guarantee a proper insurance cover during the entire period of the insurance, and prevent execution of underwriting during a claim for payment of insurance benefits.

c) The Regulations for Supervision of Financial Services (insurance) (group health insurance), 5769-2009

As part of the regulations general guidelines were given in respect of the way in which the insurer manages the group health insurance policies sold by it, including: limitations regarding the identity of the policy holder, directions regarding the obligations of the policy holder *vis-a-vis* the insured, the minimum number of insured, limitations to the sum of the insurance, documents that must be furnished to the insured when they join the insurance, renewal of the insurance, and the obligation to give notice of a change to the premium, awarding the insured the option of continuing the group insurance as individual insurance in certain cases as ordered by the Commissioner, the method of collection of the premium and the method of management of information in respect of the group insurance.

Bills and draft regulations

a) Draft Regulations for Supervision of Financial Services (conditions in an insurance contract) (provisions in respect of limitation of an insurance contract including insurance cover for disability), 5771-2011

In February 2011 the Commissioner published the draft of the aforesaid regulations. Pursuant to the draft, an insurance contract that contains insurance cover for disability shall also include a condition according to which if the date of occurrence of the disability is later than the date of the accident or the discovery of the illness, as the case may be, the period of limitation shall not commence before the date of occurrence of the disability.

In this matter, "the date of occurrence of the disability" means the date on which the insurer became obligated to pay insurance benefits to the insured for insurance cover for disability.

- b) In February 2011 the Bill for State Health Insurance (amendment – transfer of nursing hospitalization to the responsibility of the health funds), 5770-2010, was submitted. It was proposed in the bill that the health funds would finance the nursing patient's stay, pursuant to the State Health Insurance Law, in an institution recognized for nursing treatment. The method of financing is not yet clear. Furthermore, for the purpose of financing this service, it was proposed that the health insurance premium would be increased by between 5% and 5.3%.

Pursuant to the proposal the health funds would finance only part of the insured's hospitalization costs in a suitable institution. In the light of the general data of the nursing market – the number of hospitalization beds and the number of nursing patients found in institutions for nursing treatment – no significant influence is expected on the marketing of nursing insurance programs, since there will still remain the need to increase the extent of the insurance cover given by the health funds, if any, and since the bill does not address financing of nursing treatment in the insured's home.

Nevertheless, it is still impossible to estimate the full influence of the proposed amendment on the nursing insurance market, since the bill is only at a preliminary stage.

The Group's estimation is forward looking information based on the legislative proposal and the market data known to it, and on the Group's estimation of its influence on the market. This forecast is liable to not be realized because of additional changes in legislation, or changes in the method of consumption of the service and the behavior of the market in a way differing from that expected by the company as of the date of this report.

Circulars and drafts of the Commissioner

- a) In March 2012 the Commissioner published a draft insurance circular that addressed **dental insurance**, that specifies principles for preparation of dental insurance programs. These principles refer, *inter alia*, to the interface between the insurer as the manager of a claim and the dentist as the person treating the insured, to giving the insured the option of choosing the dentist or the clinic giving the treatment (hereinafter: "**the service provider**"), and the conditions for cancellation of the policy by the insured.

The draft also addresses the following subjects:

1. The principles for preparation of a dental insurance program, i.e. the treatments that may be covered, the insured's option of choosing the service provider;
2. The conditions for cancellation of the policy that are less stringent towards the insured than at present;
3. The method of settlement of claims and the obligation to explain the rejection of a claim;

4. The method of preparation of proper disclosure including details of the treatments;
 5. Requirements for the preparation of information in the Internet website and annual examination of the information published.
- b) In March 2012 the Commissioner published a **circular that addressed "the preparation of a program for nursing insurance"**. The circular addresses, *inter alia*, the conditions for minimum insurance cover in the nursing insurance policy, and the principles in connection with the premium. The draft defines minimum standards for the determination of a case of nursing insurance and states that a deviation from the standards specified is premium only if approval in advance and in writing has been given by the Commissioner for insurance.

The insurance benefits in respect of a case of nursing insurance shall be at a rate of between 50% and 100% of the monthly insurance sum, depending on the insurance case. Furthermore, the policy shall include the option of insurance benefits for nursing treatment at home, that shall be in an agreed sum or in the form of the service being actually provided by the insurer.

It was also stated in the circular that the period of the policy shall be for the life time of the insured; and provisions were given in respect of the premium and its determination when the insured reaches the age of 65. Rules were given for calculation of the value of settlement and redemption of the policy; prohibition of pricing the premium based on subsidizing various age groups and between sexes; provisions in respect of release of the premium; annual reporting in respect of a settled policy; provisions in respect of changes to the premium for existing insured and proper disclosure that obligate the insurer in a nursing insurance policy, including information that must be published in the company's Internet website.

- c) In August 2011 the Commissioner published an insurance circular that addressed details of insurance benefits in health insurance programs. Pursuant to the circular, if ceilings were specified in the insurance program for indemnification or payment of compensation in respect of an insurance event that were not given a financial value (hereinafter: "**the maximum insurance benefits**") the insurer shall present in its Internet website, in respect of each of these insurance events, the financial sum in the nominal value of the maximum insurance benefits.

Provisions were also given in the circular in respect of the furnishing of the aforesaid information to the insurers, the preparation of information in the proper disclosure form, cases in which it is possible to limit access to information in the aforesaid website, etc.

Pursuant to the circular, the nominal value of the financial sum shall be displayed in a number of sums based on variables presented in the insurer's Internet website (such as convalescence days, the surgeon's fees, and the cost of the operating theater) and if the aforesaid variables are not specified in the insurance program, it shall be displayed as a single overall sum. The circular is planned to come into effect on March 1, 2012.

Position papers

- a) In August 2011 the capital market, insurance, and savings department (hereinafter: "**the capital market department**") published a **position paper regarding the subject of cancellation of a personal accidents insurance policy**. In the capital market department's opinion, the granting of certainty to the insured during the period of the insurance as set forth in the contract is a fundamental principle in an insurance contract of this type.

The granting of the option to the insurer to cancel the contract, on any grounds, is incompatible with this principle. In the light of the aforesaid it is clarified in the position paper that personal accident insurance policies may not include a condition according to which the insurer is entitled to cancel the policy during the period of the insurance for any reason whatsoever, except on the grounds as set forth in the law.

- b) In August 2011 the capital market department published a position paper in respect of individual policies that contain cover for operations in Israel in a fixed premium, that do not include compensation for the insured in the event of cancellation of the policy.

In the department's opinion, an individual policy for insurance of operations in a fixed premium must include compensation in respect of excess premiums as part of the cancelled policy, that were paid by the insured in excess of the cost of the insurance up to the date of the cancellation.

In such policies, in the event of cancellation of the policy, the insurer must give compensation to the insured, in an amount calculated so that the cancellation will not create surplus profit for the insurer. (The compensation may be, for example, by means of giving an additional free period of insurance with the right to renew the insurance with the same insurer.)

In the light of the aforesaid, it is clarified in the position paper that the Commissioner does not intend to approve individual policies for the insurance of operations in Israel with a fixed premium that do not include compensation as set forth above, and also that, starting from November 1, 2011, such policies may not be marketed.

7.2 Changes to the scale of activities in the field, to profitability, and to the mix of customers

7.2.1 The scale of activities

Income from premiums paid in 2011 totaled about NIS 332 million compared to about NIS 302 million in 2010, an increase of about 10%. The increase in premiums was mainly due to increase in the extent of customer portfolios.

7.2.2 Profitability

Health insurance programs are for long periods, and some are characterized by the accumulation of substantial reserves during these periods. Changes to assumptions and to actuarial estimates in respect of risk are liable to lead to material changes to the sums of the provisions. As a result of the significant weight of the aforesaid reserves, the income from investments that stand against insurance reserves in this field materially influence profitability in the field.

The overall profit before tax in the period of the report came to the sum of about

NIS 47 million, compared to a profit in the sum of about NIS 14 million in the corresponding period last year. The insurance in profit was due to updates of insurance commitments mainly made during the corresponding period last year in the sum of about NIS 37 million and to an improvement in underwriting profit in the sum of about NIS 17 million that mainly results from the increase in premiums paid. On the other hand there was a decrease in income from investments in the sum of about NIS 18 million and an increase in management and general costs in the sum of about NIS 2 million.

7.2.3 Mix of customers

For additional details see section 7.8.3 below.

7.3 Critical success factors in fields of activity and the changes that occurred to them

In the Group's opinion, the critical success factors in the field of activity are, *inter alia*, location of the customers' needs in the field of health and the capability of development of products that meet these needs, the capability of marketing and distribution for the recruitment of new customers, a high level of service for the customer, the efficient and professional settlement of claims while maintaining the level of service, and improvement of the information services in this field.

7.4 Substitute products in the field of activity

For some of the types of insurance cover offered in the field of activity in health insurance there are substitute products supplied by the health funds. Changes to the basic health basket or to the AHS are liable to influence the size of the relevant market as well as the proposed insurance cover in the field of activity and the costs of settlement of claims.

7.5 The structure of the competition and the changes that occurred in the field

For details in respect of the structure of the competition and the changes that occurred in the field see section 7.12 below.

7.6 Changes to secondary insurance arrangements in the field

No changes occurred to the secondary insurance arrangements in the field of health in the period of the report. For additional details in the subject of secondary insurance see also section 7.10 below.

7.7 Products and services

This section contains a brief general description of the insurance products and the insurance covers. The full and binding conditions are as set forth in each insurance contract and/or policy, as the case may be. The description is for the purpose of this report only and may not be used for interpretation of the policy.

7.7.1 Nursing insurance

A program that awards the insured pre-fixed monthly compensation after a waiting period of a number of months starting from the date of the insurance event (the date on which the insured cannot perform basic daily functions, ADL, in whole or in part, pursuant to the definitions in the policy), and for the period of compensation as set forth in the policy, on its purchase. The aforesaid

compensation is paid as long as the insured requires nursing, but not more than the period as set forth in the policy.

This policy is mainly sold to private customers. There are also group policies for nursing insurance. Policies of this kind are generally marketed to employers, sometimes in cooperation with workers committees, who wish to insure their workers with nursing insurance cover.

7.7.2 Serious illnesses insurance

A policy that guarantees the insured financial compensation in the event of diagnosis of a serious illness from a list of specified illnesses characterized by division into four groups of illnesses, and that permits the customer an additional claim in the event of discovery of a serious illness, provided that it is not included in the first group of illnesses and pursuant to the conditions of the policy.

The policy is sold mainly to private customers. However group policies also exist for insurance of serious illnesses by means of employers who wish to insure their workers with insurance of this kind.

7.7.3 Insurance for cover of medical expenses

The insurance cover in these policies is based on the model of indemnification in respect of medical expenses up to the ceiling as set forth in the policy. Sometimes an element of financial compensation is attached to the insurance cover, that is not dependent on the actual expenses.

The types of insurance cover that may be purchased are, *inter alia*, insurance cover for drugs not included in the health basket; transplant of organs abroad; special treatments abroad; private operations in Israel and abroad; technologies replacing operations; consulting with specialists and various ambulatory services such as diagnostic tests, pregnancy tests, treatments with complementary medicine, etc.

Furthermore it is possible to purchase compensation in respect of hospitalization from an illness, compensation in respect of sick leave spent at home, compensation in respect of unexpected/ elective hospitalization in a hospital, and service deeds such as a doctor's visit and first aid in dental care, etc.

Insurance that covers medical expenses is sold both to private customers and to group customers by means of employers who wish to purchase insurance that covers medical expenses for their workers.

7.7.4 Dental insurance

Dental insurance programs of the Group fall into two main categories:

- 1) A product marketed to private customers that awards preserving medicine cover that includes, *inter alia*, fillings, removal of scale, and extraction of teeth;
- 2) A product marketed to collective customers that includes a wide range of insurance cover from preserving medicine to periodontal and orthodontal restoration medicine.

7.7.5 Long term personal accidents insurance

The program awards financial compensation in the event of an accident in Israel and abroad that caused: death, disability, broken limbs, burns, hospitalization in a hospital, and nursing.

The program includes a package of additional insurance cover in the event of an accident: a private nurse during hospitalization, ambulance costs, costs of a stay by a relative near the hospital, physiotherapy, restorative dental treatment, etc.

The policy is marketed mainly to private customers and for long periods.

7.8 Breakdown of data for products and services

7.8.1 The following are the main data in respect of the field of activity in respect of the periods as set forth below (thousands of NIS):

	2011	2010	2009
Gross premium (including charges)	325,929	312,328	291,790
Premium with personal residue	224,519	217,214	200,862
Payments and changes to commitments in respect of insurance contracts (gross)	213,113	246,663	201,572
Payments and changes to commitments in respect of residual insurance contracts	113,789	150,972	123,705

7.8.2 The following are details of the premiums for health insurance products (thousands of NIS):

2011

	Yield dependent	Other	Total
Nursing insurance	56,896	724	57,620
Insurance to cover medical expenses	-	217,209	217,209
Insurance of serious illnesses	50,923	177	51,100
Total premiums	107,819	218,110	325,929
Insurance commitments	45,811	588,811	634,622

2010

	Yield dependent	Other	Total
Nursing insurance	49,548	859	50,407
Insurance to cover medical expenses	-	215,546	215,546
Insurance of serious illnesses	46,241	134	46,375
Total premiums	95,789	216,539	312,328
Insurance commitments	45,424	540,775	586,199

2009

	Yield dependent	Other	Total
Nursing insurance	43,741	1,407	45,148
Insurance to cover medical expenses	-	204,631	204,631
Insurance of serious illnesses	41,318	693	42,011
Total premiums	85,059	206,731	291,790
Insurance commitments	34,183	457,753	491,936

For explanations regarding the development of income from premiums see section 7.2.1 above.

7.8.3 Customers

The customers may be divided into two main groups, as set forth below:

Individual insurance

Insurance programs sold to private customers are, generally, insurance programs offered for long periods (for the life time of the insured or until a pre-fixed age) that cover the insured even if a change occurs to his state of health during this period.

In the light of the fact that most of the insurance programs for individual insurance are for long periods, in which the risk may change substantially, the insurance companies have difficulty in making a commitment for a premium that will not change over the years.

Consequently the insurance companies are given the option in the insurance policies of changing the table of premiums for existing insured, subject to the approval of the Commissioner. The Commissioner's circular dated July 2005 addresses the principles and conditions, based on which the applications for changes to tariffs submitted by the insurance companies are evaluated.

Group insurance

Insurance programs sold to a group of insured having a common factor, by means of a representative ("**the policy holder**"). The conditions of the agreements for group insurance are determined in negotiations between the insurer and the policy holder, and apply to all the individuals included in the relevant group. These agreements are generally signed for periods known in advance of a number of years, and are renewed subject to the agreement of the parties.

Agreements exist for group insurance that include reference to insurance continuity at the end of the group insurance agreement, or on the date of termination of membership of the insured in the group. In group nursing insurance it is obligatory to offer insurance continuity for the insured at the end of the period of the agreement or when the insured leaves the group.

The customers of the Group in the field of activity are varied, so that the Group is not dependent on a single customer or on a limited number of customers. Furthermore, the Group has no single customer, the income from whom constitutes 10% or more of the total income of the Group.

7.8.4 The following is the breakdown of premiums between individual insurance and collective insurance (thousands of NIS):

	2011	Individual insurance	Collective insurance	Total
Nursing insurance		56,896	724	57,620
Insurance to cover medical expenses		188,702	28,507	217,209
Insurance of serious illnesses		50,923	177	51,100
Total premiums		296,522	29,408	325,929

Insurance commitments	568,358	66,264	634,622
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2010

	Individual insurance	Collective insurance	Total
Nursing insurance	49,548	859	50,407
Insurance to cover medical expenses	174,650	40,896	215,546
Insurance of serious illnesses	46,241	134	46,375
Total premiums	270,439	41,889	312,328
Insurance commitments	544,820	41,379	586,199

2009

	Individual insurance	Collective insurance	Total
Nursing insurance	43,741	1,407	45,148
Insurance to cover medical expenses	168,472	36,159	204,631
Insurance of serious illnesses	41,318	693	42,011
Total premiums	253,531	38,259	291,790
Insurance commitments	464,906	27,030	491,936

7.8.5 The rate of cancellations

The rate of cancellations of policies in effect at the beginning of the year in the branches of illness and hospitalization, in terms of premiums, came to about 8.25% in 2011 compared to 8.76% in the corresponding period last year.

7.9 Marketing and distribution

The company markets its insurance policies in the field by means of signed agents and pay them sales commission of various kinds, mainly as a percentage of the premiums. The Group has no agent, the extent of whose activities constitutes more than 10% of the premiums in the field of activity.

The average rate of commission from premiums in 2011 was 20.3%, compared to 20.7% in the corresponding period last year.

For addition details regarding marketing and distribution at the level of the Group see section 9.7 below.

7.10 Secondary insurance

The Group's secondary insurance agreements in the field of health insurance are long term and are based on the insurance program and are not time limited. They may be cancelled with notice in advance in respect of future insurance only. In some of the secondary insurance the secondary insurer has the option of updating tariffs during the period of the agreement, if specific conditions are met.

Secondary insurers whose premiums constitute more than 10% of the total secondary insurance premiums in the field of health insurance in the periods as set forth in the report (thousands of NIS):

Secondary insurer	S&P rating	Country	2011		2010		2009	
			Premium for secondary insurance	% of all the premiums for secondary insurance	Premium for secondary insurance	% of all the premiums for secondary insurance	Premium for secondary insurance	% of all the premiums for secondary insurance
Swiss Re	AA-	Switzerland	67,731	66.8%	64,611	67.9%	61,383	67.7%
Munich Re	AA-	Germany	20,395	20.1%	18,441	19.4%	17,931	19.8%
Gen Re	AA+	Germany	12,263	12.1%	11,320	11.9%	10,869	12.0%

For additional details regarding secondary insurance at the level of the Group see section 9.4 below.

7.11 Suppliers and service providers

In the field of health insurance the major suppliers of the Group are doctors, clinics, and private hospitals for the supply of medical services pursuant to the policies. In addition the Group has agreements with a number of suppliers of medical management services for the purpose of operation of the organization of different services for the insured. The agreement with the aforesaid suppliers includes commitments by the supplier to supply the service and payment arrangements in one of two main ways: payment for each item or a fixed payment based, *inter alia*, on the actual number of insured (capitation). In addition the Group has made an agreement with an international chain for coordination of operations and medical procedures in hospitals abroad.

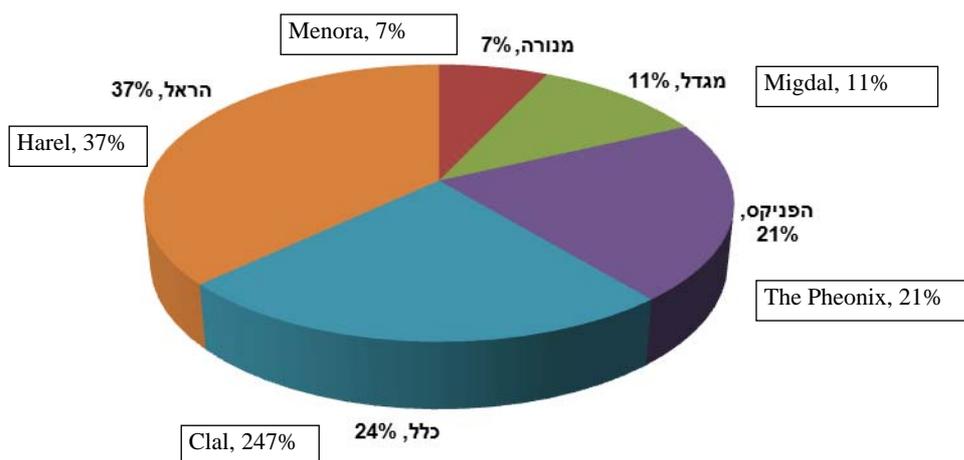
The Group is not dependent on any supplier whatsoever in its activities in this field. For a description of the subject at the level of the Group see section 9.5 below.

7.12 Competition

7.12.1 The structure of the competition in the field

Strong competition exists in the field of health insurance that is due, *inter alia*, to the large number of competitors and the similarity of the products. The weight of the collective insurance policies in the field has increased constantly. In the collective insurance policies the large number of consultants has increased the competition, that has been reflected, *inter alia*, by a reduction in prices and erosion of tariffs.

The following are details of the breakdown of premiums between the insurance companies in Israel in the health insurance branch as of September 30, 2011:



7.12.2 The methods of coping with the competition and the factors influencing the competitive status of the Group in the field

The major methods of the Group to cope with the competition are:

Synergy between the various companies in the Group in supplying overall solutions for customers of the Group, included in the following health insurance; development of new products that meet the needs of the customers and the developments in the field of medicine; improvement of the service to the customer while improving operational efficiency; expansion of the organization of agents and making use of agents working with the Group as a source for referral of customers; participation in major tenders in the field, etc.

The major factors that influence the competitive status of the Group in this field are the financial strength of the Group; the high level of service of the Group during the management of claims and the payment of insurance benefits; and long term contact with the agents who market the Group's products.

8 Financial products and services

8.1 General information about the fields of activity

8.1.1 General

The activities of the Group in the field of services and financial products are managed by Menora Mivtahim Finance, a subsidiary of the company.

Menora Mivtahim Finance, by means of its subsidiary, Menora Mivtahim Trust Funds Ltd. (hereinafter: "**Menora Mivtahim Funds**"), Menora Mivtahim Management of Investment Portfolios Ltd. (hereinafter: "**Menora Mivtahim Underwriting**") engages in financial assets management services and investment marketing (management of trust funds and management of portfolios), underwriting, banking for investments, and capital raising.

8.1.2 The structure of the fields of activity and the changes that occurred in it

The field of services and financial products has in recent years been characterized by fluctuations as a result of political and economic events in Israel and abroad that cause changes to share prices on the Stock Exchanges and in the organized

markets, that influence the extent of the activities in the capital market, and consequently influence the activities of Menora Mivtahim Finance, its assets, and its business results.

The field of financial products and services is characterized by considerable regulation and is influenced by regulatory decisions in the capital market, including the Securities Authority, the Stock Exchange in Tel Aviv Ltd. (hereinafter: "**the Stock Exchange**"), the capital market department in the Ministry of Finance, the Bank of Israel, etc.

As part of the Becher reform numerous laws were amended (see details in section 3.1.3.1 above and in section 9.2 below), including the Law for Joint Trust Investments, the Law for Investment Consulting, marketing of investments, and Management of Investment Portfolios, 5755-1995 (hereinafter in this section: "**the consulting law**"), and the regulations for Joint Trust investment (distribution commission), 5765-2005 (hereinafter: "**the distribution regulations**") were enacted. These laws and regulations specified, *inter alia*, separation of the trust funds from the banks, arrangement of the payment of distribution commission for financial products, and conversion of the banks into independent consultants that distribute financial products.

As part of the implementation of the Becher reform, the banks in Israel sold in recent years the activity of management of trust funds conducted by them. The purchasers of the activity were mainly the insurance companies, private entities, and investment funds from abroad. The Group purchased most of the trust fund management activities of Bank Mizrahi Tefahot Ltd. and the trust fund management activities of Bank Igud Israel Ltd. (see sections 8.10.1 and 8.10.3 below).

The sale of the funds as aforesaid as a result of implementation of the Becher legislation and the provisions of the Consulting Law (see section 3.1.3.1 above) were intended to encourage the banks to advise their customers regarding investment in trust funds based on objective data (best advice). However, at the same time, the banks are promoting competing investment channels, the income from which is likely to be greater than the future income from trust fund distribution commission.

Further to the Becher reform, including its various elements, the trust fund market is characterized by greater fluctuations than in the past, due, *inter alia*, to the large number of players in the market, including the development of an exchange traded fund branch, and to the objective consulting process as set forth above.

At the end of 2007 the amendment to the regulations for Joint investment Trusts (amendment 2008), came into effect, as a result of which a number of new products were added to the trusts branch: a financial fund, a group of funds, and an imitation fund. The financial fund is defined as a substitute for a bank deposit and is a product characterized by low fluctuations.

Starting from 2008, and against a background of the crisis in the capital market, the financial funds became the outstanding product in the field of trust funds, and in this year the financial funds in the entire branch raised NIS 32 billion, and the market share of the financial funds constituted about one third of the value of the funds in the branch.

In 2009, in the light of the low interest in the economy, the unit holders in the financial funds redeemed the sum of about NIS 14 billion and the market share of the financial funds dropped to about 14%.

In 2010 the market share of the financial funds dropped to 11.5% only. During 2011, against a background of the continuation of the uncertainty and the falls in the financial markets a trend could be seen of a return by the investors to the financial funds, so that the market share of the financial funds increased to about 24.1%.

Consequently the sum of the public assets invested in financial funds, as of December 31, 2011, came to about NIS 34.5 billion that constitutes the total investments by the public in trust funds.

During 2011, against a background of the debt crisis in the Euro market and the economic situation in the US, and the high fluctuations in markets in Israel and abroad, the trust funds branch in Israel sustained heavy redemptions in the sum of about NIS 16 billion, while the financial funds channel increased to the sum of about NIS 3 billion.

During 2011 an investment channel in shekel funds also developed, so that the market share of this channel, as of December 31, 2011, reached about 23.59%. Consequently the sum of the assets of the public invested in shekel funds, as of December 31, 2011, came to about NIS 33.6 billion, out of the total investments by the public in trust funds.

Underwriting – Menora Mivtahim Underwriting began its activities at the end of 2005. In the period 2006-2007 Menora Mivtahim Underwriting was established from the organizational and operational aspects, recruited additional professional workers, and approved a reputation in the capital market. In 2010 the trend of recovery in the capital market continued, and as a result there was an additional increase in the scale of activities of Menora Mivtahim Underwriting, but, as set forth above, in 2011, as a result of the crisis in the financial markets the extent of the underwriting activities decreased compared to that in 2010.

8.1.3 Restrictions, legislation, standards, and special constraints applying to the fields of activity

The activities of the aforesaid field of services and financial products is subject to considerable regulation and the need to obtain permits and licenses from the various State authorities, and mainly from the securities authority. For additional details see section 8.9 below.

8.1.4 Changes to the scale of activities in the field, to profitability, and to the mix of customers

The activities of the Group in the field began at the end of 2005. After 2008, in which there was slowing down in the activities mainly because of the crisis in the world and local capital markets, the years 2009 and 2010 were characterized by a significant increase in the activities of the Group in this field, both regarding fund raising and the increase in value of the assets managed, as a result of the significant rises that occurred in the various financial markets.

On the other hand, 2011 was characterized by heavy redemptions in excess of the share of Menora Mivtahim Funds in the market. The activities of the Group in this

field are not significant in financial terms compared to the overall activities of the Group.

Management of portfolios and trust funds

In the activity of portfolio management, the extent of the assets managed decrease in 2011 by about 23%, because of leaving by customers (corporations and private customers) and a decrease of the value of the assets following drops in markets.

The aforesaid reduction is after neutralizing assets of the Omega Further Education Fund (formerly the Engineers Further Education Fund) that was transferred to its management and that the control of which was purchased by Menora Mivtahim Finance at the end of 2008. In 2011 there was a reduction of 39% in the value of the assets managed in the trust funds, and a decrease was recorded in the extent of the trust funds managed by the company, in the sum of about NIS 2.9 billion.

Underwriting

As a result of the change to the Israeli capital market and its improvement in recent years, numerous corporations began raising a debt by means of the capital market (issues of concern bonds). The raising of the debt by the concerns (both by means of private fund raising and by means of issues to the public) led to a significant increase in the scale of activities in this field.

It should be noted that in most (but not all) cases underwriting was not possible in private issues of bonds, and management and distribution commission only was paid. As we have said, in 2011, following the crisis in the financial markets, the scale of activities underwriting of Menora Mivtahim underwriting decreased compared to the scale of activities in 2010.

It should be noted that following the publication of the recommendations of the Hodek committee and the increased strictness of the parameters for the provision of credit by institutional entities, the trend increased of capital raising by means of expansion of the existing series of negotiable bonds, for which also there is no need for underwriting but distribution only.

In addition, the medium and small companies (mainly) began making private issues by a small number of institutional entities, thus also influencing the reduction of underwriting activities.

8.1.5 Developments in the markets of the field of activity or changes to the customers' characteristics

Management of portfolios and trust funds

Following the Becher reform and the disconnection of the banks from ownership of the trust funds, a material change took place in the distribution channels of the trust funds, as well as in other financial products. The investment consultants and the models for rating of the trust funds in the banks became an important key to the distribution of the trust funds. Furthermore, the importance and the investment grew in advertising to the public the various products of the entities that had purchased the aforesaid activity from the banks.

Underwriting

As a result of the change to the Israeli capital market and its improvement in recent years, numerous corporations began raising a debt by means of the capital market (issues of concern bonds). The raising of the debt by the concerns (both by means of private fund raising and by means of issues to the public) led to a significant increase in the scale of activities in this field.

It should be noted that in most (but not all) cases underwriting was not possible in private issues of bonds, and management and distribution commission only was paid.

As we have said, following the recovery of the capital markets in 2009 a significant increase began in the activity of underwriting and distribution of securities in 2009 compared to 2008, a trend that continued into 2010, when an additional rise occurred in the scale of activities of underwriting and distribution.

It should be noted that, as a result of the low interest rates in the banking system, a trend started of an increase in the scale of public participation in issues, where in a small part of the issues there was no preliminary institutional stage prior to issue. In addition, it should be noted that following the publication of the recommendations of the Hodek committee and the increased strictness of the parameters for the provision of credit by institutional entities, the trend increased with (mainly) medium and small companies of making issues that included giving financial stipulations and/or liens on assets as part of the conditions of the issue.

8.1.6 Critical success factors in fields of activity and the changes that occurred to them

Management of portfolios and trust funds

The critical success factors are, *inter alia*, the state of the capital market in Israel, the achievement of good returns for customers while maintaining a reasonable level of risk, a successful marketing and advertising mix, and maintenance of the level of service given to the customers.

Underwriting

The critical success factors are: establishment of the reputation of the underwriting company and its managers, retaining a professional team having the capability of providing creative inter-disciplinary solutions (legal, economic, and accountant vision) for the changing needs and tastes of the issuers, on the one hand, and of the investors, on the other hand, access to sources of financing for backing the underwriting, and financial strength, the existence of an active credit market outside the banks, having sufficient liquidity, the height of the alternative prices for capital raising (including in international markets), and close working relations with the institutional investors.

8.1.7 The major entry and exit barriers for the field of activity and the changes occurring in them

The major entry barriers to the field of activity are: the need to meet the conditions required by law for the receipt of licenses and permits for activity in the field, and the minimum equity requirements and the professional liability insurance requirements, as set forth in section 8.9 below, as the case may be.

Furthermore in respect of underwriting activities, expertise, experience,

reputation, the obligation of a deposit, and financial strength, are required.

The major exit barrier existing in the management of trust funds is the limitations specified in the agreements of the fund for its dissolution or by means of the Court, and subject to the provisions of the Law for Joint Investment Trusts.

The major exit barrier existing in underwriting activities is the requirements for the existence of professional liability insurance for a period of seven years after giving the underwriting commitment and the liability of the underwriter for misleading details in a prospectus for the periods as set forth in the law.

In addition the obligation exists of giving a deposit in the sum of about NIS 3 billion, that will be used for the benefit of potential claimants and that may not be withdrawn, except in the conditions as set forth in the law, including for three years after the last portfolios that he signed.

8.1.8 Substitutes for products in the field of activity and the changes occurring in them

The substitute for the services of underwriting and fund raising proposed by the Group are fund raising from bank corporations or from other financial institutions, as well as issues made without underwriting or consulting.

The major substitutes for the assets management services supplied in the field of financial services are: independent assets management, in a way in which the customer decides how to manage his assets, personally or with the aid of the investment consultants in the banks, and regular, understandable deposits, as well as savings programs of the banking system.

The major substitute for the trust fund services is basket certificates, a branch that began with linkage to "simple" indexes (TA 100, TA 25) and developed into the sale of more sophisticated products that compete directly with the trust funds. Furthermore there is interchangeability between the various products in the field, in a way that the customers have the option of purchasing assets management services in the capital market, both by receiving portfolio management services and by purchasing units in trust funds, so that the trust funds constitute a certain substitute for investment portfolio management services.

8.1.9 The structure of the competition in the field of activity and the changes that occurred in it

As we have said, the competition in the field is constant and acute, both on the part of the various banking corporations, including foreign banks operating in Israel, and on the part of non banking entities, including companies held by the insurance companies.

Underwriting activities

This system of activities is characterized by considerable competition in the light of the high potential income and the relatively small number of dominant players. The material factors in the branch 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.

Furthermore, following the various limitations imposed on underwriting entities linked to banks and the institutional investors, the strength of the underwriting

entities linked to the private nostro entities has increased. For details regarding the proposed reform in the field of underwriting and regarding the Regulations for Supervision of Financial Services and their possible influence on the activities of Menora Mivtahim Underwriting, see section 8.6.3 below.

Activity of management of portfolios and trust funds

The sale of the funds has turned the banks into distributors of trust funds instead of manufacturers, as in the past. The sale of the funds has increased the competition and focused it on the achievement of surplus yield for the customer compared to the risk, where the yield has also become a major consideration from the portfolio of the distributors when giving advice to their customers.

An additional competitive factor that may enter this market and increase the competition in it is the foreign trust funds. Pursuant to the provisions of the proposed amendment 13 to the Joint Investment Trust Law. For details of this and of a number of additional changes made in the field of trust funds, see also section 8.9 below.

For details regarding the competition in this field of activity see also sections 8.6.1 and 8.6.2 below.

The economic crisis in world markets directly influences the assets management industry in Israel in general and the portfolio management industry in particular. Most of the players in the aforesaid industry began conducting negotiations regarding their merger and/or purchase. The extensive estimations in the market in this context are that in the light of the fact that the management fees are decreasing there is in fact no advantage in management of a small investment house, and consequently the latter are seeking the mergers as set forth above in this section.

8.2 Products and services

The following is a description of the major products and services offered by the Group in this field of activity:

8.2.1 Management of investment portfolios

As part of this activity the Group engages in the management of investment portfolios in a variety of investment channels, that are adapted to the customer's needs, where the aforesaid securities and assets may include trust fund units or other financial assets managed by or by means of the Group, subject to the receipt of the customer's consent.

For the purpose of providing portfolio management services, Menora Mivtahim Investments makes an agreement in writing with the customer, in which the needs of the customer and the investment policy in the customer's portfolio are specified, and also the conditions of the agreement and the commission due to the Group in respect of its services are specified.

The portfolio management activity is carried out in fact by means of investment portfolio managers, based on the needs of the customer and the investment policy that forms part of the investment management principles specified by the management of Menora Mivtahim Investments and its investments committee.

The following are details of the total assets managed by Menora Mivtahim Investments (millions of NIS):

	31.12.2011	31.12.2010	31.12.2009
Total assets managed	3,419	3,872	4,099
Total assets managed by Menora Mivtahim Investments in trust funds of a trust funds company (outsourcing)	124	139	86
Total assets managed by Menora Mivtahim Investments for the customers of the company in trust funds that are not part of the trust funds managed by Menora Mivtahim Investments	13	85	3
Total assets managed by Menora Mivtahim Investments for Omega further education fund that is managed by Menora Mivtahim Engineers that is controlled by Menora Mivtahim Finance	2,413	2,564	2,305

8.2.2 Management of trust funds

A trust fund is set up pursuant to the Law for Joint Investment Trusts, and in accordance with the agreement between the manager of the fund and the Trustee, in which are specified, *inter alia*, the period of existence of the fund, the investment policy of the fund, the classification of the fund as an open or closed fund, and additional details in respect of the salary of the manager of the fund, the salary of the trustee, etc. Units in the trust fund are sold pursuant to a prospectus, that is valid for one year from its publication or for a shorter period of time, as published in the prospectus.

Menora Mivtahim Funds manages, as of the date of this report, 71 trust funds (during 2011 a new fund was set up). The trust funds are distinguished from one another, *inter alia*, by their investment policy, details regarding the classification of the fund for the purpose of publication, and their tax classification.

Decisions are taken in respect of management of the investment portfolio of the funds by workers having a portfolio manager's license as required in the Law for Joint Trusts. In some of the funds, the fund manager cooperates with external investment managers, who manage the investment portfolio of funds managed by them. In 2011, as a result of the entry into effect of limitations from the recommendations of the Becher committee, the company ceased to manage funds by means of external portfolio managers who belong to banking groups.

The income of Menora Mivtahim Funds from management of trust funds mainly results from the management fees charged by each fund. Furthermore, the option exists of charging an additional one-time commission in funds managed by the trust manager at the time of purchasing units in the fund.

The following are details in respect of the value of the assets managed by Menora Mivtahim Funds (millions of NIS):

	31.12.2011	31.12.2010	31.12.2009
Value of the assets managed	4,577	7,429	5,954
Total assets managed by external portfolio managers	-	479	600
Total assets managed by portfolio managers in the Group	124	139	79

The following are data regarding the trust funds managed by Menora

Mivtahim Funds:

	31.12.2011		31.12.2010		31.12.2009	
	Change as a % of all the assets (%)	Sum of channel (millions of NIS)	Change as a % of all the assets (%)	Sum of channel (millions of NIS)	Change as a % of all the assets (%)	Sum of channel (millions of NIS)
Shekels funds including financial funds	28.67	1,312	13.80	1,027	31.27	1,862
Bonds funds	62.57	2,864	73.50	5,461	56.36	3,356
Foreign currency funds	2.75	126	3.20	239	4.51	268
Shares funds	5.62	257	8.20	608	5.79	345
Shares funds abroad	0.39	18	1.30	94	2.08	123

8.2.3 Underwriting activities

In this activity the Group engages in the accompaniment, management, and underwriting of private and public issues in Israel, as well as providing brokerage and distribution services for securities and other financial products. Furthermore, Menora Mivtahim Underwriting engages in investment banking.

As part of the provisions of management and underwriting services for public issues in Israel (in contrast to private issues) Menora Mivtahim Underwriting, in issues in which it acts as an underwriter (together with all the other underwriters participating in public issues) is required to sign a prospectus of the offer to the public and to guarantee the purchase of the securities proposed in the prospectus (together with the other underwriters in the underwriting consortium), in respect of which no prior commitment has been given by institutional investors and that have not been ordered by the public.

It should be noted that by the activity of signing the prospectus by Menora Mivtahim Underwriting, it is liable to become liable by law *vis-a-vis* the purchaser of securities from the offerer and *vis-a-vis* the purchaser or seller of securities when trading on or outside the Stock Exchange, in respect of damage caused as a result of a misleading details in the prospectus.⁹

This liability by Menora Mivtahim Underwriting exists whether Menora Mivtahim Underwriting serves as the manager of the issue and the consortium of underwriters or whether it participates in an issue in which the manager of the consortium of underwriters is another underwriting company.¹⁰

In consideration for providing the services as aforesaid, Menora Mivtahim Underwriting receives underwriting commission. In issues in which Menora Mivtahim Underwriting serves as one of the issue managers it is also, in most cases, entitled to a share of the management commission. In certain cases participation commission is paid to underwriters who are not managers of the consortium, as well as success commission, that is agreed between the

⁹ Pursuant to section 33 of the Securities Law the aforesaid liability shall not apply, *inter alia*, to one who proves that he has taken all the proper steps required to ensure that there will be no misleading details in the prospectus, the opinion, the report, or the approval, as the case may be, and that he believed in good faith that there were no such details.

¹⁰ Pursuant to section 33 of the Securities Law, the elimination of liability in the event of a misleading detail in a prospectus applies, subject to a number of reservations, to an underwriter who authorized another underwriter to execute the proper checks but did not do so by himself.

underwriters and the issuing company.

When Menora Mivtahim Underwriting participates in providing management and consulting services in private issues, Menora Mivtahim Underwriting accompanies the formulation of the structure of the issue, the preparation of the offer documents (legal documents, exhibits, and various distribution documents), pricing of the securities offered in the issue, and management of the tender for the investors (in the event of Menora Mivtahim Underwriting being the coordinator of the issue).

In consideration for providing the services as aforesaid, Menora Mivtahim Underwriting receives commission from the issuing company, the amount of which is determined in negotiations between Menora Mivtahim Underwriting and/or additional issue managers and the issuing company.

In the issues (private and public) in which Menora Mivtahim Underwriting participates as a leading underwriter (as an underwriter or a distributor), Menora Mivtahim Underwriting accompanies the company starting from initial formulation of the structure and pricing of the issue (consulting in making a decision regarding the types of securities to be offered to the investors, noting the capital structure of the issuing company, its needs, and future plans), giving attention and advice for the general legal structure of the transaction (in public issues also execution of due diligence examination from the accounting and legal aspects), providing aid and accompaniment in preparation of exhibits and various distribution documents, and sometimes even help in rating the issuing company.

During the issuing process representatives of Menora Mivtahim Underwriting accompany the managers of the company in preparations for institutional investors (road show) and remain in constant contact with the institutional market in order to obtain indication of expected orders for the issue.

8.3 Breakdown of income and profitability of products and services

In the field of the services and financial products the Group has no products, the income or profitability from which constitutes 10% or more of the income or profitability of the Group.

8.4 Customers

The Group has a broad dispersion of customers, so that the Group has no customer the income from whom constitutes 10% or more of the total income of the Group. The Group is not dependent on a single customer or on a limited number of customers, whose loss would significantly influence the field of services and financial products.

8.4.1 Management of investment portfolios

In this field the Group has two main kinds of customers, private customers (mainly households) and corporate customers (such as business companies, provident funds, trust funds, further education funds, and local authorities). The nature of the agreements is ongoing, but each of the parties reserves the right to terminate the agreement.

As of the date of this report, the assets managed for private customers constitute about 12% of the total portfolios, while the assets managed for institutional customers, corporations, and companies constitute about 88%.

8.4.2 Management of trust funds

Since units in the funds are purchased by means of members of the Stock Exchange, the manager of the fund holds no tangible information regarding the holders of the units held in the fund units managed by him.

8.4.3 Activities in the field

The customers of the Group in the activities of underwriting and capital raising are mainly public companies wishing to raise capital, either by means of private raising (mainly from institutional investors) or by means of raising capital from the public based on a prospectus.

8.5 Marketing and distribution

8.5.1 Management of trust funds

The main marketing channels are as follows:

- 1) Marketing and distribution of units in trust funds is done *vis-a-vis* the investment consultants of the banking corporations, where the Group attempts to create awareness of its products and services and supply them with information and marketing documents accordingly. The Group has made distribution agreements with most of the banks in Israel, against the payment of distribution commission, at the maximum rate the banks are entitled to charge pursuant to the provisions of the distribution regulations. (For further details of the distribution agreements see sections 8.10.1, 8.10.3, and 7.10.5 below.)
- 2) Advertising in all the media.

8.5.2 Management of the investment portfolios

The main distribution channels are as follows:

- 1) Marketing and distribution by means of the marketing and distribution organization of the Group, including by means of the insurance agents of the Group.
- 2) Marketing and distribution by means of external investment consultants.
- 3) Direct approach to customers.
- 4) Holding professional/ marketing conferences.
- 5) Advertising in all the media.

8.5.3 Underwriting activities

The management of the company and its workers engage in obtaining transactions for the company while exploiting their deep familiarity with the companies needing their services and the close and positive connection with all the institutional entities in the economy.

8.6 Competition

As set forth above, the competition in the field of services and financial products is continuous and intensive. The competition between the various entities is mainly for the

achieved yield (compared to the level of risk), the sum of the management fees, the sum of the commission for the various services, and the quality of the service.

The sources of profitability of the investment houses competing with the Group result from nostro activities of the investment houses and activities in the field of management of basket certificates. In the financial group no nostro activities are executed and the Group owns no company managing basket contents.

8.6.1 Management of trust funds

Based on information published by Funder, as of December 31, 2011, 22 companies in Israel engage in the management of trust funds, that manage a total of 1,223 trust funds. As of December 31, 2010, 27 companies in Israel engaged in the management of trust funds, that manage a total 1,246 trust funds.

Based on these data, as of December 31, 2011, Menora Mivtahim Funds is the ninth largest management company, and its market share is about 3.22%. As of December 31, 2010, Menora Mivtahim Funds was the ninth largest management company, and its market share, as of that date, was about 4.8%.

The main competitor in the field of trust funds in this branch are, *inter alia*, Psagot Trust Funds Ltd., Harel Piya Trust Funds Ltd., Excellence Nesua Trust Funds Ltd., Migdal Trust Funds Ltd., IBI Management of Trust Funds (1978) Ltd., Dash Trust funds Ltd., Meitav Management of Trust Funds (1982) Ltd., Clal Finance Trust Funds Ltd., and Altschuler-Shaham Trust Funds Ltd.

8.6.2 Management of investment portfolios

Many managers of investment portfolios operate in Israel, the main ones being portfolio management companies associated with the banks as well as non banking entities, such as Psagot Securities Ltd., Migdal Stock Exchange Services Ltd., Clal Finance Security Investment Portfolio Management Ltd., Meitav Investment House Ltd., IBI Stock Exchange Services and Investments Ltd., Harel Finance, Commerce, and Securities Ltd., Dash Securities and Investments Ltd., Excellence Nesua Stock Exchange Services Ltd., Analyst Stock Exchange Services and Commerce Ltd., Altschuler-Shaham Ltd.

In the absence of official publication, the Group is unable to estimate its share of the total assets of the portfolios managed in Israel. However, as of the date of this report, the scale of the assets of the private portfolios managed by Menora Mivtahim Investments is not material.

8.6.3 Underwriting services

The competition in the underwriting branch is intensive because of the fact that we are speaking of a relatively small market. In the light of the large changes that have occurred in recent years it is impossible to precisely estimate the Group's relative share in the underwriting market.

To the best of the Group's knowledge, following the crisis in the capital market the number of leading underwriters operating in the underwriting market in Israel was reduced, and now stands at six to eight only.

However, to the best of the Group's knowledge there has been an increase in the number of small underwriters as well as underwriters of nostro entities that do not

lead transactions, because, *inter alia*, of the large number of issues in which there is no underwriting (but only distribution services) and also following the various regulatory limitations applying to underwriting entities connected with the banks and institutional entities.

On September 25, 2011, the Securities Authority (hereinafter: "**the Authority**") published a proposed scheme for amendments to legislation in the field of underwriting (hereinafter: "**the proposed legislation**"). The proposed legislation included a review of the law currently possible in Israel and the market failures arising from it, compared to the future proposal of the Authority in order to strengthen the underwriting branch currently existing in Israel.

The major changes planned are, *inter alia*, change and expansion of the definition of an "underwriter", strengthening the underwriter as a "guard", determination of the obligation of publication of draft prospectuses signed by an underwriter, formulation of guidelines in respect of the method of distinguishing between an underwriter issue and other entities involved in its marketing and distribution that are not the underwriter thereof, updating the rules for conflict of interests in the underwriter's activities, and determination of a number of additional obligations of the supplier.

In parallel, the securities authority published a proposal for amendments to legislation in respect of reduction of the number of players entitled to participate in a preliminary tender while giving a preliminary commitment as part of it, and their limitation only to entities that manage monies for others (trust funds, provident funds, and insurers). Menora Mivtahim Underwriting is studying the aforesaid proposals for legislation and their ramifications in respect of its activities.

At the beginning of March 2009 the Regulations for Supervision of Financial Services (provident funds) (purchase and sale of securities), 5769-2009, were published, that address, *inter alia*, conflicts of interests in underwriting and brokerage activities of institutional entities. (For additional details see section 8.9 below.) Pursuant to the aforesaid regulations, starting from January 2011 a quantitative restriction applies to the purchases of institutional entities related to a underwriter in an issue for a rate of 10% only.

In the Group's estimation, in 2011 this restriction had a certain negative influence on the underwriting activities. It should also be noted that, in the Group's estimation, the aforesaid regulation is liable to strengthen the status of the underwriting companies associated with the commercial banks in Israel, and to strengthen the status of the underwriting private companies that manage a large nostro portfolio.

The major methods of the Group to cope with competition in this field of activity are, *inter alia*, the professionalism of the company's workers, exploitation of the Group's financial strength, efficient and devoted service for customers, suitable switching, and active marketing.

8.7 Suppliers and service providers

As part of amendment 14 of the Law for Joint Investment Trusts, starting from December 28, 2011, it will not be possible to pay brokerage commission from assets of the fund, unless the manager of the fund is associated with a trading company to whom he pays,

after a tender, and subject to the reservations as set forth in the law.

Accordingly, and after approval for this has been received from the Board of Directors, the company announced that it would bear the costs of sale/ purchase of the securities, while adjusting the operating services and their costs so that they will also include purchase/sale costs of Israeli securities.

Accordingly, during the end of December 2011, the original operating agreements with Bank Mizrachi Tefahot Ltd. and the First International Bank of Israel Ltd. were updated on December 29, 2011, and December 28, 2011, respectively. Furthermore, after the period of the report, on March 12, 2012, the company signed a new operating agreement with a third operator – Bank Hapoalim Ltd. For additional details see section 8.10 below regarding material agreements.

Furthermore, the company has agreements with computer software suppliers, and with suppliers of information regarding trading in securities abroad.

8.8 Financing

For additional details see section 9.12 below.

8.9 Limitations and supervision of the corporation's activities

The activities of the Group in this field are subject to the provisions of the law applying to managers of portfolios, provident funds, and underwriters, including the provisions of the Securities Law and the regulations issued by virtue of it, as well as the directions of the Securities Authority, as published from time to time. For details of the main legislation limitations applying to the Group in all its activities see section 9.2 below.

The following are details of the major provisions of the law applying to the Group in its activities in this field, as well as the major regulatory provisions (the provisions of the law, bills, circulars and drafts of the Commissioner) published last year in this field (including proposals for legislation and draft circulars).

The provisions of the law

*** The Securities Law**

This regulates, *inter alia*, the methods of offering securities to the public, the setting up of the Stock Exchange, the regulations of the Stock Exchange, and the directions and changes of these, restrictions applying to members of the Stock Exchange, provisions for ensuring proper trading, methods of operation of an underwriter, etc.

On July 31, 2011, the amendment order for the first supplement of the law came into effect, according to which an institutional investor, before the date of execution of purchase of securities by it, must give its consent in writing that there exist in it the conditions as set forth in the supplement, and that it is aware of the significance of its being an institutional investment pursuant to the supplement and agrees to this.

If the securities have been purchased as part of the commercial system for institutional entities, the one who gave the members of the Stock Exchange consent in writing, before submitting an order for the first time to the system, shall be deemed to be one who observes the provisions of the supplement for the purpose of agreement.

Furthermore, as part of the amendment, an investments marketer was added to the list of institutional investors, the stipulation in respect of the field of activity of a corporation fully owned by the investors listed in section 15(a)(b) of the law was

cancelled, and the requirements for equity in respect of a corporation that was incorporated for the purpose of the purchase of securities in a specific offer was reduced from NIS 250 million to NIS 50 million.

In addition, there was added to the institutional investors an individual investor who complies with two of the three criteria as set forth in section 9 of the supplement to the Law for regulation of investment consulting, marketing of investments, and management of investment portfolios, 5755-1995 (hereinafter: "**a qualified customer**").

* **The regulations, rules, and directions of the Stock Exchange**

The regulations, rules, and directions of the Stock Exchange regulate the method of recording various securities for trading and the methods of trading on the Stock Exchange.

* **The consulting law and the regulations by virtue of it (including directions by the Securities Authority published in its context)**

This specifies, in respect of portfolio managers, investment marketers, and investment consultants, *inter alia*, the requirements for qualification, the licensing requirements, equity and insurance, fiduciary duty and duty of care, methods of activities, obligations of recording and reporting.

As part of the Becher reform many amendments were included in the Consulting Law, the main one of which addresses separation of investment consulting from investment marketing. Pursuant to the amendment, investment consulting is consulting given by one who has no link to the financial asset (in other words, the financial asset is not managed by it and it does not receive a benefit for the consulting, except for fees and reimbursement of expenses from the customer and supervised payments from the manufacturers of the financial products), so that the investment consulting is supposed to be objective.

Investment marketing, pursuant to the amendment, is investment consulting by one who has a link to the financial asset. The amendment specifies separation between investment consulting and investment marketing, where the manufacturers of the financial products (a management company, insurer, or a fund manager) and those who control or are controlled by them, cannot receive a consulting license and may engage in marketing only. It was also specified in the amendment that a banking corporation may engage in investment consulting only.

* **The Law for Joint Investment Trusts (and the regulations by virtue of it)**

This law regulates, *inter alia*, the licensing requirements for the manager of joint investment trust funds, gives provisions in respect of the conditions of qualification of workers or participates in decisions regarding the management of investment portfolios in the fund, requirements in connection with the composition of the Board of Directors and the committees of the Board of Directors of the fund manager, and requirements for professional know-how and professional qualification of directors.

The law also contains provisions in respect of the equity and insurance of the fund manager and the trustee, the obligations imposed on the fund manager and the trustee, restrictions regarding assets that it is permitted to hold in a trust fund, and limitations regarding the assets purchased that are held in the fund as a percentage of those permitted for investment, calculation of the purchase and redemption prices of the

units of the fund, calculation of the yield, etc.

As part of the Becher reform this law was amended and there were added to it, *inter alia*, the conditions for receipt of a permit for control of the fund manager and restriction of the market share that the fund manager is entitled to reach (together with the holder of a controlling interest therein and entities controlled by them) to 20%.

The law, and the distribution regulations enacted by virtue of it, permit a fund manager to pay distribution commission to distributors, and regulates the rate of distribution commission that the fund manager shall be entitled to pay to the distributor (a members of the Stock Exchange to whom it is possible to submit orders for units and who is not an investments marketer) in respect of units of a trust fund held by the distributor.

- * **The regulations for Joint Investment Trusts (equity and insurance of a fund manager and a trustee and conditions of qualification of directors and members of the investments committee), 5755-1995, and the regulations for regulation of investment consulting, investment marketing, and management of investment portfolios (equity and insurance), 5760-2000**

The regulations obligate managers of funds and/or companies holding a license for management of portfolios (as the case may be) to take out professional liability insurance to cover their liability for negligent acts or omissions *vis-a-vis* holders of units and/or *vis-a-vis* customers (as the case may be), and to cover breach of trust by their workers *vis-a-vis* holders of the units and/or the customers.

The insurance shall be made in the sums and conditions specified and in such a way as to cover claims in respect of events that occurred during the period of the policy, even if they were submitted within a year of the end of the period of the policy. The sum of the deductibles required is limited to the ceiling as set forth in the regulations.

- * **The Bill for Joint Investment Trusts (amendment 15), 5770-2010, was published in Reshumat in May 2010.**

This bill includes provisions that are intended to, *inter alia*, regulate the method of action of the trustee (including the obligations of supervision imposed on him and the independence mechanism), to regulate the offer of units of foreign funds in Israel, changes to the mechanism for dissolution of a fund, the laying of a basis for strengthening monitoring mechanisms, and arrangement of supervision and monitoring mechanisms for the manager of a trust fund.

- * **The Law for increased efficiency of enforcement proceedings in the securities authority (legislation amendments), 5771-2011**

The law provides a new enforcement mechanism that consists of three elements: criminal, administrative, and financial sanction. The enforcement proceedings apply to the three major laws enforced by the securities authority – the Securities Law, the Consulting Law, and the Joint Investment Trusts Law. The aforesaid enforcement proceedings shall apply, *inter alia*, to the following:

Reporting corporations, position holders in them (directors and executives), CEO (who also bears supervision responsibility), a management company for trust funds, position holders in a management company for trust funds, and investment portfolio managers.

As part of the administrative enforcement proceedings the administrative enforcement committee shall be entitled to impose a series of sanctions on a person who committed an infringement:

Imposition of financial fines in the sum of up to NIS 1 million for an individual and NIS 5 million for a corporation; prohibition of taking office in entities supervised by the authority (reporting corporations, underwriters, fund managers, trustees, and license holders) for a period of up to one year, and with the approval of the Court, for a period exceeding this; cancellation of the license of a license holder pursuant to the Consulting Law or approval of a fund manager or a trustee or their cancellation for a period of one year, or with the approval of the Court, for a period exceeding this; the obligation to take action to correct the infringement and prevent its recurrence; payment to the entity injured by the infringement.

In addition, as part of the enforcement proceedings, the chairman of the securities authority is authorized to reach agreement with the infringer or the offender regarding the observance of an arrangement for avoidance of taking enforcement proceedings, and the chairman of the securities authority and the regional attorney are authorized to reach agreement regarding the halting of proceedings that have already begun, depending on conditions. In such a settlement agreed sanctions shall be imposed on the infringer.

- * **The Authority published in April 2011 criteria for recognition of an internal enforcement program in the field of securities, that is a voluntary mechanism currently adopted and implemented by a corporations in order to verify compliance by it and by individuals in it with the provisions of the securities laws.**

As part of the criteria the authority noted that actual implementation of an efficient enforcement program by the corporation may be recorded by the authority for the credit of the corporation or of individuals in it as part of its judgment in respect of exercise of its powers of enforcement by law.

The enforcement program must lead to assimilation and observance of the law, in actual fact. The following are the criteria to be evaluated by the authority when discussing and deciding if the corporation has effective enforcement program:

- 1) Responsibility of the Board of Directors and of the management for the formulation, adoption, and implementation of the program;
- 2) Adjustment of the program to the corporation and its unique circumstances, after examination of the business activities and mapping the risks involved in it;
- 3) Adoption of procedures and treatment arrangements that will provide a solution for the mapped risks;
- 4) Application of the program to all ranks in the corporation;
- 5) Appointment of a supervisor for the enforcement;
- 6) Suitable assimilation of the program in all ranks;
- 7) Supervision and updating;
- 8) Proper treatment of failures and infringements and drawing conclusions from them.

In addition, as part of the law the authority's powers were clarified in all matters related to non granting of approval for action – license, registration, permit, etc. (hereinafter: "**permit**") for the entity supervised by it in respect of discovery of a defect to reliability; as well as its powers to remove an existing permit as a result of the discovery of a defect as aforesaid (pursuant to section 15(a1) of the Law for Joint Investment Trusts, 5754-1994, and section 10(1A)(1) of the Law for Regulation of Investment Consulting, investment marketing, and management of investment portfolios, 5755-1995, as the case may be).

When wishing to grant a permit, the Authority is authorized by law to consider the reliability of the applicant, without its judgment being specified in the sections of the law. However, when wishing to withdraw a permit that has been given, its discretion is limited to evaluation based on a list of circumstances that may indicate a defect in the reliability of the entity being supervised, and/or entities related to it. Consequently the Authority published in December 2011 a list of circumstances that may indicate a defect in the reliability of the entity being supervised by the authority, that came into effect on January 3, 2012.

The circumstances as set forth in the list constitute reasons for evaluation of the existence of a defect to the reliability of the entity being supervised, but their existence shall not necessarily lead to a decision that there is in fact a defect to reliability and cause automatically a decision to be taken that there is a defect justifying withdrawal of the permit granted. The circumstances as set forth in the list are merely a basis for exercise of discretion by the Authority in this matter.

* **The Securities Regulations (underwriting) 5767-2007; the Securities Regulations (method of offering securities to the public) 5767-2007; and the Securities Regulations (underwriting) 5767-2007**

These regulations address new registration rules with the Securities Authority, the obligation to make a deposit in trust in the minimum sum of NIS 2,917,000 (instead of the minimum equity requirements as set forth in the 1993 regulations); the obligation for insurance; the restriction on an underwriter to make underwriting commitments exceeding 15% of all the underwriting commitments given in the offer to the public in issues by companies in the underwriter's group or having a debt to the underwriter's group; including restrictions on the option of serving as a pricing underwriter in certain issues that are not shares issues included in the TA 25 index; alleviations that permit foreign underwriters to operate in Israel, and obligations of reporting.

The securities regulations (method of offering securities to the public), 5767-2007 regulate the method of offering securities to the public and permit making an issue of securities to the public without a tender (non uniform allocation); restrictions on the size of the allocation to investors from the underwriter's group; and the method of allocation of the securities to entities ordering them and award the right to purchase in a non uniform allocation up to an additional 15% of the amount of the securities offered in the prospectus at a price identical to the issue price (the green show option).

* **The Regulations for Supervision of Financial Services (provident funds) (purchase and sale of securities), 5769-2009**

The regulations address, *inter alia*, restrictions regarding conflicts of interests in

transactions of institutional entities (the definition refers to provident funds, pension funds, and profit sharing policies) with underwriting and brokerage entities related to institutional entities. Pursuant to the aforesaid regulations, there is a restriction on the purchase of more than 10% of the securities offered in an issue in which a underwriter from the institutional entity participates. In addition, an institutional entity may not purchase or sell securities by means of a member of the Stock Exchange who is linked to it.

* **The law for prohibition of money laundering, 5760-2000, and the order by virtue of it**

These address, *inter alia*, the method of identification of customers of the portfolio manager.

For additional details see section 9.2.3 below.

* **The Bank of Israel Order (information in respect of developments in the foreign currency market in Israel – transactions in derivatives of foreign currency and in short term debt instruments), 5771-2011**

The Order addresses the duties of reporting to the Bank of Israel in respect of the execution of transactions in foreign currency derivatives, transactions in options, and transactions in debt instruments, within the meaning of the Order, by an Israeli resident, a foreign resident, and a financial broker, within the meaning of the Order.

Bills and draft regulations

* **The Joint Investment Trusts Bill, 5754-1994 (amendment 15), 5770-2010, was proposed in May 2010**

It was proposed in the amendment to amend the law, *inter alia*, in the following subjects: amendment of the law to permit the offer of units of foreign funds and a supervision mechanism for the foreign funds; application of a mechanism for differential management fees to be charged by managers of the funds, based on three criteria (the same criteria were also applied to the manager of the fund when he considers giving a discount): the value of the units held by the corporation of the discount or payment, the period of time in which the units are held by the recipient of the discount or payment, and the identity of the distributor through whom the units are purchased or held; changes to the provisions related to the holding of the fund by entities close to the fund so that a limitation shall not apply to holdings of entities close to the fund as aforesaid until the value of the assets of the fund increases to three times the minimum value as set forth in the law; determination of a new obligation for dissolution or merger of the fund whenever the net value of the assets of the fund decreases below the minimum values as set forth in the law during a period of 90 continuous days or during a period of 120 non continuous days in a period of 180 days; to note that pursuant to the wording of the bill presented for debate in the Knesset financial committee and as published in the Internet website of the Authority, the section was removed from the bill that addresses the opening of the market to foreign funds. The Authority intended to re-evaluate the subject of opening the market to an offer to the public in Israel of foreign trust funds.

* **The Securities Authority published in January 2011 a proposal for amendment of the Joint Investment Trusts Law and the Joint Investment Trusts Regulations (distribution commission), 5766-2006**

As part of the amendment it is proposed, *inter alia*, to cancel the classification in respect of units of a shares fund and to specify that units of a shares fund and units of a foreign fund shall be clarified as units of another fund, as aforesaid, and that the rate of distribution commission paid in respect of units of the said fund shall be 0.4% (instead of 0.45).

Furthermore, that a distributor shall be entitled to specify different rates of distribution commission to buy from that kind, based on characteristics related to their investments policy or their classification under a specific characteristic heading, subject to the receipt of approval from the Securities Authority and the supply of information in this matter to all the fund managers, and that a distributor shall be entitled to charge the manager of a foreign fund commission in a sum exceeding the commission published, subject to the distributor paying the sum of the surplus commission charged to the holder of the units.

As set forth above, the Authority shall re-evaluate the subject of opening the market to foreign trust funds, thus creating the need for the amendment to these regulations.

* **A memorandum regarding the Joint Investment Trusts Law (amendment __) (arrangement of exchange traded funds was published in November 2010.**

The major reform in this proposal contains two major heads: a proposal to also apply the aforesaid law to exchange traded funds, and consequently to transfer the exchange traded funds from a reporting regime to a supervision regime, under the Joint Investment Trusts Law, and in addition a proposal for the creation of a new investment instrument: an exchange traded fund, a fund whose units shall be registered for trading on the Tel Aviv Stock Exchange that shall be traded both in two way trading and at the end of the trading day and the fund manager may serve as a marketer of the units managed by him, where it shall be possible to purchase or sell the units during continuous trading or to redeem units based on the net value of the assets of the fund, and in this way they will constitute a product competing with the exchange traded funds.

* **In February 2012 the Securities Authority published a draft for comments by the public for the amendment of the Joint Investment Trusts Regulations (assets that are permitted to be bought and held in an exchange traded fund and their maximum rates, and execution of transactions in exchange traded funds, 5772-2012.**

These regulations specify which assets the exchange traded fund manager is entitled to hold against exchange traded funds managed by him, as well as the conditions for their purchase and the maximum rates, based on the model for supervision of exchange traded funds that was approved by the plenary session of the Authority on February 16, 2011.

The major aim of the regulations is to minimize the difference between the value of the assets held by the manager of the exchange traded funds and the formula for redemption of the certificate. In contrast to a trust fund, the exchange traded fund shall include a commitment by the certificate manager to complete the difference, if created, between the sum to which the holder of the exchange traded fund is entitled at the time of redemption, and the actual value of the assets of the exchange traded fund.

In accordance with the proposed regulations, the exchange traded fund manager shall

be only permitted to purchase assets that do not meet conditions that guarantee the absence of a difference between the value of the assets and the value of the follow-up assets, and shall be sufficiently negotiable to reduce the risk of liquidity.

If the exchange traded fund manager is not covered by the follow-up assets themselves, but by commitments that follow the changes to the follow-up assets, he shall be required to reduce the execution to a possible fall of the credit source risk.

In addition the proposed regulations address types of credit transactions that the exchange traded fund manager shall be entitled to execute for the certificates that he manages.

- * **In December 2011 the Securities Authority published a draft for comments by the public for the amendment of the Joint Investment Trusts Regulations (price for redemption of a exchange traded fund unit, the value of its assets and commitments for the purpose of evaluation of completeness of the assets of the exchange traded fund), 5771-2011**

The draft specifies rules for evaluation of the assets and statements held in the exchange traded fund for the purpose of measurement of the ratio of the net value of the assets of the exchange traded fund to the redemption price.

- * **In December 2011 the Securities Authority published a draft for comments by the public for the amendment of the Joint Investment Trusts Regulations (report of the manager of a closed fund regarding the results of the offer and cancellation of the offer), 5754-1994**

For the Joint Investment Trusts regulations (report of the manager of a closed fund regarding the results of the offer and cancellation of the offer) (amendment), 5772-2012, so that they apply to any joint investment traded, in other words, also for exchange traded fund, with a number of obligatory changes.

- * **In November 2011 the Securities Authority published draft Joint Investment Trusts regulations (backup account), 5771-2011**

Pursuant to these regulations the managers of exchange traded funds shall be required to allocate capital in a backup account in respect of the risks involved in their operation (operating risk, credit risk, and market risk).

In respect of managers of funds, the regulations specify that the managers of the funds shall be required to allocate capital in a backup account in respect of operating risk only, in contrast to managers of an exchange traded fund arrangement who shall be required to hold a number of backup accounts in respect of various risks (operating risk, credit risk, etc.).

The regulations specify the deposit level required in the backup account, the type and nature of the assets deposited in the backup account, the cases in which withdrawal shall be permitted from the backup account, and the obligation to furnish reports to the authority giving details of the assets deposited in the backup account and the transactions executed in it, and consequently it was decided in February 2012 to raise these regulations for comments by the public for an additional period of time.

- * **In September 2011 the Securities Authority published a proposal for amendments to legislation in the field of underwriting.**

The major features of the proposals are briefly as follows:

- 1) Change to the definition of the identity of the underwriter, similar to that existing in the US, in order to include additional factors in the obligation, where it is proposed to specify that in every prospectus, including a shelf prospectus, there shall be at least one underwriter;
 - 2) The strengthening of the underwriter as a guard, including the raising of the qualifications required from the underwriter, leaving investment houses in the field of underwriting, use of administrative enforcement means awarded to the authority, and reduction of the scale of the preliminary commitments that may be received before the issue to the public;
 - 3) Determination of the obligation to publish draft prospectuses signed by the underwriter;
 - 4) Formulation of guidelines in respect of the method of differentiation between an underwriter in an issue and additional entities involved in its marketing and distribution who do not constitute an underwriter in it;
 - 5) Updating of the rules for conflict of interests in activities of the underwriter and determination of a number of additional disclosure obligations.
- * **In July 2010 the Ministerial committee for legislation approved a proposed amendment to the Law for Investment Consulting and Investment Marketing and management of investment portfolios (amendment – activities of providing investment consulting, 5771-2011 ("the Bill" and "the consulting law", respectively)**

The main features of the bill are:

Separate reference was added to situations in which uniform and non specific consulting is given to a large number of persons as well as distinction between investment consulting and general investment consulting, and, respectively, between investment marketing and general investment marketing.

The bill proposes separate arrangements for the general consulting service, adjusted to the unique circumstances and characteristics of each case. *Inter alia*, it is proposed to state that the general services shall not require a license pursuant to the Consulting Law and shall be accompanied by special and extensive disclosure.

The exemption shall apply equally to the marketer, as long as we are speaking of non specific consulting. In addition the bill addresses clarification of the applicability of the Consulting Law as a result of cases in which the consulting refers to assets that do not fall into the category of securities or financial assets, but that have a material influence on the value of a financial assets with which the marketer of the investments is associated.

Furthermore, the bill also addresses cases regarded as infringements, in respect of which the license holder may be exposed to a financial sanction and administrative proceedings.

- * **In February 2012 the Securities Authority published a proposal to enact regulations for investment consulting, investment marketing, and management of investment portfolios (reports), 5771-2011**

These regulations have been tabled by the Finance Committee, that will address the obligations of a portfolios manager and an authorized corporation in respect of the

furnishing of a quarterly report to the customer, an annual report to the public, a quarterly report to the authority, and an annual report to the authority, and the method of preparing them, and also in respect of matters and events that obligate reporting to the authority.

In November 2011 the Corporation Administration Law for Fund Managers (amendments to legislation), 5771-2011, was published, that includes amendments to the Joint Investment Trusts Law, 5754-1994, the Law for investment consulting, investment marketing, and management of investment portfolios, 5755-1995, and the Securities Law, 5748-1988.

The Corporation Administration Law applies principles of corporation administration with the aim of creating mechanisms for monitoring and supervision of the method of management of management companies for trust funds and portfolio management companies that meet the criteria specified in the law (briefly, more than 1000 customers or more than NIS 5 billion assets managed and at least 50 customers by the portfolio management companies under same holder of a controlling interest).

The major feature of the aforesaid corporation administration law is the guarantee of non dependence of the fund trustee on the fund manager, clarification of the supervision obligations imposed on the trustee and increase of the mechanisms of monitoring, control and supervision of the fund manager, and of the management companies for large portfolios (within the meaning of the aforesaid law).

Provisions were specified in the corporation administration law, *inter alia*, in respect of the prohibition of a company serving as a trustee of a fund if specific conditions are met, provisions in respect of the composition of the Board of Directors and the chairman of the Board of Directors of the fund manager and a large portfolio management company (including the obligation to appoint external directors), the obligation to appoint an inspection committee in the fund manager and in a large portfolio management company, and the determination of its function, composition, and method of conduct. In addition the institution of a general meeting of holders of the units for the purpose of taking a special decision within the meaning of the Joint Investment Trusts law, was cancelled.

The law will come into effect on May 16, 2012. The material provisions in the law include: the obligation to set up an audit committee, the addition of obligations to the Board of Directors of the fund manager to approve the internal auditing arrangements and the internal enforcement program, to discuss its compliance with the conditions of the approval to act as a fund manager as set forth in section 13 of the law, and to discuss any subject of material importance to the activities of the fund manager or the supervision and control of it, and to formulate procedures intended to ensure risk management for the fund pursuant to the policy specified, proper management of the working of the Board of Directors and its committees, and preparation for an emergency and the guarantee of business continuity; the number of directors that are workers of the fund manager or are employed by the fund manager shall not exceed one third of the overall number; during appointment of directors the fund manager shall determine the composition of the Board of Directors so as to permit the Board of Directors to carry out its functions; the CEO of the fund manager or someone subject to the fund manager, directly or indirectly, or a relative of the CEO, shall not serve as the chairman of the Board of Directors and the chairman of the Board of Directors or his relatives shall not be given the powers of the CEO or the powers given to someone subject to the CEO directly or indirectly and that the chairman of the Board

of Directors shall not serve in another position in the fund manager except as a member of a committee of the Board of Directors that is not the audit committee.

Similar provisions, *mutatis mutandis*, are also included in connection with the large portfolio management companies.

- * **In June 2011 the Securities Authority published a version after receiving the comments of the public to the Joint Investment Trusts Regulations (participation of a fund manager in a meeting of holders and in voting for approval of a special and full purchasing offer and for approval of a transaction with a stakeholder), 5771-2011**

The regulations address the obligations of participation and voting of fund managers in meetings of holders and the reservations to the obligations of voting. Pursuant to the regulations, the Board of Directors of the fund manager must determine the voting policy in respect of resolutions in subjects regarding which there is the obligation of participation and voting, including in respect of evaluation proceedings for the purpose of formulation of a position, the method of voting in meetings in respect of which there is a conflict of interests liable to influence the method of voting and the method of treatment of applications on the part of the managements of the corporations or holders of a controlling interest in them whose intention is to influence the method of voting.

The Board of Directors must, at least every six months, evaluate the voting policy decided by it, and revise it if the need arises. The Board of Directors must bring the voting policy that has been decided and/or revised by it to the knowledge of the trustee.

In addition the regulations specify rules for making an agreement with an external entity for the purpose of formulation of recommendations regarding the subjects of the voting, including its approval by the Board of Directors while examining its qualification and reliability and the observance of market share limitations.

The fund manager must report to the Board of Directors the method of actual voting in meetings of holders, since quarterly, at least. Pursuant to these regulations, the authority published the Joint Investment Trusts regulations (reports) (amendment), 5771-2011, the Joint Investment Trusts regulations (details of a prospectus of a fund, its structure and form) (amendment), 5771-2011, that contain amendments adapted to the entry of the new regulations into effect.

- * **In February 2012 collections of regulations were published, as follows:**
 - * **Joint Investment Trusts Regulations (the financial statements of the fund) (amendment), 5772-2012**, according to which *inter alia*, the obligation to submit financial statements pursuant to the international financial report standards (IFRS) was deferred to January 1, 2016. Even before approval of the amendment the Authority announced, on May 4, 2011, that it will not initiate or recommend taking enforcement steps against fund managers who submitted the financial statements of the trust funds managed by them, prepared in accordance with the accounting principles and customary reporting rules and did not implement the IFRS rules during the period preceding the aforesaid amendment.
 - * **Joint Investment Trusts Regulations (options, future contracts, and short**

sales) (amendment), 5772-2012, that amends the definitions of the TA 25 and TA 100 indexes, so that instead of referring to their definition in the regulations of the Stock Exchange, the reference will be to the indexes published in the Internet website of the Stock Exchange.

- * Joint Investment Trusts Regulations (buying and selling prices of the assets of the fund and the value of the assets of the fund) (amendment), 5772-2012, according to which it is proposed, *inter alia*, to apply changes to the regulations in respect of the buying and selling prices of the assets of the fund that result mainly from the fact that in an Israeli cap it will be possible to hold units of an open fund that is not a funds cap and not only units of open funds managed by a fund manager.
- * **Joint Investment Trusts Regulations (details of a prospectus of a fund, its structure and form) (amendment), 5772-2012**, that, *inter alia*, amends a number of definitions and references, including the definition of "average net value of the assets of the fund", so that a distinction is made between the method of calculation required when speaking of the salary of the fund manager and the trustee, according to which there are taken into account each of the days of the year, and the method of calculation required in the other cases, when there are taken into account the days of calculation of prices in a specific period. Furthermore, a number of amendments were made to the regulations in respect of the preparation of a prospectus for a foreign cap and for an Israeli cap, and the formulas were updated for calculation of the credit leverage of the fund and the leverage of the derived activities of the fund.
- * Joint Investment Trusts Regulations (assets that it is possible to buy and hold in a fund and their maximum amounts((amendment), 5772-2012, according to which, *inter alia*, in an Israeli cap it is possible to hold units of an open fund that is not a funds cap and not only units of open funds managed by the fund manager.

Furthermore, it is proposed in the regulations to permit the purchase of structured liability certificates that will be traded in an institutional sequence by the trust fund and also to increase the awareness of the latent risks in this product, by increasing the percentage that the fund manager is entitled to invest of the assets of the fund in tradable securities in an institutional sequence, while imposing limitations that do not currently apply to the holding of integrated liability certificates currently traded on the Stock Exchange.

Directions of the Securities Authority

In November 2010 the Securities Authority published an **order for fund managers, according to which a fund manager shall be obligated, starting from April 28, 2011, to give disclosure to the rules by means of which it arranges, generally or for the types of funds managed by it, as the case may be, the standard of the investments and the method of their management**, and, *inter alia*, in the following subjects:

- a) The process that will exist during selection of the investments and during their current management and the position holder who will be involved in the entire process, noting, *inter alia*, the characteristics of the transactions, their nature, and the unique and general characteristics of the assets included in them;

- b) The documents and the information to be relied upon during the processes as set forth in (a), with reference to standard cases or circumstances in which additional documents and monitoring are required prior to execution of the investment decision;
- c) The considerations guiding the selection of the investments and the method of their management, including in respect of taking various risks involved in the investment in assets and the pricing of these assets (such as the type of assets and their characteristics, compatibility, contractual stipulations, financial criteria, etc.) and including the characteristics of the issuer of the asset (such as a corporate administration, etc.);
- d) The method of conduct *vis-a-vis* issuers, such as formulation a debt arrangement, change of the conditions of securities, etc.

The aforesaid disclosure shall be included in Part B of the prospectuses of the funds, under the heading: "policy for the selection of the investments and the method of their management". The Order came into effect in April 2011.

Subsequently, in September 2011 the Securities Authority published a circular for fund managers and trustees in respect of the process for selection and management of the fund's investments. Pursuant to the circular, it is proper that managers of investment funds, in selection of the investments of the fund and in their current management, should rely on a process supporting the decision made by the fund manager, that shall be one or more of the following:

- 1) Reliance on a document including analysis of the economic feasibility of securities or of a corporation that furnishes information in respect of the investment;
- 2) Reliance on the methodology or criteria decided by the fund manager regarding the characteristics of the asset/ issuer/ rates of investment/ risk taking policy;
- 3) Reliance on recommendations arrived at in a forum of the fund manager that is involved in taking investment decisions and/or related to analysis of investments;
- 4) Reliance on the methodology/ criteria formulated by the investments manager in advance regarding the policy for selection of the investments and the method of their management, and that have been documented in a way that can be presented and examined.

It was stated in the circular that it is possible to specify circumstances in which it is possible to deviate from the decision supplying process chosen by a fund manager for the investments manager, provided that it specified the method of documentation of the circumstances for the deviation and the reasons for it, as well as mechanisms for supervision of the aforesaid deviation.

On November 17, 2010, the Securities Authority published a direction in respect of **orders for license holders in connection with clarification of the needs and directions of the customer, matching the service to these needs and directions pursuant to section 12 of the Challenge Law and recording of details pursuant to section 13 of the Consulting Law.**

The direction gives rules in respect of the method of execution of the process for clarification of the customer's needs, including the various stages in the process and the contents of the clarification, documentation of the information in an agreement with the customer, formulation of the investment policy in the portfolio pursuant to the

agreement, and analysis of the information received regarding the customer during the clarification process, and provisions in respect of current updating and characterization of the customer and the investment policy – at least once a year.

On February 14, 2011 the Authority published an amendment to the wording of section 16 of the new provisions according to which the updating and characterization of the customer and its policy once a year shall be done by a license holder as defined in the initial needs characterization process, in other words, by a license holder or by a trainee license holder in the presence and under the supervision of his mentor.

The provisions in respect of execution of a recorded phone call came into effect on the date of publication of the provisions, i.e. on November 17, 2010. The other provisions came into effect on May 31, 2011 (the date of coming into effect of the new order for prohibition of money laundering that applies to portfolio managers).

In January 2012 the Authority published a provision in respect of **treatment of applications and complaints from the public**, with the aim of improving the organization for treatment by fund managers of applications and complaints, while establishing a designated infrastructure for this treatment of them.

The provision addresses the work procedures required from the fund manager in all matters related to providing a response to the customer application.

The fund manager must send the customer confirmation of receipt of his application within 7 business days of its receipt, and its reply to the application within 21 business days of its receipt, where in specific cases it is possible to extend the period of time until giving the response.

The audit committee of the fund manager is required to formulate procedures intended to ensure a proper and orderly forecast for treatment of applications by the public, including a proper response, transparency and availability of information for the Applicant and furnishing clear and full answer as far as possible, in the circumstances.

The fund manager is required to appoint a supervisor for the public applications organization – the disciplinary officer or the supervisor for internal enforcement, or a person acting in the disciplinary organization of the fund manager, or another position holder in the fund manager or in the group of the fund manager, who has suitable qualifications and does not belong to the investments organization of the fund manager, provided that the appointment is approved by the Board of Directors, which bears responsibility for implementation of the procedure as well as the obligation to report to the audit committee in respect of important information regarding complaints from the public that were sent for its treatment.

The fund manager is required to publish in prominent place, in its Internet website and in Part B of the prospectus for funds managed by the fund, details of how to contact the fund manager as well as information that the Applicant may use for submission of his application, including the timetable relevant for the process, information and documents required for clarification of the application, etc., email address, phone number, fax number, times of phone response, and the name of the supervisor of the organization for applications by the public.

The supervisor of the organization for applications from the public must ensure that the response does not include information in connection with the economic feasibility of investment, holding, purchase, or sale of units of the trust fund. The provision shall come into effect on April 30, 2012.

In December 2011 the Securities Authority published a circular in respect of the position of the senior management of the Authority regarding backup of data and continuity of supply of the service, **that applies to fund managers, issuers of exchange traded funds, and companies holding a license for management of investment portfolios**, and gives details of implementation aspects related to the organization's preparations for the occurrence of an event liable to cause the loss or disruption of information, so that it will be possible to retrieve the data and cause system recovery.

In respect of backup and data retrieval, we are speaking of copying data from their original location to some other storage device, for the purpose of ensuring availability of the information during the occurrence of an event liable to cause the loss or disruption of data.

In respect of the continuity of the supply of the service for the purpose of guarantee of business continuation, we are speaking of formulation of work procedures that are based on a suitable technological system, that guarantee the return to operation of business processes, that are defined as material for functioning of the organization, following the occurrence of extreme scenarios such as technological failures, human error, natural disasters, and national state of emergency.

The circular gives details of the activities required for preparation for the aforesaid situations, and every company is required to specify actions matching the nature and complexity of its activities.

In the first stage the Board of Directors must formulate and approve policy for the backup and retrieval of data as well as in respect of business continuity. In the second stage the process must be implemented and managed by the company management. Given that the company receives information systems services from external suppliers and the company has verified that the suppliers provide a solution for the information retrieval requirements of the company in a way matching the policy formulated in the subject, it is not required to implement independent processes for backup of the relevant information, in parallel.

In December 2011 the Securities Authority published a circular in respect of **the declaration of a fund manager regarding its belonging to a group of "institutional investors" for the purpose of a report by a corporation regarding a decision taken in the meeting with a special majority** in order to update the fund managers in respect of the preparation required for entry into effect (on January 1, 2012) of the direction obligating the reporting corporations to include in the decision taken in the meeting with a special majority details of the method of voting of institutional investors, including fund managers. Consequently a fund manager that was required to vote in a meeting of a reporting corporation to give it, together with its voting, a declaration that it is a fund manager belonging to the group of institutional investors.

- * **In September 2011 the Securities Authority published a circular in respect of the obligation to report the rate of assets whose value has been specified in accordance with the directions of the Board of Directors of the fund manager.**

Pursuant to the circular, the fund manager must report in an immediate report whether on a specific date the rate of exposure to the revalued assets in accordance with the directions of the Board of Directors of the fund manager exceeded 20% of the net value of the assets of the fund, and about an increase to the rate of the aforesaid assets by an additional 20% above the value returned. Furthermore additional periodical reports must be submitted monthly, if the value of the aforesaid revalued assets did

not drop below 20% of the net value of the assets of the fund during half or more of the business days in the preceding month.

- * **In August 2011 the Securities Authority published a statement of principles, for comments by the public, in respect of a material change to the fund's investment policy, that shall constitute a basis for amendment of the Joint Investment Trusts Regulations (material change to the fund's investment policy) 5767-2007 (hereinafter: "the amendment").**

In order to supply the holders of the units certain protection against the characteristics of the portfolio managed for them, it is proposed in the amendment to prohibit execution of a material change to the investment policy of the fund.

Consequently the document re-defines the term "a material change to the investment policy of the fund", so that the change will materially influence the fluctuations of the unit prices and the redemption prices of the units of the fund, or will obligate a change to one or more of the following:

- 1) The characteristics heading of the fund;
- 2) The exposure profile of the fund;
- 3) Whether the fund is/ is not imitative;
- 4) Whether the fund has/ has not opposite exposure.

- * **In August 2011 the Securities Authority published a preliminary direction in connection with notices by a fund manager to the distributor regarding the sending of a report to the holders of units.**

In this preliminary direction the Authority announced that it would agree to guarantee the sending of notices to distributors in accordance with the wording of its previous notice so that where the Joint Investment Trusts law is included in an event in whose occurrence the fund manager is required to send to the holders of units that hold them by means of it, a report that it submitted to the Authority, to the known addresses of the unit holders at that time, and to notify the distributor by means of which the units are held that it must send the report to the holders of units that hold them by means of it, it shall be entitled to do so, subject to compliance with all the conditions included in the preliminary direction of the Authority, provided that the fund manager is a subscriber to the "smart agent" service operated by the Tel Aviv Stock Exchange, the fund manager received, after sending the report in respect of which it was required to send notice to the distributors, a notice from the smart agent service that it had published the report, and that the association of fund managers for investment trusts had received confirmation in writing from all members of the Stock Exchange that someone on its behalf was authorized to receive for it notice for the registered distributor to the smart agent, and gave details to them of the new working procedure for delivery of notice, to the distributor as set forth in your application.

The Authority announced that if all the conditions as set forth in the aforesaid direction are not met, there shall continue to apply the instructions for sending notices to distributors in the currently existing form. As of the date of this report all the conditions as set forth in the direction have not been met.

- * **In July 2011 the Securities Authority published an order to license holders for portfolio management in respect of the preparation of the yield from the**

portfolios managed to persons who are not the owner of the portfolio managed, and the publication of the yields.

The aim of the order is improvement and simplification of the public's capability of comparing the fund managers. In the light of the absence of uniform universal standards for the classification of the customers and the determination of policy for management of the portfolios, presentations of past yields cannot constitute a reliable indication for the quality of the service received by the customer.

Consequently the order permits presentation of past yields only when this presentation is accompanied by a detailed and clear explanation of the risk aspects accompanying the investments portfolio or the group of the relevant investment portfolios, and reference to the connection between the risk and the yield. This presentation is accompanied by relevant clarification based on the questions of the recipient of the information, his nature and degree of familiarity with the capital market, and consequently it shall be presented by the license holder in a face to face meeting.

In addition, the order prohibits the fund manager or anyone acting on its behalf to publish or present, directly or indirectly, past yields of the financial asset or the pension product managed by a related company and of a financial asset or pension product that the fund manager engages in its investment management.

Without limitation to the aforesaid, the order permits the presentation of past yields without the aforesaid limitations to a qualified customer, within the meaning of the law for investment consulting, investment marketing, and management of investment portfolios, 5755-1995.

At present the order does not specify rules for the method of calculation of past yields, but it should be expected that the rules for calculation of the yield, as set forth in regulation 10 of the draft regulations for investment consulting, investment marketing, and management of investment portfolios (reports to the customer), 5769-2009, will be incorporated in this order after the aforesaid regulation come into effect.

In June 2011 the Securities Authority published a circular for managers of trust funds, issuers of exchange traded funds, and companies having a license for the management of investment portfolios, in respect of the position of the senior staff of the Authority in a number of issues related to the lateral audit findings in the subject of remuneration for managers of investment portfolios and additional position holders with the fund managers, issuers of exchange traded funds having a license for the management of portfolios ("position holders").

Pursuant to the circular, importance is attached to the fact that the remuneration structure for position holders will be formulated in a controlled process based on principles that will reduce the potential for conflicts of interests, while balancing the wish to reward the success of the position holders against the need to guarantee the good of their customers.

Pursuant to the circular, the Board of Directors of the management company, since it is the entity responsible for overall supervision of the company, must formulate an orderly remuneration policy in the subject, based on principles that will reduce the potential for conflicts of interests, while balancing the wish to reward the success of the position holders against the need to guarantee the good of their customers, and to specify procedures for supervision and control of implementation of the remuneration

policy chosen.

As part of this process, the Board of Directors shall decide, *inter alia*, on the method of supervision of the proper implementation of the remuneration policy, shall determine rules for monitoring, reporting, and correction of irregularities, and shall from time to time evaluate the remuneration policy established.

- * **In June 2011 the Securities Authority published a preliminary direction relevant to companies helicopter a license for management of portfolios and to portfolio managers in respect of updating customer regarding commission.**

The position of the Authority as published in this direction is that, in general, a portfolio manager is not obligated to include the commission in the agreement signed between the customers and him. However, in a number of cases the portfolio manager is obligated to inform his customer of commission, such as portfolios in which activities in options are performed, and where the portfolio manager receives reimbursement of commission from the bank and he is also involved in determination of the commission.

It was also specified in the direction that the achievement of a lower rate of commission for a customer by the portfolio manager, on the date of the agreement between them, for a period whose length depends on the bank only, is a one-time service for the customer, and consequently the commission and the rate of it do not conduction part of the service that must be specified in the agreement.

However, where the portfolio manager regards the subject of the consideration and its rate as part of the ongoing service that he provides for the customer, he shall be entitled to include this subject in the agreement. However, the inclusion of this subject in the agreement, as aforesaid, obligates the portfolio manager to clarify to the customer *a priori* that receipt of the benefit as aforesaid is subject to changes depending on the bank, and to notify the customer of changes to the rate of commission.

In February 2011 the Securities Authority published a circular for **managers of trust funds in respect of the position of the senior staff of the Authority regarding a number of issues that arose in audits conducted for fund managers**: The material remarks included in this circular included remarks regarding the composition of the Board of Directors and its committees so that the Board of Directors and the committees would be able to fill their functions; that the Board of Directors, when coming to approve the internal auditing system, that is a system of methods and means into supply reasonable continue regarding the achievement of the aims of the organization, effectiveness and operating efficiency reliability of the reporting, and observance of the provisions of the laws and the regulations, to address the main elements of the internal auditing system – supervision of the management and the auditing culture, identification and evaluation of risks, control activities and separation of functions, maintenance of reliable information systems and effective telecommunications channels and activities for the monitoring and correction of defects.

The fund manager must map the major work procedures existing in it and formulate them in procedures even if they are not mentioned in the list appearing in section 18 of the Joint Investment Trusts Law.

The function that shall coordinate the subjects of operation and control in the fund

manager shall not be involved in the investments organization and its organizational subordination shall guarantee its independent and the fund manager is expected maintain supervision and monitoring of the quality of the services specified to it from external entities.

The aspects related to preservation of the assets of the fund and the rights resulting from them.

There were also emphasized in the circular aspects related to the determination of the value of the assets, to the investment activities, and to the internal audit and its scope.

In February 2011 the Securities Authority published a **circular in respect of a change to the tax scheme in an owing fund, according to which in a process of evaluation of a change to the tax scheme of a fund**, the fund manager must examine whether the tax scheme change meets the requirements of section 74 of the Joint Investment Trusts Law that obligates it to fulfill its function and exercise its powers for the benefit of the holders of the units only.

Furthermore, the decision regarding change to the tax scheme of the fund must be taken by the Board of Directors of the fund manager, after the latter has received all the information required for evaluation of the ramifications of the aforesaid change on the holders of the units. The trustee of the fund must confirm that the decision taking process was in order and was not defective. In addition, obligations of reporting were specified in connection with the aforesaid change.

- * **In January 2011 the Securities Authority published a circular in respect of the use of monies from an expected production surplus and non realization of assets during a forecast of surplus redemptions and their ramifications on the fund's compliance with its investments policy and the restrictions as set forth in the law.**

In this circular the Authority presented its position in connection with the use of monies from an expected production surplus on a specific date for the purchase of assets for the fund and in respect of non realization of assets when there is a forecast of surplus redemptions, and the Authority's attitude in these two situations to deviation from the investments policy.

In January 2011 the Securities Authority published a **circular for fund managers and trustees in respect of the return or transfer of monies to a trust fund from the account of the fund manager (and also published clarification to the circular of December 2011)**, in which the Authority wished to clarify that it is forbidden that compensation for an error be used by the fund manager to improve the yield of the fund managed by it (since then this would be a prohibited benefit), and that the transfer of monies to the account of a fund, not as part of the constant of current management of the investments, may be done in exceptional cases only, in accordance with clear conditions and procedures, with the approval of the trustee of the fund, and after the circular of the case have been given to him.

Anyway, the Authority clarified that errors in judgment by the fund manager both from the aspect of current management and from the aspect of errors in prices of the unit and the redemption, are not correctible and do not permit the return of the monies to the fund.

- * **In January 2011 the Securities Authority published an order to license holders for portfolio management in respect of participation in conferences and the**

acceptance of publicity products from managers of financial assets [new version] 2010).

The aim of these provisions is to clarify that investment consultants are permitted to participate in a professional conference held by the issuer of the financial product or under its sponsorship, all as set forth in the provision "sponsored conference", only when it is a professional conference having the sole aim of increasing the investment consultant's familiarity with the financial assets marketed by the organizer of the conference or the sponsor of the conference and the functions behind them.

In this order limitations were specified that apply to such a professional conference and, *inter alia*, to the wording of the invitation to the conference for the investments consultant and what is supposed to be included in the invitation, the refreshments given in the conference, and the benefits included in the conference, all impossible to maintain the objectivity of the investments consultant and in order that the conference shall not falls into the category of the awarding of a benefit prohibited by law.

In January 2012 the Authority published clarification to this circular in which it stated that an investments consultant is expected to treat every invitation to a conference that he receives, in which it is not stated expressly that the conference is not sponsored by an investments house, as an invitation to a sponsored conference, and as such is subject to all the rules as set forth in the provisions.

An investments consultant who participates in a sponsored conference in which the conditions as set forth in the provisions were not met, shall be in infringement of the provisions of the law, even if he did not know before his arrival at the conference that this was a sponsored conference, unless stated in the invitation that the conference was not sponsored by any investment house whatsoever.

8.9.1 Licenses and permits

Menora Mivtahim investments holds a license for management of portfolios and is entitled to engage in investment marketing.

Menora Mivtahim Funds holds a permit to serve as a manager of trust funds pursuant to the provisions of the Joint Investment Trusts Law.

Menora Mivtahim underwriting serves as an underwriter pursuant to the Securities Law and the underwriting regulation enacted by virtue of it.

8.10 Material agreements

8.10.1 In June 2006 Menora Mivtahim Funds (as part of a transaction in which it made an agreement with a company controlled by Africa Israel Investments Ltd. (hereinafter: "**Africa**") purchased 38 funds in which assets were managed in the sum of about NIS 4,625 million from Bank Mizrahi Tefahot Ltd. (hereinafter: "**Mizrachi Tefahot**") in consideration for the sum of about NIS 188 million.

In parallel, Menora Mivtahim Funds made a distribution agreement with Bank Mizrahi Tefahot.

8.10.2 In addition, on the date of signing the aforesaid purchasing agreement, Menora Mivtahim Funds made an agreement with Bank Mizrahi Tefahot (for 5 years) according to which the bank will furnish Menora Mivtahim Funds with operating services, trust services, brokerage services, securities custodian services, and

additional services, some for no charge and some for a charge as set forth in the agreement between the parties.

On December 28, 2011, on entry into effect of a comprehensive legislation amendment in the subject of payment of commission from the assets of the fund, the company signed an amendment to the agreement according to which the bank will furnish operating services, brokerage services, securities custodian services, and additional services, in consideration for a sum as set forth in the agreement between the parties. The period of the amended agreement is one year from the date of signing.

8.10.3 In February 2006 Menora Mivtahim Funds purchased most of the trust fund management activities of Bank Igud Israel Ltd. (hereinafter: "**Igud**"), that were managed by Igud Trust Fund Management Ltd. (hereinafter: "**ITM**"). The number of funds purchased by Menora Mivtahim Funds as part of the aforesaid transaction was 34, and assets were managed in them in the sum of about NIS 821 million. The consideration paid for management of the aforesaid funds was in the sum of about NIS 34 million.

In parallel, Menora Mivtahim Funds signed a distribution agreement with Igud.

8.10.4 In addition, on the date of signing the aforesaid purchasing agreement, Menora Mivtahim Funds made an agreement with Igud (for 5 years) according to which the bank will furnish Menora Mivtahim Funds with operating services, trust services, brokerage services, securities custodian services, and additional services, some for no charge and some for a charge as set forth in the agreement between the parties.

In November 2009 the aforesaid agreement ended and Menora Mivtahim Funds made an agreement with Bank Igud and the First International Bank of Israel Ltd. (hereinafter: "**the International Bank**") according to which Bank Igud would cease giving these services to the funds and instead the International Bank would furnish the aforesaid services until October 2011. After this date, and until December 28, 2011, the date of signing the amendment to the agreement for receiving the services from the bank, the company continued to receive services from the bank in the form of the old agreement.

8.10.5 During 2006 Menora Mivtahim Fund signed distribution agreements according to which Menora Mivtahim Funds pays distribution commission to the following banks in consideration for distribution of units in trust funds by the banks and for the holding of units in trust funds by customers of the bank.

Agreements were signed with Bank Mizrachi Tefahot, Bank Igud, Bank Leumi Le'Israel Ltd., Bank Otzar Hahayal Ltd., Bank Mercantile Discount Ltd., Bank Hapoalim Ltd., the First International Bank of Israel Ltd., and Bank Discount Le'Israel Ltd.

Similar agreements were signed during the period 2008-2010 with Bank Jerusalem Ltd., Bank Poalei Agudat Israel Ltd., Bank Arab Israel Ltd., and Bank Yahav for State employees Ltd., and UBank Ltd.

As of the date of this report these agreements are still in effect.

8.10.6 On March 12, 2012, the company signed an agreement with Bank Hapoalim Ltd.

according to which Bank Hapoalim will furnish operating services, brokerage services, securities custodian services, and additional services, in consideration for a sum as set forth in the agreement between the parties. The period of the agreement is for two years from the date of signing.

Part D – Additional information at the overall level of the Group

9 Description of the corporations' activities – matters related to the activities of the overall group

In addition to the information furnished in sections 3-8 above that refers separately to each field of activity of the Group, the following is a description of matters that refer to the business affairs of the Group in general.

9.1 General environment and the influence of external entities on the activities of the corporation

9.1.1 Development of the economy, the capital markets, and the money markets

9.1.1.1 Development of the economy, the capital markets, and the money markets

During 2011 a negative trend occurred to the world economy, that also influenced the Israeli economy. The hesitant recovery from the 2008 crisis did not prove to be permanent and the attempts to introduce order into the state budgets of most of the Western countries were unsuccessful. The slowdown in the Israeli economy was mainly due to the fact that the export branches constitute a central feature of the Israeli economy, and a slowdown in markets in Western Europe and the US significantly harm the Israeli economy.

To the shocks that visited the economies of the West were added the negative influences of instability in the Arab world. Since the second quarter of 2011 a slowdown has been felt in activities in various branches of the Israeli economy, while the fate of the Euro bloc is still uncertain.

During the third quarter of 2011 the slowdown in the economy was joined by public protest movements and the demand for social justice. In addition to the report of the Trachtenberg Committee, another result of the social protest, there appeared the draft report of the inter ministerial committee for increasing competition, a major part of which was devoted to business changes having a pyramid structure.

During 2011 the GDP of the Israeli economy increased by about 4.8%, while the per capita GDP increased by about 2.9%. Macroeconomic indicators published in the Israeli economy during the second half of 2011 point to continuation of the growth of economic activity in the Israeli economy, but at a more restrained rate than in the first half of the year.

The slowdown in growth of the Israeli economy is mainly noticeable in the data regarding export and local demand. The various expectations surveys, both of consumers and of companies, indicate an expectation of continuation of the reduced rate of growth. However, these data are far more encouraging

than the data published for the western world.

The labor market data indicate a high level of employment and low unemployment. However, the Health Tax receipts, that form an indication of the total wage payments, were in December about 2% nominally higher than in December last year (after deduction of the influence of changes to legislation), a data value indicating market moderation compared to their rate of growth in the last two years. The rate of unemployed reached about 5.4% of the civil work force during the year, the worst figure in 20 years.

During 2011 the trend continued of slowdown in the rate of inflation of the Israeli economy. The background to the decrease in the rate of inflation was apparently the continuation of expectations of slowdown in growth in Israel and abroad, and apparently also the process of reduction of prices by the marketing chains and the various services providers, under the influence of the social protest against the cost of living.

The decrease in the index was due to the items of food, education, culture, transport, and telecommunications. During the period reviewed a decrease was recorded in the item of housing, partly seasonal, and there was a decrease in the prices of owned apartments (that do not form part of the Consumer Price Index).

Based on the monthly data after the deduction of seasonal factors, there was a slowdown in the rate of increase of prices during the second half of the year, and in annual terms it was even less than the lower limit of the inflation target range. The inflation in the whole of 2011 came to about 2.2%, nearly the middle of the inflation target (1%-3%).

The major sources of the price increases in 2011 were the components of energy, rent, and food, that increased rapidly in the first half of 2011, and their rates of increase in the whole of 2011 were 9.5%, 5.2%, and 2.3%, respectively.

During 2011 the Bank of Israel continued to increase the rate of interest in the economy from 2% at the beginning of 2011 to 2.5% at the end of the year, while in the period June-September the Bank of Israel interest rate reached 3.25%. The change to the Bank of Israel interest rate was influenced by two major opposing factors.

On the one hand, the low interest rate in the economy encouraged the public to switch to the real estate investment channel, that led to a marked increase in housing prices in the last two years. Furthermore, the bank's steps were also influenced by expectations of inflation, that varied at the beginning of the year around the upper limit of the inflation target.

In parallel, in the first half of the year the Bank of Israel avoided raising the interest rate faster, following the low interest rates in developing countries and the fear that widening the interest differences would lead to strong pressure for revaluation of the shekel while strengthening short term movements of capital into Israel.

In parallel to the increase in interest the Bank of Israel and the Ministry of Finance took steps in the housing market. During the fourth quarter the Bank of Israel reduced the rate of interest in order to support realistic activities in

the light of the negative influence of the global slowdown on the growth of the local economy.

Starting from April 2011 a trend became apparent of a decrease in collection of indirect taxes, and in July a similar trend became apparent in the collection of direct taxes. The deficit of the government (without giving credit) came in 2011 to 3.3% of the product, compared to a planned value of 2.9% product, and it is greater than the deficit ceiling (3% of the product).

In the world economy the uncertainty in respect of continuation of the recovery of the world economy increased, mainly against a background of the difficulties in the major economies, the financial crisis in Europe that spread to important countries in the Euro bloc (headed by Italy and Spain), and in the light of uncertainty regarding the rescue programs being formulated in Europe.

The macro data in the Euro bloc continued to indicate the beginning of a recession, the most prominent being the growth data for Germany in the fourth quarter of 2011 – a negative growth rate of 0.25%. Forecasts of the investment houses in respect of growth in the Euro bloc indicate an average negative growth rate of 0.7% in 2012, and fears have increased of the negative consequences of the fiscal restraint on the growth.

On the other hand, in recent months relatively positive macro data have been published in the US, in particular in respect of consumption and employment. Consequently a trend of recovery and growth is continuing in the American economy. The first signs can also be seen of moderation in economic activities in awakening markets. The actual world trading data indicate a continuation of shrinking of levels of trading in October, and the forecasts for development of trading have been reduced.

The risk factors continue to focus in Europe, where there is a negative chance of growth. Even in the core economies the fear has significantly increased of a grave financial crisis, including the fear of the risk spreading to leading banks in Europe. The fear of liquidity difficulties in the banking system, and de facto reduction of the rating of leading banks in the world has led policy makers in Europe to announce a comprehensive aid program, and major banks in Europe, the US, and Britain have begun renewing the various expansion programs.

9.1.1.2 The bonds and shares markets

In 2011 relative stability developed in share prices, but at the end of April there was a turnaround and a drop in share price began that continued until the end of the year. The turnaround in the shares market reflects the negative developments that occurred to the world economy, on the one hand, and the expected ramifications on the Israeli economy, on the other hand.

After many years in which the Tel Aviv Stock Exchange showed greater yields than its equivalents throughout the world, in 2011 the local shares indexes yielded significant short returns compared to the share indexes throughout the world.

During 2011 the TA 25 index dropped by about 18.2%, and the TA 100 index dropped by about 20.1%. The TA 75 index dropped by about 29.5%

and the other 50 indexes dropped by about 25.7%. Amongst the branch indexes there were prominent drops in TA Finance of about 34% and of investment companies of about 41%.

On the other hand, the S&P rating increased during the reviewed period by about 0.4%, and the DOW Jones rating by about 6.2%. On the other hand, the German Dex index dropped during 2011 by about 15.4% and the French Hakale index dropped by about 18.8%. The British Potsey index dropped by about 6.8%.

During 2011 the Tel Bond 20 index rose by about 0.7% while the Tel Bond 40 index dropped by about 1.6%. The linked government bonds index rose by about 4.3% and the shekel government bond index rose by about 5.2%.

The marked capital imports into developing markets increased the activity in the world foreign currency market; in parallel the interventions in the world foreign currency markets increased – both by means of massive foreign currency purchases by central banks and by means of the imposition of restrictions on movements of capital.

To sum up the period reviewed, the shekel was devalued by about 7.7% compared to the representative rate of exchange of the dollar, where the representative rate of exchange of the euro compared to the shekel recorded an increase of about 4.2% during this period. The foreign currency reserves of the Bank of Israel increased during the period from about \$70.9 billion at the end of December 2010 to about \$74.9 billion at the end of December 2011.

9.1.1.3 Developments after the date of the balance sheet

At the beginning of March 2012 the Central European Bank held the second tender for giving cheap loans (interest of 1%) for a period of 3 years. A total of about 530 billion Euros were pumped into about 800 banks, compared to about 489 billion Euros pumped into 523 banks in the first tender compared to the end of December 2011.

By means of these tenders the Central European Bank signaled that it intended to intervene in the markets in order to verify that the financial system in Europe would maintain stability despite the problems of the PIIGS countries.

Against a background of these tenders, and despite the step of reducing the credit rating for 9 countries in Europe, there was a positive atmosphere in the Western markets. This was evident in the successful bond issues of countries in Europe, including Italy, Spain, and France, in the reduction of credit margins of countries in the periphery, and in rises in the shares markets.

During March 2012 an agreement was reached with most of the holders of the Greek bonds for the writing off of about 75% of the debt, that totaled about 206 billion Euros. This agreement permits the receipt of aid to Greece of 130 billion Euros, while the International Monetary Fund announced that it would supply \$36.7 billion to the aid fund for Greece during the next four years.

Although the ISDA has called the transaction a "credit event", thus

obligating the payment of about \$3.2 billion for the CDS contracts that it was forced to participate in, this sum lies on the lowest limitation of the various scenarios that preceded the deal, because the event was defined as one of "re-organization" and not of "insolvency". In this way the final result was received with a kind of sigh of relief, given the extreme scenarios that preceded it.

During the first quarter of 2012 there was an increase in expansion of inflation, mainly following the increase in commodity prices.

The local shares indexes continued to significantly underperform compared to the world share indexes, even during the first quarter of 2012.

9.1.2 Major entry and exit barriers and the changes occurring in them

The major entry barriers for all field of activity of the Group are:

- * The existence of a technological and professional infrastructure that supports the field of activity in which the Group is active; skilled manpower; developed business connections with secondary insurers and know-how and experience *vis-a-vis* the major services providers.
- * The need to meet the conditions required by law in order to receive licenses and permits for control and for holding means of control, as the case may be; compliance with regulatory requirements.
- * The requirements to hold a minimum equity.
- * The construction of effective marketing organizations in the various fields of activity.

The major exit barrier from the field of activity of the Group is due mainly to the need to continue treatment of an existing customer portfolio and insurance claims, sometimes for long periods (run off).

9.2 Limitations and supervision of the activities of the Group

9.2.1 Supervision of the various fields of activity

The activities of the Group in the various fields of activity are subject to considerable and specific regulations and to the obligation to receive permits and licenses from the various state authorities, including the Commissioner and the Securities Authority.

The Group is subject, *inter alia*, to the provisions of the Companies Law and the Securities Law and the regulations enacted by virtue of them; to the provisions of the Supervision Law and to the provisions of the Income Tax Order, the provisions of the Provident Fund Law and the Pension Consulting Law, the provisions of the Joint Investment Trusts Law, and the regulations enacted by virtue of them.

To the best of the company's knowledge, the Group is not in material infringement of the provisions of the legislation and regulations applying to it, that may have a material influence on the business affairs of the Group.

It should be noted that in the part addressing the description of the company's business affairs, in which new legislation and/or regulation is described, wherever

the company estimates that its influence on the company's business affairs and activities is liable to be material, it indicates this.

The following are details of the major laws and regulations applying to the Group, in addition to the laws as set forth in the appropriate sections by the various fields of activity.

The provisions of the law

9.2.2 The Supervision Law and the regulations enacted by virtue of it (hereinafter: "the Supervision Regulations") – a brief description of the provisions of the Supervision Law

The insurance companies are subject to the provisions of the Supervision Law and the Supervision Regulations. Management companies of pension funds are partially subject to the provisions of the Supervision Law and the Supervision Regulations. The Supervision Law and the Supervision Regulations address, *inter alia*, the following major subjects:

Pursuant to the Supervision Law, engagement in insurance obligates the holding of an insurer's license by the entity, that is limited to the insurance branches as set forth in the license. An insurer's license is issued by the Commissioner after consulting with the advisory committee set up by law (hereinafter: "**the committee**"). Conditions and limitations may be specified in the insurer's license, and they may be changed, all in consultation with the committee.

The holding of more than 5% of a specific kind of means of control of an insurance corporation, and control of an insurance corporation, obligates a permit from the Commissioner. For details of the permit received by Mr. Menahem Gurevitz in December 2007, against the background of the purchase of Shomera as set forth in section 1.2.6 above, see section 9.2.5 below.

The law empowers the Minister of Finance to make regulations in respect of an insurer, with the approval of the Knesset Finance Committee, provisions in respect of minimum issued and paid up share capital and minimum surplus of assets over commitments.

Furthermore the Minister of Finance is empowered to specify in the regulations provisions in respect of: the types of securities that an insurer shall hold against its various kinds of commitments, and their amounts compared to the commitments; the methods of holding assets against the insurer's commitments; the cases in which an insurer is entitled to invest in its subsidiary, in its holder of means of control, in another insurer or in an insurance agent; the insurer's obligation to hold insurance reserves and means of calculating them; engagement as an insurer abroad; the minimum rate of the share of the risk to borne by insurers in Israel, and the maximum rate of the share of the risk to be borne by an insurer; loans that an insurer may give and guarantee, that it may give and their amounts. (The provisions of the regulations in this matter shall be determined after consultation with the Governor of the Bank of Israel.)

Annual audited financial statements of the insurer as well as reviewed financial statements for the intermediate periods shall be prepared, submitted to the Commissioner, and published publicly in the way as set forth in the regulations by the Minister of Finance, including the contents, degree of detail, and the

accounting principles used in their preparation.

The insurer is obligated to keep a separate accounting system for life insurance business, to hold assets to cover its life insurance commitments, and to purchase separate secondary insurance for these transactions.

The Commissioner has the authority to clarify complaints from the public in respect of an action by an insurer in insurance matters, and to order the correction of a defect found.

The amendment to the Supervision Law (as part of the Becher reform) included provisions addressing the corporate structure of the insurers, including provisions in respect of the methods of action of the insurers regarding the appointment of directors and various position holders, the activities of various organs in the company and the obligation of reporting to the Commissioner. In this matter there were applied to the insurer, *mutatis mutandis*, various provisions of the Companies Law that generally apply to public companies.

For example, the insurer is required to appoint external directors within the meaning of the Companies Law and to maintain an audit committee. Furthermore, by virtue of the Supervision Law the insurer is required to appoint investment committees. In addition, provisions were specified in respect of the appointment of specific position holders, including an actuary, a risks manager, and an internal auditor. In respect of specific position holders as set forth in the Commissioner's circular dated December 2005 (director, CEO, internal auditor, chairman/ members of the investments committee, finance manager, actuary, risks manager, and legal advisor) the law obligated the issue of prior notice regarding the intention of appointing them subject to the receipt of approval of the appointment from the Commissioner, even in the absence of objections.

In addition to the financial reports, the Minister of Finance was empowered to specify the obligation for immediate reporting and giving various reports to the Commissioner. (These provisions have not yet been formulated.)

There was also specified in section 42(a) of the Supervision Law a prohibition in respect of the inclusion of misleading details or the non inclusion of details, whose omission is liable to be misleading, in notices and reports, while applying in this matter, *mutatis mutandis*, the provisions of Part E of the Securities Law headed "Liability for a prospectus".

It should be noted that section 2(b) of the Supervision Law empowers the Commissioner (subject to consultation with the committee) to issue various instructions regarding the method of operation and methods of management of insurers, insurance agents, position holders in them, and anyone employed by them. Together with section 42(3) of the law, that awards the Commissioner the authority to order the submission of reports and notices, the Commissioner was given tools for the maintenance of active supervision of the insurance market.

In August 2011 the **Law for increased enforcement in the capital market (amendments to legislation) 5771-2011** (hereinafter: "**the law**") was enacted. Accordingly the provisions of the Law for Supervision of Financial Services (insurance) 5741-1981 (hereinafter: "**the Insurance Supervision Law**"), the Law for Supervision of Financial Services (provident funds), 5765-2005 (hereinafter: "**the Provident Fund Law**"), and the Law for Supervision of Financial Services

(consulting, marketing, and financial clearing system), 5765-2005, were amended.

The law awards, *inter alia*, the Commissioner and/or the Inspector (hereinafter: "**the Commissioner**") powers of supervision and administrative clarification (some subject to a court order) in connection with various infringements of the aforesaid laws, including the authority to receive information and documents, the authority to summons for a hearing, the authority to enter premises and seize documents, including computer material, and to issue an order for the halting or prevention of engagement in an activity without a license, *inter alia*, by means of qualified inspectors acting on his behalf.

In addition the law gives authority to impose a financial sanction in respect of various infringements of the aforesaid laws (authority that had mainly existed prior to the enactment of the law), while enlarging the sum of the financial sanction and permitting the imposition of an alternative to a sanction of a commitment to avoid the infringement or the determination of a conditional sanction while giving details of the proceedings in connection with the imposition of the financial sanction and the consideration for its reduction.

In addition there was specified in the law the obligation for supervision of the CEO or a partner in a supervised corporation while giving presumption of infringement of the obligation of supervision in the occurrence of infringement of the provisions as aforesaid, with the authority to impose a financial sanction except if adequate procedures have been specified for prevention of infringements ("**enforcement program**").

Furthermore the prohibition was specified of indemnification and insurance for a person in respect of a financial sanction resulting from the aforesaid infringements. The provisions of the Insurance Supervision Law and the Provident Fund Law in respect of financial sanctions shall come into effect one year after the publication of the law in Reshumot (August 2012).

The provisions of the law are liable to lead in the future to increased use of the means of enforcement, as set forth therein, *vis-a-vis* the supervised entities (the institutional entities and the insurance agents) and to an increase in the sum of the financial sanctions imposed by the Commissioner if he decides that the aforesaid provisions of the law were infringed.

It should be noted that in January 2012 a draft circular in respect of **management of compliance risks in institutional entities** was published. Pursuant to the provisions of the draft, that if it comes into effect are expected to apply from January 1, 2013, the management of an institutional entity shall be obligated to appoint a supervisor for the internal compliance and enforcement organization.

9.2.3 By virtue of the Supervision Law the following major regulations, *inter alia*, were enacted:

*** The Regulations for Supervision of Financial Services (insurance) (the Board of Directors and its committees), 5767-2007**

The aim of these regulations, that were enacted in July 2007, is to strengthen the corporate structure infrastructure in insurers, by means of, *inter alia*, the formulation of rules to ensure the proper functioning of the Board of Directors and its committees, to ensure its independence, the qualifications of its

members, its composition, rules for the prevention of conflicts of interests, subjects which the Board of Directors must discuss and decide, the presence of a legal quorum in its meetings. The regulations address the Board of Directors of an insurer (including the management company of a pension fund) and alleviations have been specified in them in respect of the Board of Directors of management companies of provident funds.

* **The Regulations for Supervision of Financial Services (insurance) (financial statements), 5767-2007**

These regulations impose on an Israeli insurer, a management company and a management company of a provident fund for pensions, the obligation to submit annual and quarterly financial statements to the Commissioner. The regulations also specify that the annual financial statements must be audited by an accountant, while the quarterly financial statements must be reviewed by an accountant.

The regulations also apply the aforesaid to a foreign insurer's activities in Israel.

* **The minimum capital regulations**

These regulations address the minimum equity required from the insurer. The minimum equity required from the insurer is influenced, *inter alia*, by the scale of activities in general insurance or by the level of claims in general insurance, from the total deferred acquisition costs (DAC) in life insurance and health insurance, by the types of assets held in NOSTRO, by the exposure to catastrophe risks, by operating risks, by exposure to life insurance risks, by the extent of the assets defined in these regulations as "unrecognized assets") by the additional capital required in respect of nursing insurance, and by the additional capital in respect of investment in subsidiaries that are an insurer. Various definitions are specified in the minimum capital regulations that address the capital of the insurance companies, the definition of equity, primary capital, and secondary capital.

Pursuant to the minimum capital regulations, the minimum "primary capital" for an insurer engaging in life insurance and general insurance is NIS 60 million linked to the consumer price index, from the basic index published in June 1997.

* In July 2008 the Commissioner published a **circular for adoption of the Solvency II directive**, that addresses 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 ruling that the equity of an insurance company is intended to be used as a buffer to absorb losses responsible for the occurrence of unexpected risks to which the insurance company is exposed, and that were not identified by it specifically or that were not adequately estimated by it.

For details see the continuation of this section below.

* In November 2009 **the amendment to the Regulations for Supervision of Financial Services (minimum equity required from an insurer)**

(amendment), 5769-2009 (hereinafter: "**the amendment**" or "**the amendment to the capital regulations**") was published.

It was required in the amendment to add to the existing capital requirements, capital requirements in respect of the following categories: programs guaranteeing a return in life insurance, against which or against part of which there are no designated bonds; operating risks; credit risks depending on the degree of risk that characterized the various assets; catastrophe risks in general insurance transactions; risks in respect of guarantees; holdings in the activities of provident funds and management companies of provident funds and pension funds.

This amendment shall come into effect 30 days after the date of its publication. Furthermore, in the amendment the definitions of primary and secondary capital were changed and a definition of tertiary capital was added, that constitutes an additional layer of equity.

Subsequently the Commissioner published a **temporary order in respect of the composition of the insurer's equity**, that specifies that in the period starting from the introduction of the regulations and until a date to be announced by the Commissioner, there is no change to the definitions, to the structure and calculation of the existing capital of the insurance companies.

- * Furthermore, in December 2009 the Commissioner published a **draft circular that addresses the program for management of the equity of an insurance company, whose aim is to ensure that the insurance company has a proper program for management and monitoring of the state of the capital and for coping with changes to it**. The draft circular specifies a number of guidelines that the Board of Directors must discuss in this context, as well as criteria for formulation of the aforesaid action program.

Further to the aforesaid amendment to the capital regulations, and against a background of the intention of the Commissioner to adopt the Solvency II directive in the future, a circular was published in August 2011 in respect of the composition of recognized equity of the insurer.

The aim of this circular is to formulate rules and principles for the composition of the recognized equity of an insurer and for the characteristics of its elements, and a set of principles for recognition of various capital elements and their classification into various capital elements.

To ensure the designation of the insurer's equity, importance is attached to the determination of its composition and the basic characteristics of the various elements, including:

- a) The degree of deference of a capital element or of a capital instrument regarding the insurer's commitments and regarding the other capital elements and capital instruments.
- b) The capability of absorption of loss embodied in a capital element or a capital instrument, i.e. the degree to which the capital element or the capital instrument permits the insurer to meet its obligations in a crisis event and to continue to exist as a going concern.
- c) The degree of permanence of the capital element or the capital instrument until its date of repayment (if any).

- d) The existence of additional conditions and limitations in the capital instrument liable to affect the insurer's capability of acting carefully or to limit its capability of issuing additional capital.

The various kinds of capital element were defined in the circular, while referring to complex capital instruments in each layer and the conditions for their recognition, as well as the minimum and maximum rates of the various layers. In addition the circular includes a temporary order in respect of the composition of the equity of an insurer until the implementation of the Solvency II directive. The provisions of the circular address the financial statements for the period ending September 30, 2011.

See also note 15(f) of the financial statements.

* **The regulations in respect of methods of investment**

The regulations in respect of methods of investment include, *inter alia*, provisions that address: loans that the insurer is permitted to give; the types of assets that the insurer must hold against its commitments; limitations in respect of the insurer's investments in its subsidiary or in a company held by it, in the holder of a controlling interest in it, in a stakeholder in it, in another insurer, or in any other corporation that engages in insurance brokerage; the insurer's obligation to appoint two investment committees, one for management of yield dependent investment portfolios ("participate"), and the other for management of non yield dependent investment portfolios ("nostro"); the composition of the committees, their function and methods of action.

The regulations in respect of methods of investment transfer to the insurer responsibility for selection of the mix of assets, in excess of that required pursuant to the regulations, and they consequently leave in its hands the responsibility for determination of the ratio of the expected yield to the expected risk resulting from the various investment strategies, subject to the limitations of the capital for dispersion of risk, the linkage balance, and the average amended life, as set forth in the regulations.

The regulations in respect of methods of investment have significantly reduced the limitations applying to the methods of investment of the insurer. The option is given in them to the insurance companies to invest in extensive fields in which it was not permitted to invest in the past, subject to the conditions as set forth in the regulations.

Inter alia, the insurer may carry out transactions of loaning securities, selling short, participation in issues and investment in non negotiable securities and in loans, investment in securities abroad, investment in real estate in Israel and abroad, etc.

Regarding life insurance policies issued starting from January 1, 2004, it was forbidden to hold a balance of DAC against a commitment derived from profit sharing life insurance transactions in Israel. The said holding of DAC is against non insurance commitments and equity balances and surplus equity.

In February 2012 the Knesset Finance Committee approved the Regulations for Supervision of Financial Services (provident funds) (investment rules applying to management companies and insurers), 5772-2012, that were

intended to replace the methods of investment regulations and the provident funds regulations, and to unify the rules for investment applying to institutional entities (insurers and provident funds).

The regulations will come into effect within 30 days of the date of publication in Reshumot. *Inter alia*, changes are proposed to some of the existing investment rules, in order to match them to the policy of the Ministry of Finance in respect of methods of action in the capital market in general and the methods of action of institutional investors in particular (including comparison of the investment rules for the free part of the old pension funds, cancellation of the dependence between the rating and the extent of the permitted investment in a single corporation and a group of lenders, expansion of the option of investment in countries whose credit rating lies in the BBB group and above and in countries that are members of the OECD).

In addition, the draft amendment addresses the limitations that shall apply to business agreements between institutional entities and corporations associated with them, because of the change that took place in the ownership of the institutional entities and, in particular, the conversion of the insurance groups into financial corporations having a wide range of activities.

In addition, the regulations specify that a group of investors includes the institutional entities and the management companies controlled or managed by the same person or whose investments are managed together, and specify overall limitations in specific fields, including the maximum rate of holding of negotiable bonds and the maximum rate of holding of means of control in a corporation, of units in a fund, and of rights in a partnership. For additional details see section 3.1.3.1 above.

* **The calculation regulations**

The calculation regulations include, *inter alia*, provisions in respect of the insurer's obligation to hold insurance reserves and the methods of calculating them, and provisions for pending claims.

* **Regulations in respect of report details**

The regulations in respect of report details specify provisions regarding their contents, details, and the accounting principles used in the preparation of the annual financial statements and the intermediate financial statements of the insurer, that include a broad financial report for the public and for the Commissioner, while incorporating some of the securities regulations (preparation of annual financial statements), 5753-1993, and their adaptation to the insurance branch.

The Commissioner is empowered, by virtue of the regulations, to publish circulars and instructions regarding the adoption of additional accounting rules for insurers. A circular was issued by virtue of these regulations that adopts the application of the international accounting rules (IFRS) to insurance companies.

* **Additional regulations**

Provisions are specified in additional regulations in respect of conditions that must be included in insurance contracts, *inter alia*, in the following subjects:

the prohibition of charging a supplement to the basic premium for risks, conditions, or benefits to which the insured is entitled by virtue of any legislation whatsoever; group life insurance; uniformity of currency in insurance contracts and the conditions for charging premiums in installments; the linkage conditions in a life insurance contract; the conditions of a private vehicle insurance contract; return of the premium in the event of cancellation of a contract before the end of the period of insurance on the insurer's initiative, not in circumstances in which the insured infringed the contract or attempted to fraud the insurer; the prohibition of making approval of a claim conditional on signing an acceptance and release form unless at the time of signing the insurance benefits are paid; provisions that must be included in an insurance contract for passengers and their luggage in trips abroad; provisions that must be included in a life insurance contract; and the ways in which the insurer who issues a profit sharing insurance policy shall be entitled to charge management fees for management of an investment portfolio, including the rate of the management fees charged and the method of calculating them.

In addition, provisions were specified in the regulations in respect of the form of the insurance contract in the following subjects: the contents of the insurance contracts (vehicles and apartments), reservations to the insurer's liability or to the extent of the cover as set forth in the insurance contract, the methods of protection required from the insured (in the event of property insurance).

Provisions were also specified in the regulations in respect of the premium that the insurer shall be entitled to charge the insured in property vehicle insurance and in respect of premiums paid in installments.

An insurer who wishes to introduce an insurance program whose details were not submitted to the Commissioner, to change its conditions, the premium and the other payments, details of which were submitted to the Commissioner, shall notify the Commissioner of this ten days before the change comes into effect. In insurance branches specified by the Minister of Finance in an order in this matter, the insurer shall not introduce a program or a change as aforesaid except with a permit from the Commissioner. The branches requiring a permit as aforesaid are: life insurance, compulsory vehicle insurance, property vehicle insurance, insurance of apartments and business premises and insurance of investments of purchasers of apartments pursuant to the requirements of the Sales Law (apartments) (separate of investments of purchasers of apartments), 5731-1971.

* **The Insurance Contract Law**

The Insurance Contract Law (hereinafter in this section: "**the law**") addresses various aspects related to the insurance contract and the insurer-agent-the insured relations. Pursuant to the Insurance Contract Law, an insurance contract is a contract between an insurer and an insured that obligates the insurer, in consideration for the premium, to pay insurance benefits to the beneficiary in the occurrence of the insurance event.

Pursuant to the law, notice of the occurrence of the insurance event shall be furnished to the insurer by the insured or the beneficiary immediately after they become aware of the occurrence of the insurance event, and/or the right

to receive insurance benefits. After the insurer has been furnished with notice as aforesaid, the insurer is obligated to take the required steps for clarification of its liability, and the insured shall furnish the insurer, within a reasonable period of time after being requested to do so, the information and documents required for clarification of the liability. Avoidance of furnishing information as aforesaid shall influence the eligibility of the insured or the beneficiary to the insurance benefits and their sum.

The insurance benefit shall be paid within 30 days of the date on which the insurer held the information and documents required for clarification of its liability. Sums that are not in dispute in good faith shall be paid within 30 days of the date of submission of the claim.

There shall be added to the insurance benefits, linkage to the index from the date of the occurrence of the insurance event, and interest pursuant to the Law for granting interest and linkage, 5721-1961, from the end of 30 days after the submission of the claim. In personal insurance policies, in the event of the insurer not paying sums that are not in dispute on the said date, the Court shall award special interest as set forth in section 28(a) of the law.

In addition the law includes, *inter alia*, provisions in respect of the duty of disclosure of the insured and the results of non disclosure, conditions for cancellation of the insurance contract, the status and rights of the beneficiary, provisions related to the ramifications of changes to the insured's risk, and the determination of special provisions applying to the various insurance branches (life insurance, insurance of an accident, illness, and disability, and damages insurance).

In March 2010 amendment 4 of the law was published, in which it was specified that if an insurer of personal insurance policies (i.e. personal accidents insurance, property vehicle insurance, insurance of apartments and their contents, life insurance, but not including liability insurance) who is conducting legal proceedings *vis-a-vis* an insured, did not pay the insurance benefits that were not in dispute in good faith, on the dates on which it was obligated to pay them, the Court shall be obligated to order it to pay special interest on the sum of the insurance benefits, as set forth in section 28(a) of the law. In respect of the said insurer in insurance policies that are not personal insurance policies, the Court shall be entitled to order it to pay the special interest as aforesaid.

In March 2012 amendment 5 was published, that amends section 10 of the law, according to which an insurance policy for which a request for cancellation is received from the insured shall be cancelled 3 days after the date on which the cancellation notice was furnished to the insurer.

* **The Law for Protection of Privacy, 5741-1981 (hereinafter: "the Law for Protection of Privacy")**

The Law for Protection of Privacy specifies provisions in respect of databases, where a database is defined as a collection of information data held in magnetic media or optical media and is intended for computerized processing, except for the exceptions as set forth in the Law for Protection of Privacy.

The law specifies arrangements in the following major issues: the cases in

which the holder of the database is obligated to register the database in the databases register, conditions for management and maintenance of databases that obligate registration, the use of the database, the obligations applying to a person or corporation who requests the information in order to enter it into the database, the right to examine the information, the responsibility applying to the holder of the database for the security of the database, the protections given to the holder of the database, etc.

* **The law for the prohibition of money laundering, 5760-2000 (hereinafter: "the law for the prohibition of money laundering")**

Pursuant to the law for the prohibition of money laundering and the orders enacted by virtue of it, obligations are imposed on an insurer, a provident fund, and an insurance agent of identification and verification of the details of the insured in life insurance policies in which there is an element of savings, and of the details of a planholder in provident funds, as well as the obligation to keep the identification documents.

In addition there is an obligation to report to the Authority for Prohibition of Money Laundering in the cases as set forth in the Order and in respect of irregular activities regarded as being suspicious. (For additional details in respect of prohibition of money laundering orders see section 3.1.3.1(i) above.)

* **The Class Actions Law, 5766-2006 (hereinafter: "the Class Actions Law")**

The Class Actions Law was enacted in March 2006. The law specifies uniform rules for the submission and conduct of class actions, and cancels most of the arrangements that existed prior to the major legislation, including Part E(1) of the Supervision Law.

The law expands the option of submission of transactions, both from the aspect of the right to apply it to corporations and from the aspect of the causes of claim, especially the expansion of the option of submitting class actions in the field of insurance (pursuant to section 2 of the second supplement of the Class Actions Law). The considerations of the stability of the defendant were specified expressly as one of the considerations for approval of the action as a class action.

The definition of the Group shall be determined by the Court as part of the decision to approve the claim as a class action, while giving the option to individuals to announce their refusal to be included in the plaintiff group. In addition, it was specified in the law that in special circumstances the Court shall be entitled to rule that the Group shall be defined so as to include those who gave positive notice of their wish to participate in the action.

Furthermore, the law specifies detailed arrangements in respect of approval of compensation arrangements including the obligation to appoint an examiner on behalf of the Court in this matter, the publication of notices to members of the Group, the withdrawal of a plaintiff or a representative lawyer, the ruling of compensation and the means of proving the relief by members of the Group, the ruling of benefits for the representative the plaintiff, and the fees of the lawyers representing the Group.

The law orders the establishment of a fund for financing class actions that will aid class actions having social and public importance, and also orders the management of a register of class actions that shall be available for examination by the public by means of the Internet.

As part of transition provisions it is specified that the law also applies to claims and applications for the approval of claims as pending class actions.

In July 2010 **the Class Actions Regulations, 5770-2010**, were published, that are intended to formulate the Civil Procedure Regulations for implementation of various sections of the Class Actions Law. The regulations specify, *inter alia*, these arrangements: extension of the existing dates for giving a reply to an application for approval of a claim as a class action and for giving a reply by the applicant for the aforesaid reply; the obligation to send specific notices in connection with class actions against institutional entities to the Attorney-General and to the Commissioner; the formulation of the hearing proceedings that shall apply to a claim resulting from an application to recognize a claim as a class action that was approved; and the application of the Civil Procedure Regulations to clarification of applications for approval of class actions in subjects that are not addressed in the law or the regulations. Most of the arrangements as set forth in the regulations, come into effect 60 days from the date of their publication.

* **The Companies Law (amendment 16) (Improved efficiency of the corporate structure), 5771-2011**

In March 2011 amendment 16 of the Companies Law, 5759-1999 (hereinafter: "**the amendment to the law**") was published. One part of the amendment to the law constitutes infrastructure of the conclusions and recommendations of the Goshen committee for evaluation of the corporate structure code, and contains a list of recommended norms in the field of corporate structure, *inter alia*, in connection with the composition of the Board of Directors, the work of the Board of Directors, the work of the audit committee, the procedure for appointment of external directors, etc., that the company may consider whether or not adopt.

In addition, mandatory provisions are specified in the amendment to the law in a series of subjects related to the Board of Directors and its work, the audit committee and its work, and, *inter alia*, the composition, the majority required for appointment of an external director, the obligation to debate specific subjects, limitations related to the appointment of external directors, changes to the majority required for transactions with holders of a controlling interest, etc. Furthermore, the Securities Authority was empowered to impose financial sanctions on an individual/ corporation in the cases as set forth in the amendment to the law.

* **The Companies Law (amendment 17) (corporate structure in bonds companies), 5771-2011 (hereinafter: "amendment 17")**

In August 2011 statement 17 was published, that came into effect in full in February 2012, and in accordance with which private bond companies shall be subject to corporate structure rules similar to those applying to public companies, *mutatis mutandis*. The major rules that shall apply in this matter to

the bond companies are, *inter alia*:

- a) The obligation to appoint two external directors;
- b) The obligation to appoint an audit committee and an internal auditor;
- c) The obligation to appoint the chairman of the Board of Directors and the CEO, and a limitation in respect of the prohibition of serving both as the chairman of the Board of Directors and as the CEO or someone subordinate to him, except for a period that shall not exceed 3 years and with the approval of the audit committee;
- d) Limitations on the appointment as a substitute director of someone serving as a position holder in the company, as well as limitations in respect of the appointment of directors and position holders whose appointment was limited by an administrative enforcement committee pursuant to the Securities Law;
- e) The holders of a controlling interest in a bonds company are subject to the obligation of disclosure in a transaction with a stakeholder, the obligation of fairness, and the rules for approval of irregular transactions of the company with him or with his relative.

In the light of amendment 17 and in direct continuation of it, on the date of entry in effect of the aforesaid amendment (February 17, 2012), a series of amendments were approved whose enactment was required as an integral part of the amendment. The following are details:

- 1) **The companies regulations (relief for specific kinds of bonds companies), 5772-2012 (hereinafter: "the relief regulations")**, that specify that issuing companies of a bank corporation or an insurer, within the meaning of the relief regulations (hereinafter: "an issuing company") are exempt from the provisions of amendment 17 in respect of the obligation to appoint an audit committee and external directors. (In the absence of an audit committee, matters requiring its approval shall be approved by the Board of Directors.)

Menora Mivtahim Capital Raising, a subsidiary of Menora Mivtahim Insurance, falls into the category of an issuing company, as set forth in the relief regulations, and it is prepared accordingly for implementation of the directions that are not exceptions, by virtue of the relief regulations.

- 2) **The Companies Regulations (provisions and conditions in respect of the process of approval of the financial statements) (amendment), 5772-2012**, that address the obligation of setting up a committee for examination of the financial statements, its composition, functions, and working arrangements, also for bonds companies, already in respect of the annual financial statements for 2011.
- 3) **The Companies Regulations (rules in respect of benefits and expenses for an external director) (amendment), 5772-2012**. The amendment also applies the aforesaid regulations, as set forth in this section, *mutatis mutandis*, to external directors in bonds companies.
- 4) **The companies regulations (issues that do not constitute a link)**

(amendment), 5772-2012. The amendment also applies the aforesaid regulations (that specify in which cases a link by a candidate for a position as an external director shall not be deemed to be "a prohibited link" that prevents his appointment as an external director, *mutatis mutandis*, to external directors in bonds companies.

* **Examination of the reliability of supervised entities**

In December 2010 the Ministry of Finance, the Securities Authority, and the Bank of Israel, published a notice in respect of the examination of reliability by inspection entities. This notice was published in the light of the structure and size of the capital market in Israel, and in the light of the fact that there are a number of inspectors of this market, and accordingly uniformity must be imposed on examination of reliability by various inspectors.

The notice includes a list of indications that refer to examination of reliability as aforesaid. The existence of one of the indications as set forth in the list constitutes a reason to examine the existence of damage to reliability, whether for the approval of the appointment of a position holder or for granting a permit for holding means of control or control of a supervised entity, as well as for the determination of grounds for making changes, suspension, or cancellation of the approvals and permits given by them.

The aforesaid indications include conviction of an offence, submission of an indictment for an offence that creates presumption of a defect in reliability, a criminal investigation in respect of an offence liable to create a factual basis for damage to reliability, cumulative complaints by customers in connection with infringements of the law, etc.

Further to the aforesaid, and following the publication of the Administrative Enforcement Law, the Securities Authority published in September 2011 a list of circulars for examination of a defect in reliability of entities supervised by the Authority – a fund manager, a trustee of a fund, license holders (within the meaning of the Investment Consulting Law), and the holder of a control permit for a fund manager or a position holder therein, pursuant to the Joint Investment Trusts Law.

* **The law for Improving the Efficiency of Enforcement in the Securities Authority (amendments to legislation), 5771-2011 (hereinafter: "the Law for improving the efficiency of enforcement")**

In January 2011 the Law for Improving the Efficiency of Enforcement in the Securities Authority (amendments to legislation), 5771-2011, was published, that shall come progressively into effect, starting from February 27, 2011, and that addresses a new enforcement process – administrative enforcement, and include a list of administrative infringements in respect of the three major laws that the Securities Authority enforces – the Securities Law, the Consulting Law, and the Joint Investment Trusts Law, most of which are infringements made by negligence.

The administrative enforcement process shall be part of 3 enforcement processes: criminal, administrative, and financial sanction. The administrative enforcement process shall apply, *inter alia*, to reporting corporations, to the position holders in them (directors and executives), to the CEO (who also

bears supervision responsibility), to a management company for trust funds, position holders in a management company for trust funds, and managers of investment portfolios.

As part of the administrative enforcement process the administrative enforcement committee shall be empowered to impose a series of sanctions on those whom it has found to have committed an infringement: imposition of financial fines, prohibition of serving in entities supervised by the Authority (public companies, underwriters, fund managers, trustees, and license holders) for a period of up to one year, cancellation of the license of a license holder pursuant to the Consulting Law, or the approval of a fund manager or a trustee, or their cancellation for a period of one year, the obligation to take steps to correct the infringement and prevent its recurrence, payment to the party harmed by the infringement, and an enforcement arrangement, that empowers the chairman of the Securities Authority and the regional attorney to reach agreement with the infringer or the offender in respect of observance of an arrangement to prevent taking enforcement steps or in respect of halting proceedings that have already begun, subject to conditions.

On February 17, 2011, **the Securities Regulations (reduction of the sums of the financial sanctions), 5771-2011**, were published, that specify the circumstances in which the Authority shall be entitled to reduce the sum of the financial sanctions as set forth in the law for improving the efficiency of enforcement.

Further to the aforesaid, the Securities Authority published in August 2011 **criteria for recognition of a program for internal enforcement in the field of securities and investment management (hereinafter: "the Authority's document")**. The internal enforcement program is a voluntary mechanism currently adopted and implemented by a corporation in order to prevent offences and infringements and verify observance by the corporation, and by individuals therein, of the provisions of the Securities Law, the Joint Investment Trusts Law, and the Consulting Law.

As set forth in the Authority's document, the internal enforcement program is adapted to a corporation and its unique circumstances and its observance will lead to assimilation and compliance with the law in actual fact. Consequently the corporation must check and verify that the program it has adopted provides a solution for possible risks of infringement of the aforesaid laws, as the case may be.

The corporation must conduct an adjustment process, for example by means of holding a compliance review, including understanding and mapping of the requirements of the law relevant to the company, location of possible risks and failures in the field of securities law, examination of the existing arrangements in the corporation including evaluation of the monitoring and location of differences between the desired and actual monitoring, and grading of risks.

Further to the compliance review, the corporation must formulate internal procedures suitable for the corporate structure, its unique characteristics, and especially in respect of the risks located. The corporation must appoint, *inter alia*, an enforcement supervisor who shall be responsible for implementation

of the enforcement program.

In July 2011 **an amendment to the Securities Regulations (periodical and immediate reports) (amendment 2), 5771-2011**, was published, in respect of evaluation of the effectiveness of the internal auditing and the declaration of the managers.

In the quarterly report the management and the Board of Directors are required to indicate whether during the period of the report there was brought to their attention an event or matter that could change their conclusions in connection with the efficient of the internal auditing, as estimated in the previous annual or quarterly report.

It was also specified that a corporation that consolidates a bank corporation or an institutional entity is entitled to include reference to the efficient of the internal auditing in the format as set forth in the other law applying to the said corporations. The aforesaid amendment supports the previous directive of the Securities Authority in this matter.

The Law for Change of the Tax Burden (amendments to legislation), 5771-2011, was published in November 2011. There was amended in the law, *inter alia*, the Income Tax Order [new version] 5721-1961. The amendment states that starting from 2012 the rates of tax will be raised on real capital profit as well as the tax on real improvement. For details of the influence of the law on the company see note 8(c) of the financial statements. For additional details see note 22 of the financial statements.

* **Foreign Account Tax Compliance Act (FATCA)**

In March 2011 the FATCA was passed. The aim of the law is to obligate foreign financial institutions (FFI) to furnish information regarding accounts held by American customers. In this way the law significantly extends the requirements of disclosure and reporting imposed on foreign financial institutions in respect of American accounts.

In February 2012 regulations were published that were proposed by the American Tax Authority (IRS) that provides operative instructions for implementation of the law. Final regulations are expected to be published by the IRS by the end of summer 2012.

Pursuant to the law and the proposed regulations, the FFI must make an agreement with the IRS, whereby it will undertake, *inter alia*, to locate American accounts, to report them to the IRS, and to deduct tax from customers who refused to furnish the required documents and information. An FFI that does not make an agreement with the IRS shall be obligated to deduct tax in respect of income from American sources.

The law is expected to come into effect in 2013 and its implementation is expected to be gradual. Implementation of the law is expected to involve operating costs. As of the date of this report the final instructions for its implementation have not yet been published, nor have there been clarified the scope of application of the law, the types of products to which it will apply, the scope of its application to the existing law, etc.

Consequently at this stage it is not possible to estimate all the activities that

specific companies in the Group will be required to execute, including the scope of the reports to the American authorities, the extent of the operational activities, and the ramifications of the law on the Group.

Bills and draft regulations

- * In April 2011 the Securities Authority published a draft, **for remarks by the public, in which it was proposed to recommend to the Minister of Finance to enact the Securities Regulations (details of the prospectus and draft prospectus, format and shape) (amendment), 5771-2011.**

It was proposed in the draft to cancel the exception as set forth in regulation 51(b) of the Securities Regulations (details of the prospectus and draft prospectus, format and shape) (amendment), 5729-1969 (hereinafter: "**the regulations for details of a prospectus**"), that permits supervised corporations having an investment rating (banks and insurance companies), that raise capital by means of special companies designated for this purpose only, to avoid giving details in a prospectus in respect of the supervised corporation.

Pursuant to the proposal, the cancellation of the aforesaid exception was intended to cancel the advantage given to supervised corporations relative to other corporations, with the aim of supplying the investors with full information, in the light of the fact that even supervised corporations are liable to encounter situations of insolvency at times of crisis, that the level of risk of all the supervised corporations is not necessarily identical, and that the company's rating is not a substitute for the investor's judgment and is not necessarily a proper rating for the credit risk.

Cancellation of the reservation as set forth in regulation 51 of the regulations for details of prospectuses, if passed, will obligate Menora Mivtahim Capital Raising, a subsidiary of Menora Mivtahim Insurance, to extend its reports to the public. The company is examining the provisions of the draft and at this stage is unable to estimate its full ramifications, *inter alia*, since there is no certainty in respect of the final wording of the proposed amendment to the legislation, if adopted as binding legislation.

- * In June 2011 the Securities Authority published a **proposal for a legislation plan for remarks by the public in the reports improvement project.** In the reports improvement project the Authority is examining various aspects related to reporting about the corporation's business affairs, in a prospectus and in periodical and quarterly reports, and the method of implementation of the reporting model by the reporting corporations.

In order to simplify the reports, a legislation plan is proposed for improvement of the relevance of the reports and providing an effective response to the requirements for information in them, by concentrating the requirements for disclosure having an identical or similar purpose in a single place, so that after completion of the project the periodical report will comprise four reports: the financial statements, the report of the Board of Directors (in its new name – "the report of the discussion and analysis of the management", (hereinafter: "the management report")), the report describing the corporation's business affairs (including a part regarding financing and liquidity and a part regarding risks) and a corporate structure report.

The major changes in the proposed plan in the report of the Board of Directors, that are intended to address, from the aspect of the management, the state of the corporation's affairs, are reflected in a number of aspects: the report of the management will be approved by the Board of Directors and also signed in the name of the corporation by the main operational decision maker; all details of the disclosure that do not falls into the category of explanation by the management of the state of the corporation's affairs shall be transferred (subject to adjustments) from the management report to other parts of the periodical report.

In parallel, there shall be transferred to the management report the major information requirements, based on the estimates of the management or that constitute part of the business plan of the corporation, such as disclosure in respect of strategy, objectives, expected development in the coming year, and the trends, as well as development in the economic environment; the corporations shall be required to expressly include in the management report reference to forecast information given in the past in respect of the year of the report; furthermore, reporting corporations that include estimates and forecasts of profit will be required to verify that this information is substantiated, by means of auditing by an auditor.

- * In June 2011 the Securities Authority published a **draft amendment to the Securities Regulations (dates of submission of a notice by a stakeholder or a senior position holder) (amendment), 5771-2011**.

Pursuant to the amendment, it is proposed to change the dates of submission of a notice by a stakeholder holding securities of a reporting corporation by means of members of an institutional reporting group, so that the notice to the corporation will be furnished monthly and will include details of the holdings in the corporation by each of the members of the reporting group as well as the maximum and minimum rates of the holding during the period of reporting.

Furthermore, it is proposed to obligate a stakeholder as aforesaid to report to the corporation shortly after he becomes aware of the cumulative change to his holdings since the previous report in the amounts as set forth in the amendment, and in no circumstances not later than two business days from the date of the change.

- * In July 2011 the Securities Authority published **draft regulations for approval of an investment in corporations maintaining business connections with Iran (list of corporations and working arrangements of the implementation committee), 5771-2011**, and in parallel the Commissioner published a direction in respect of the risks involved in agreements with entities defined in international lists as entities aiding the Iranian nuclear program and its accompanying programs.

Furthermore, the Commissioner published draft regulations for the approval of investment in corporations maintaining business connections with Iran (list of corporations and working arrangements of the implementation committee), 5771-2011.

Pursuant to the drafts, further to the government decision dated April 17, 2011, that addresses the advancement of steps as part of the struggle against

the Iranian nuclear program and its accompanying programs, the Board of Directors of an institutional entity and the manager of a trust fund must formulate policy for treatment of the risks involved in making an agreement with entities associated with the Iranian nuclear program and evaluate the existing level of exposure of the corporation or the institutional entity, as the case may be, to these entities.

This policy shall include reference to monitoring and due diligence tests for location of the entities appearing in the lists as set forth in the drafts. The provisions of the drafts are expected to apply to all the institutional entities in Israel and the trust funds (as the case may be).

Furthermore, a reporting corporation shall be required to include in its periodical report disclosure of the risks and limitations to which the corporation is exposed, directly or indirectly, with Iran or with the enemy, including by virtue of the provisions of the law, and that are liable to materially influence the corporation.

- * In September 2011 the Securities Authority published **the Securities Regulations (method of offering securities to the public) (amendment), 5771-2011**, the aim of which is to amend the Securities Regulations (method of offering securities to the public), 5767-2007, so that investors who are entitled to purchase securities with a preliminary commitment, shall be only those managing monies for others, and those only (trust funds, provident funds, and insurers).
- * In October 2011 the Securities Authority published a proposal for **amendment of the Securities Regulations (periodical and immediate reports), 5730-1970**, with the aim of achieving the direction for disclosure in respect of debt arrangements.

The proposed amendment follows the directive of the Authority dated December 2009 that addresses the disclosure required in debt arrangements.

By virtue of the powers granted to the Authority by law, the aforesaid directive was extended by one year and is expected to expire at the end of the current year. Consequently the Authority wishes to anchor in legislation that set forth in the directive, while introducing a number of changes.

- * In February 2012 a **memorandum in respect of the Companies Law (amendment __) (protocol of holders of bonds in bonds companies), 5772-2012**, was published, that wishes to protect bond holders in situations in which a company that issued bonds encounters financial difficulties, starting from the stage in which the difficulties are discovered and until the stage of approval of a debt arrangement between the company and the bond holders.

The proposal attempts to mainly address issues that have arisen in the various debt arrangements. One is that the arrangement proceedings are started too late, when the company is already in financial difficulties. In the other, the process for formulation of a settlement "was not done in the optimal manner", in the words of the memorandum.

- * In March 2012 the Securities Authority published a **draft plan proposed for amendment of the Securities Law and Regulations (hereinafter: "the proposed legislation") for comments by the public**, in which it is proposed

to introduce two changes to securities law, as follows:

- 1) An amendment following which reporting corporations and corporations controlled by them shall not sell securities to the public during trading on the Stock Exchange without a prospectus being required.
- 2) Anchoring in law of the At The Market (ATM) offering mechanism that will permit corporations to issue securities by means of giving sale orders in trading on the Stock Exchange, while fixing rules and certain limitations.

Use of the ATM mechanism is conditional on the observance of specific conditions, including the existence of a shelf prospectus, the signing by an underwriter of the shelf prospectus and the shelf offer report, the prohibition of marketing during the periods as set forth in the proposed legislation, limitations regarding the type of securities and the extent of the sales under this mechanism, etc. At this stage the company is studying the aforesaid proposed legislation and their ramifications.

The Commissioner for restrictive practices

*** The decision of the Commissioner for restrictive practices in respect of concern credit arrangements**

In March 2008 the Commissioner for restrictive practices published a **decision in respect of concern credit arrangements between banks and insurance companies**, and between insurance companies themselves, when the following cumulative conditions are met:

- a) The connection of the aforesaid entities in a concern is essential in this sense, since without the connection it will be impossible to give credit to a customer under reasonable conditions. The significance of this demand is that it is possible to show that were it not for the connection the level of risk, to which any institutional entity would be exposed by itself, would be materially greater than the existing level of risk in the form of connection, so that it is possible to express these differences in the rate of interest for giving the credit;
- b) The connection was made with the customer's consent, in advance and in writing, on a separate form;
- c) The customer was given the option of negotiations regarding the conditions of granting the credit with any of the entities included in the concern, including by means of another person on its behalf. The decision does not prevent banks and insurance companies, or insurance companies, who wish to give joint credit not in accordance with the conditions of the decision, from contacting the Commissioner for restrictive practices in a process for a specific exemption.

The decision shall be valid for 3 years.

In February 2011 the Commissioner published an updated decision in this matter, that mainly addresses the cancellation of the requirements for essentialness (sub section (a) above), as a condition for the activities of the concern for credit. In parallel and against a background of the fear of possible

harm to competition, there were formulated in a decision provisions and mechanisms of supervision, documentation, and reporting, intended to guarantee that no harm shall be caused to competition as a result of the cooperation between the competing entities acting in the credit concern. The updated decision is valid for two years from its publication.

The instructions of the Securities Authority

- * In December 2011 the Securities Authority published **an instruction in respect of the method of voting of stakeholders and institutional entities in meetings**. In the opinion of the Authority special importance is attached to the method of voting in general meetings in which there is a legal requirement for a special majority and such information falls into the category of an important detail for a reasonable investor, and consequently disclosure in this matter is liable to be obligated by law.

Consequently the aforesaid instruction states that in the event of a decision being taken in a general meeting of a corporation with a special majority, the immediate report about the results of the meeting shall also include details of the voting by securities holders who are stakeholders and institutional entities in the meeting.

- * In March 2012 the Securities Authority published a circular in respect of the **option of appointment of a "corporate structure trustee"**. The Authority decided to permit a group holding management companies, with the approval and consent of the management companies, to appoint a corporate structure trustee who shall maintain contact (in addition to the connection functions in the companies themselves) *vis-a-vis* the senior staff of the Authority in matters related to a corporate structure in the group dimension in management companies in the Group.

The corporate structure trustee must be a position holder in the Group whose occupation is related to the corporate structure of the management companies, such as the manager of the regulation organization/ the legal advisor/ the supervisor for internal enforcement/ the supervisor for auditing/ emphasized that risks manager, etc.

Circulars, drafts, and instructions of the Commissioner

- * The following are the main details of the major circulars published by the Commissioner over the last year and that apply to the Group (in addition to the specific circulars as set forth in sections 3 to 8 above):

- 1) In July 2010 the institutional entities circular was published that addressed **instructions in respect of investment by institutional entities in non government bonds**.

The circular adopts the conclusions of the final report of the committee for determination of parameters referring to institutional entities that supply credit by means of non government bonds (known as **the Hodek committee**).

The provisions of the circular determine, *inter alia*, the obligation of making an analysis before purchase of non government bonds; the obligation to receive individual approval for the purchase of non

government bonds in an amount exceeding the minimum extent as set forth for this matter; the obligation to receive specific information as a condition for the purchase of the aforesaid bonds, during the period of the life of the bonds; the determination of contractual stipulations and financial criteria that are a condition for purchase of the said bonds; and stipulations and criteria that falls into the category of a recommendation, but are not binding, as a condition for execution of the said purchase.

The proposed instructions are not intended to limit the existing provisions in respect of the construction of a credit organization in an institutional entity and its method of operation.

- 2) In August 2010 the Commissioner published a circular that addresses **the management of information technologies in institutional entities**. Pursuant to the circular, institutional entities are obligated to manage the field of information technologies in accordance with the accepted professional standards and based on proper corporate structure principles that include reference to the methods, processes, and controls required in management of the field of information technologies, with the aim of ensuring their proper management and support of the business activities and the provisions of the law, while ensuring the potential of the rights of the insured.

The circular specifies, *inter alia*, provisions in respect of the direct liability of the institutional entity in the determination of policy and strategy in the field of information technologies, in execution of current control and supervision and proper management of the field of information technologies (information technologies regime); the observance of orderly processes for meeting the requirements of external and internal compliance in the field of information technologies (guarantee of compliance); the observance of orderly processes for risk management in the field of information technologies (management of information technologies risks); provisions for information monitoring and management for the purpose of ensuring the reliability of the information, its completeness, availability, and relevance for the functioning of the institutional entity (in the event of occurrence of information and data management); principles and occurred working procedures in the execution of purchase and material projects in the field of information technologies (purchasing and projects).

The existence of a system suitable for management of changes in the information systems in the institutional entity, with the aim of ensuring that the said changes are documented and may be subject to current supervision and monitoring (change management); formulation of principles and working procedures to guarantee the proper management of processes carried out by outsourcing in the field of information technologies, while being aware of the risks and the exposure of the entity and with the aim of ensuring command and control of the processes and information managed by outsourcing.

This circular addresses the core activities of the institutional entities in

the Group and it is expected to have material ramifications on all their fields of activity.

- 3) In March 2011 the Commissioner published clarification in connection with provisions in respect of investment by institutional entities in non government bonds (hereinafter: "**the bonds investment circular**"). The draft clarification includes provisions in respect of investment by institutional entities in bonds, negotiable and non negotiable, that were issued as part of expansion of a series, whether before or after October 1, 2010, and the provisions included in the bonds investment circular shall apply in each of the aforesaid cases, as the case may be. Furthermore, the draft includes clarification in respect of the terms included in the bonds investment circular.
- 4) In March 2011 the Commissioner published a circular that addressed **provisions in respect of calculation of the value of non negotiable assets of an institutional entity.**

The circular specifies principles regarding the method of calculation of assets held by institutional entities, that must be presented in their fair value, while incorporating them in the currently accepted international accounting trend, according to which preference should be given to the fair value of the asset over the historical value for purposes of measurement and disclosure.

The circular was published following notices of the Commissioner in respect of the commencement of activities of Fair Profit Ltd. following its winning of the tender for setting up and operation of a database for price quotations and interest rates to be supplied to institutional entities.

Provisions were specified in the circular in respect of the calculation of the value of an asset that is not negotiable (depending on the type of the asset), provisions in respect of the calculation of the value of slightly negotiable securities, and provisions in respect of the calculation of a negotiable debt asset based on the fair price quotation model specified by the winning bidder in the tender.

Most of the provisions of the circular come into effect on the date of commencement of activities of the winning bidder in the tender.

The circular cancels a number of circulars in the subject.

In parallel, the Commissioner published an additional circular that addresses **a model for determination of the fair price for a non negotiable debt asset.**

It is clarified in the circular that in the light of the win by Fair Profit Ltd. of the tender for setting up and operation of the database for individual price quotations and interest rates for institutional entities, the institutional entities must make preparations prior to the date of commencement of its activities and sign contracts with it under the terms as set forth in the tender.

Pursuant to the provisions of the circular the winner of the tender was authorized to publish execution instructions for use of the model for evaluation of non negotiable debt assets. The circular comes into effect

on the date of commencement of the activities of the winner of the tender, that was fixed, in accordance with the notice by the capital market, insurance, and savings department, dated February 2011, as March 20, 2011.

In March 2012 the Commissioner published a new public tender for setting up and operation of the database for individual price quotations and interest rates for institutional entities, that would replace Fair Profit Ltd. The last date for submission of results is May 2012.

- 5) In March 2011 the Commissioner published a circular in respect of **clarification and settlement of claims, and treatment of applications by the public**, that cancels the previous circular in this matter, and in which guidelines are specified in respect of the method of clarification and settlement of claims in institutional entities.

Pursuant to the provisions of the circular, every institutional entity must specify a set of rules in respect of the method of clarification and settlement of claims (every demand from an institutional entity for exercise of rights pursuant to the terms of an insurance policy or pursuant to the regulations of a pension fund or pursuant to the relevant provisions of the law for exercise of rights, as aforesaid), subject to the detailed provisions of the circular, that address, *inter alia*, the obligation to furnish and display documents, give notices and other information to the claimant starting from the stage of clarification of the claim and until its completion, rules for saving information and documents, the obligation to submit for the Commissioner's approval the set of rules that shall include the regulations of the pension fund and provisions in respect of publication of the set of rules, *inter alia*, in the company's Internet website.

The circular specifies the functions of the Board of Directors and the management in connection with the aforesaid set of rules. The circular shall come into effect on June 1, 2011, except in respect of third party insurance as part of comprehensive apartment insurance and insurance pursuant to the motor vehicle insurance order [new version] 5730-1970 (compulsory vehicle insurance), that came into effect starting from March 1, 2012. The aforesaid circular replaces a previous circular in the same subject dated August 2009.

- 6) In March 2011 the Commissioner published a circular regarding **the collection of statistical information in respect of settlement of claims and the method of treatment of applications for the withdrawal and transfer of monies**.

The circular orders institutional entities to collect statistical information in respect of the method of treatment of applications for the withdrawal of monies, to receive an old age pension, and for the transfer of monies, for the purpose of publication of indexes to be used by the potential planholders in selection of the institutional entity with whom to make an agreement.

The circular specifies the types of data to be collected for each type of application, provisions in respect of the collection and saving of the

data, and the method of reporting to the Commissioner, and the obligation to display the data in the Internet website, pursuant to the Appendix in the circular.

The data regarding the claims shall be displayed for the first time in the Internet website of the institutional entity on March 31, 2013 (in respect of 2012) and the data in respect of applications for transfer of monies and withdrawal of monies shall be displayed for the first time in the Internet website of the institutional entity on March 31, 2014 (in respect of 2013).

The aforesaid circular replaces a previous circular in the same subject dated September 2009. The provisions of the circular demand automation and operational preparation that will permit collection and display of statistical information in respect of the processes of settlement of claims and processes for the withdrawal and/or transfer of monies.

In the company's estimation, it is likely that implementation of the provisions of the circular will lead to increased competition in the subject of treatment of claims and applications for the withdrawal and/or transfer of monies, because of the publication of the aforesaid statistical information.

In March 2012 the Commissioner clarified that the provisions of the aforesaid circular do not obligate an institutional entity to display data in respect of 2011 in its Internet website, but this shall not limit its obligation as set forth in the circular to transfer the first report of the claims data to the Commissioner, for the period starting from June 1, 2011, and up to December 31, 2011, not later than March 31, 2012.

- 7) In June 2011 the Commissioner published **a letter to the managers of the insurance companies in respect of insurance policies guaranteeing a yield backed by life insurance linked bonds.**

In his letter the Commissioner clarified that the rights of the insured in the aforesaid insurance policies due at the end of the period, in cases in which the insured do not exercise their rights for a pension or for a capital payment, shall be as follows: non exercise of the right as aforesaid pursuant to the conditions of the policy, by itself, shall not affect the right of the insured for continuation of the guaranteed yield (backed by life insurance linked bonds) as set forth in the policy in respect of the balance of the accumulated savings.

However, an insured who does not exercise his right at the end of the period in accordance with the conditions of the policy shall not be entitled to continuation of the guaranteed yield as aforesaid in respect of additional deposits made after the end of the period of the policy. On exercise of the right for a pension in the aforesaid policies, its payment shall be in accordance with the original terms of the policy, including the conversion advance payments as set forth in the policy, taking into account the age of the insured on the date of commencement of actual payment of the pension.

- 8) In December 2011 the Commissioner published a circular addressing **the quality of data in respect of the rights of the planholders in the institutional entities**. The aim of the circular is to specify the activities required from an institutional entity in order to ensure that the recording of the rights of the planholders in the information systems of the institutional entity shall be reliable, complete, available, and retrievable.

The circular specifies a general working framework for the improvement project, including the obligation of an institutional entity to conduct a survey of differences in respect of the existing information, the location of failures in the existing information, and evaluation of its quality, construction of a model for mapping and grading of the differences found in the differences survey, and preparation of a detailed work program (while addressing the subjects included in the circular) for treatment of every failure or group of failures found.

Furthermore, it was specified that an institutional entity shall improve the data of the holdings interface so that the data included in the holdings interface shall be complete and continuous, over the period of the savings.

Provisions were also specified in the circular in respect of management of an improvement project for the institutional entity, including the method of supervision and control of the Board of Directors and the management, the establishment of a steering committee for the purpose of formulation of a working program, the obligation for documentation of the subjects as set forth in the draft circular, and reports to the Commissioner by the institutional entity in connection with the improvement of the rights of the planholders, as aforesaid.

In accordance with the circular, the institutional entities are required, *inter alia*, to conduct the differences survey by December 31, 2012, to organize the existing information and save it prior to September 30, 2014, and to complete the overall improvement subject by June 30, 2016.

The company is studying the provisions of the circular. It should be noted that the implementation of the provisions of the circular will apparently require considerable financial and administrative resources. The circular does not apply to a central provident fund.

- 9) In August 2011 the Commissioner published a circular addressing **customer service in institutional entities**, in which institutional entities were obligated to formulate rules that would guarantee the level of service supplied by an institutional entity to its customers.

As part of this, the management of the institutional entity must prepare a service charter that shall include criteria for quality and excellence of service as well as the rights of the customer to receive service; an institutional entity shall specify rules for every service provider in respect of the level of professionalism required from it for the purpose of supplying the service; an institutional entity shall appoint from

amongst its senior employees a customer service supervisor who shall report to the CEO and to the Board of Directors; the Board of Directors of the institutional entity shall formulate the policy of the institutional entity for providing the service; the institutional entity shall conduct a differences survey between the existing situation and the policy specified and shall formulate a program for reduction of the differences, etc.

The circular shall come into effect on January 1, 2013, except for provisions in respect of the customer service supervisor, mapping of the existing situation, formulation of policy, execution of a differences survey and formulation of policy for reduction of the differences, that are intended to be executed by June 30, 2012.

- 10) In August 2011 the Commissioner published a directive in respect of investments by institutional entities in Ireland, according to which, against a background of the intention to anchor in the investment regulations the possibility of institutional entities investing in foreign countries having a BBB- and higher rating or in countries included in the OECD, the Commissioner confirms that during the next six months holdings in investments in Ireland shall not be deemed to be holdings that conflict with the Income Tax Regulations (rules for approval and management of provident funds), 5724-1964, and the Regulations for Supervision of Financial Services (insurance), (methods of investment of capital and the funds of the insurer and management of its commitments), 5761-2001.

In February 2012 the capital market department published a notice according to which during the next three months, starting from February 14, 2012, the holding of investments in assets outside Israel where the investment in them was duly made at the time of their purchase and that meet the investment restriction as set forth below according to which the investment was made in a foreign country having a BBB- rating that is included in the OECD, shall not be deemed to be an investment conflicting with the investment regulations.

This is, *inter alia*, in the light of the submission of draft Regulations for Supervision of Financial Services (provident funds) (rules for investment applying to management companies and insurers), 5772-2012, for approval by the Knesset Finance committee, according to which an institutional entity may invest in foreign countries having a grading of BBB- and above and that are members of the OECD.

- 11) In September 2011 the Commissioner published permitted notice regarding his intention to create a **regulatory codex** that shall constitute an updated and comprehensive regulatory framework (including laws, regulations, and circulars by the Commissioner) that relate to all the entities lying under the supervision of the Commissioner.

The codex shall constitute an orderly and comprehensive regulatory book that shall aid in familiarity with the various directions and will make easier the work of the supervisory entities. The codex shall

comprise two parts – one for institutional entities and the other for insurance agents, marketers and financial consultants. Consequently, two "super circulars" shall be combined, that shall replace the existing set of circulars, by a system adapted to the planned structure of the codex.

It is also proposed to match the local regulation, including major legislation, to the principles of the Solvency II Directive, while making the adjustments required to the local law. As part of this and as a first step as part of the codex project, drafts have been published of the table of contents of the applicable provisions by virtue of existing circulars in the field of investments in institutional entities and by virtue of existing circulars in the field of general insurance, that are planned to merge in the uniform circular for institutional entities and are expected to come into effect in 2013.

- 12) In October 2011 the Commissioner published a **letter to the managers of the insurance companies in respect of monitoring and management of equity**. Pursuant to the letter, in the light of the fluctuations in the financial markets and the need for current evaluation and monitoring of the method of management of equity, the insurance companies shall send a monthly report regarding the state of the capital estimate by the 17th of each month in respect of the previous month.

The first report shall be sent on November 17, 2011, in respect of data for October 2011. In response to a request by the insurance companies the Commissioner announced that the first report would be deferred so that it would be submitted two business days after the approval of the financial statements, but in no circumstances not later than November 30, 2011.

- 13) In October 2011 the Commissioner published a draft letter to the managers of the insurance companies addressing **the distribution of a dividend by an insurance company**. Pursuant to the draft, in the light of the fluctuations in the financial markets, the Commissioner announced the extension of the validity of the restriction on the distribution of a dividend, according to which the Commissioner shall not approve the distribution of a dividend unless the conditions as set forth in the letter are met, and in particular that the company has a ratio of recognized equity to required equity, after distribution, of at least 105%.

The notice regarding the distribution of a dividend in the event that after distribution the company has a ratio of recognized equity to required equity of at least 115%, shall not obligate the receipt of approval from the Commissioner.

- 14) In November 2011 the Commissioner published a circular addressing **the list of nostro assets of institutional entities at the level of a single asset**.

The circular obligates institutional entities to report quarterly regarding their nostro assets at the level of a single asset, in the format as set forth in the appendix to the circular. The institutional entity must submit the

report at least 7 business days from the last date for publication of the quarterly financial statements. The date of applicability of the circular in respect of the management companies is from the annual report for 2012 onwards.

9.2.4 Licenses

The Group, including Shomera and its subsidiary, that were purchased by the Group, have licenses and/or permits for engaging as an insurer, agent, or management company, as the case may be, as obligated by law.

Pursuant to section 15 of the Supervision Law the Group holds licenses as an Israeli insurer, to engage in the pension branch and in the insurance branches as set forth below:

Comprehensive life insurance; personal accident; illnesses and hospitalization; employers' liability; compulsory vehicle insurance; property vehicle insurance (personal and third party); comprehensive insurance for apartments and business premises; aircraft including third party liability; marine vessels including third party liability; shipment of freight; third party liability; loss of property; agricultural; equipment; liability for defective products; providing guarantees; other risks; investments of purchasers of apartments.

Furthermore, the Group holds a license for management companies of provident funds, and provident funds approvals for provident funds and for pension funds managed by it, a license for management of investment portfolios, pursuant to the Law for arrangement of investment consulting, and a permit for Menora Mivtahim Funds for the management of trust funds. In addition, Menora Mivtahim underwriting is registered in the register of underwriters, pursuant to the provisions of the Securities Regulations (underwriting) (amendment), 5767-2007.

9.2.5 Permit for holding means of control

Pursuant to the provisions of the law, the holding of means of control and control of an insurer (including in a management company of a pension fund), of an agent and of a management company of a provident fund, are subject to the receipt of a permit from the Commissioner.

In December 2007 the Commissioner¹¹ gave Mr. Menachen Gurevitz a permit for holding means of holding and for holding, directly or indirectly,¹² by means of the

¹¹ The permit was granted together with application of the purchasing agreement for Shomera. (For additional details see section 1.2.6 of the report.) In this context the Commissioner demanded that there be also arranged in the permit the holding of means of control and control of the other institutional entities held, directly or indirectly, by the company, including the granting of powers of attorney to Mr. Gurevitz to vote in the general meetings of the company. The powers of attorney shall not be changed or cancelled except with the approval of the Commissioner, in advance and in writing. Following the purchase of control in Menora Mivtahim Engineers Histadrut Ltd. the aforesaid control permit was extended.

¹² By means of Naidan and Palms, foreign corporations registered in Vaduz, Lichtenstein, that hold controlling shares of the company (above and below: "**the foreign corporations**"). The foreign corporations are held in a trust in which Mr. Gurevitz is the sole beneficiary.

company, of insurers: Menora Mivtahim Insurance, Menora Mivtahim Pension,¹³ and Shomera; in the management company: Menora Mivtahim Provident Funds; in agents of the corporation: Sinai Insurance Agency Ltd., Arnon and Weinstock Agency, and Orot Agency (hereinafter: "**the corporations forming the subject of the permit**").

There are specified in the permit, *inter alia*, the following major conditions: provisions in respect of retention of the control core¹⁴ in the full control chain of the corporations forming the subject of the permit, by means of limitations on the lien, sale, transfer of the control core in the aforesaid corporations, including by means of issue; provisions in respect of deposit with a trustee (Israeli advocate) pursuant to a deed of trust, of share certificates that represent at least the control core in Menora Mivtahim Insurance, Menora Mivtahim Pension and Shomera, as well as the signing of a power of attorney for a trustee for the means of control appointed by the Commissioner for the sale of shares in the control core in Menora Mivtahim Pension and Shomera, when the conditions as set forth in the permit are met.

As of the date of this report the company meets all the conditions of the permit.

In addition, pursuant to the provisions of the law, the holding of means of control exceeding a certain rate in the management company of trust funds obligates the receipt of a control permit from the Securities Authority. In December 2005 the holder of a controlling interests in the company received control permits as required.

9.3 Investments

9.3.1 Insurers and institutional entities

The assets managed by the Group:

* **Nostro assets of Menora Mivtahim Insurance and Shomera (equity, general insurance reserves of policies guaranteeing a return)**

The nostro assets are invested in accordance with the limitations as set forth in the regulations for methods of investment and the approved investment policy.

Against the life insurance reserves of the policies guaranteeing a return that were marketed up to the end of 1990, designated (life insurance linked) bonds are issued in accordance with the agreements of all the insurers in the economy with the Ministry of Finance. The risks resulting from the investments of the nostro assets apply to the insurers.

* **Assets of the insured/ planholders**

These assets are invested in free, negotiable investments and non negotiable investments pursuant to the limitations as set forth in this matter in the

¹³ Against a background of the distribution of Menora Mivtahim Pension, as a dividend in kind to the company, it is expected that the control permit will be adjusted to the new holdings structure.

¹⁴ In this matter, "control core" means 50.01% of each of the means of control, directly or indirectly, with full dilution of all the means of control in the relevant corporation.

regulations for the methods of investment and in the income tax regulations, as the case may be. The return obtained is credited to the policy holders/planholders, after the deduction of management fees.

It should be noted that in the provident funds guaranteeing a yield the minimum yield is credited in accordance with the promise of the fund even if the actual yield is less.

- * The investments policy in respect of the nostro investments of the management company of Menora Mivtahim Pension and Menora Mivtahim Provident Funds is determined in accordance with the decisions of the Board of Directors and the management of the said entities.

Investment committees

The overall investment policy of the insurers and the institutional entities in the Group is determined by the Board of Directors of each insurer/ management company, as the case may be, and pursuant to the provisions of the law applying to the insurer/ management company and, *inter alia*, the provisions of the circular for investment in non government bonds, published by the Commissioner following the recommendations of the Hodek committee.

There are two types of investment committees in the Group that implement the overall investment policy approved, and that take the investment decisions: the yield dependent investments committee ("monies of the insured/ planholders") and the non yield dependent investments committee ("nostro").

Menora Mivtahim Insurance, Menora Mivtahim Pension, and Menora Mivtahim Provident Funds have yield dependent investments committees.¹⁵

Menora Mivtahim Insurance and Shomera have separate investment committees for non yield dependent investments ("nostro").

Credit committee

The committee began to operate in 2008, pursuant to the Commissioner's circular for arrangement of the credit activities. Its activity is in the field of non negotiable credit except for a number of types of exceptional credit.

The credit committee engages in the approval of credit transactions beyond a certain extent, and also monitors the implementation of the credit policy and the state of the Group's credit. The committee acts, as aforesaid, for the entire group, in respect of the monies of the insured/ planholders (insurance, pension, provident fund) and also in respect of nostro monies, except in the field of financial services.

The credit committee is aided by a debt forum set up pursuant to the instructions of the Commissioner in a circular that addressed the treatment of problematic debts, and whose main function is current monitoring of the problematic debts, their grading, and the determination of methods to deal with them.

Against a background of the crisis in the extra-banking credit market in 2008, a process developed of "debt arrangements" for companies in difficulties by means

¹⁵ It should be noted that the same members serve in the separate investments committees of the aforesaid institutional entities.

of a mechanism of representation of bond owners. In this context the Group acts by means of an external professional representative who specializes in the field, while ensuring distinction between his current activities for promotion of debt arrangements and his investment activities by means of the investments branch, all in accordance with the directions and relevant provisions of the law.

9.3.2 The field of financial services

There are two investment committees in the field of financial services: an investments committee for management of the monies of the trust funds, and an investments committee for management of customers' portfolios.

In trust funds the investments committee acts pursuant to the provisions of the Joint Investment Trusts Law, with the investment limitations as set forth in the fund prospectus. The investments committee for management of investment portfolios directs the investment policy into the various channels, where the actual investments are made with the limitations as set forth in the individual agreements with the customers.

The investments in this field are managed separately from the investments managed against yield dependent commitments of pension, provident fund, and insurance, and commitment, that are not yield dependent.

9.3.3 The functions of the investment committees and management of the investments

The functions of the various investment committees of the Group, in the various field of activity, are *inter alia*, the formulation of principles and ways of investment in every field, approval of specific transactions prior to their execution, determination of limitations to exposure and holding of securities of various kinds, in an issuer, in borrowers, etc., all subject to the provisions of the law and the various instructions of the Commissioner that apply to the investment policy of the Group and, *inter alia*, regulations for means of investment and the provisions of the circular for investment in non government bonds, published by the Commissioner following the recommendations of the Hodek committee, the regulations for means of investment, taking into account the policy and investment frameworks specified by the Board of Directors.

The Group's investments in the field of life insurance, elementary insurance, long term savings, equity and nostro, are managed by the investments division of Menora Mivtahim Insurance, in order to exploit know-how and expertise required in the various field of activity. There are investments teams in the division that specialize in investments abroad, shares in Israel, debt assets, research and analysis, investment funds and a non negotiable credit organization. Furthermore, a real estate department has been set up that engages in yielding real estate investments for the Group. The nostro monies management is separated from the management of the monies of the insured/ planholders.

In addition, there is a Middle Office team in the division, pursuant to the provisions of the circular for institutional entities that addresses the operating, reporting, and monitoring organization in the field of investments of the institutional entity.

Actual investment decisions are taken by the field managers in the division and by

the various investment managers, aided by the research and analysis team and by external research work in Israel and abroad, and by current meetings with professional experts in the field, all subject to the policy approved by the various investment committees.

9.3.4 The report of the Hodek committee

In February 2010 **the committee for the determination of reference parameters for institutional entities providing credit by means of the purchase of non government bonds ("the Hodek Report" and "the committee")** published its recommendations.

The aim of the committee was to recommend the activities required in order to improve the internal processes related to investment by institutional entities in bonds and the extent of the information that the issuing corporation must furnish to the institutional entities, prior to the investment. The recommendations of the committee focus on three major elements:

Establishing an orderly process for the method of operation of the institutional entities prior to a decision regarding the period of time of non government bonds for their savers. This is done, *inter alia*, by expansion of the infrastructure for creating negotiations between the institutional entities and the issuing companies and the preparation of a written analysis by the institutional entity prior to purchase in the primary market.

Determination of the type of information that the institutional entity is obligated to receive prior to purchase and over the life span of the debt of the bond of a non reporting corporation, *inter alia*, by means of receiving an "issue memorandum" that contains information regarding the issuing company (similar in its nature to some of the information that the issuing company is required to furnish in the prospectus), by receipt of current and immediate information, during the life span of the debt, from the non reporting corporation, and appointment of a trustee for issue of the non reporting corporation, when speaking of non negotiable bonds issued for at least four institutional entities.

Improvement of the quality of the product purchased by the institutional entities for the savers, *inter alia*, by means of determination of minimum stipulations and criteria that shall be included in the bonds, and subsequently the institutional entities shall be given the right for immediate repayment in the event of infringement of the aforesaid stipulations and criteria. Furthermore, the committee recommended contractual stipulations and recommended criteria that the institutional entities must consider demanding be met as part of the conditions of the bonds.

In addition the recommendations of the committee included recommendations in respect of cooperation between the institutional entities, appointment of a "super trustee" as a voluntary mechanism to be operated at the request of the issuing company, where the powers of the super trustee shall include the option of closely and daily monitoring the company's activities. Furthermore, the committee recommended criteria for classification of the bonds, recommendations regarding formulation of policy in respect of the purchase of bonds in the secondary market, and the obligation of registering non negotiable bonds in the registration office.

Pursuant to the recommendations of the Hodek committee, the Commissioner

published circulars (including clarifications and updates) in respect of investment in non government bonds, that in fact adopt the major recommendations of the committee in respect of the institutional entities. For additional details see section 9.2.3 below.

In November 2011 the Commissioner published a **draft circular addressing provisions in respect of investment by institutional entities in non government bonds – amendment**. The draft circular was published following the Commissioner's circular dated July 2010, that addressed provisions in respect of investments by institutional entities in non government bonds against a background of the need to increase the level of certainty amongst the institutional entities and amongst the issuers regarding provisions that should be included in the deeds of trust of non government bonds.

The draft circular contains in fact an appendix including a number of contractual provisions published and points of emphasis for their wording, that should serve as milestones in evaluation of legal arrangements in the conditions of the bonds, and that the institutional entities should consider adopting during evaluation of specific bond.

The aforesaid provisions include provisions in respect of the status of bonds (preferred, guaranteed, and non preferred), limitations regarding taking an additional financial debt by the issuer and regarding a lien of the issuer's assets, financial criteria, limitations regarding division and transactions with holders of a controlling interest, provisions in respect of rating of the bonds, and adjusting the conditions of the bonds during a decrease of rating, and provisions in respect of grounds for a call for immediate repayment.

Furthermore the draft includes provisions in respect of urgent representation including the appointment, the period of its office, and its powers.

9.3.5 Managed investments

9.3.5.1 Life insurance branch – yield dependent assets portfolio

Investment item	(thousands of NIS)	% assets
Negotiable bonds	4,001,963	33%
Non negotiable bonds	1,445,464	12%
Shares and options (including exchange traded funds and ETF)	3,209,195	27%
Cash and cash equivalent	535,315	4%
Deposits	653,872	5%
Investment funds	717,407	6%
Loans, receivables and others	1,561,536	13%
Commitments in respect of future contracts	(79,775)	(1%)
Grand total	12,044,977	100%

9.3.5.2 Pension branch

Investment item	(thousands of NIS)	% assets
Cash and cash equivalent	788,415	2%
Negotiable government bonds	2,379,538	6%
Negotiable concern bonds	5,005,248	13%
Other negotiable shares and securities	9,611,886	26%
Designated bonds	11,268,210	30%
Deposits and loans	3,437,063	9%
Other	5,137,657	14%
Total assets of New Mivtahim and Supplementary Mivtahim (less current commitments)	37,628,017	100%

9.3.5.3 Provident funds branch

Investment item	(thousands of NIS)	% assets
Cash and cash equivalent	391,468	3%
Negotiable government bonds	2,779,851	20%
Negotiable concern bonds	2,368,077	18%
Other negotiable shares and securities	2,222,938	17%
Non negotiable concern bonds	947,202	7%
Deposits and loans	4,354,519	33%
Other	293,478	2%
Total assets of the provident funds	13,357,533	100%

9.3.6 Material investment activities**9.3.6.1 The investment company has a number of subsidiaries, the most material of which are:****Menora Mivtahim Insurance**

In the period July-September 2010 the company invested the sum of NIS 253 million in two deferred capital notes in the nominal value of NIS 250 million that were issued for a period of 49 years, where Menora Mivtahim Insurance has an option for early repayment after 10 years, and subsequently every 5 years. The capital notes constitute complex initial capital in Menora Mivtahim Insurance.

Menora Mivtahim Finance

The company has given owners loans and capital notes for Menora Mivtahim Finance, that as of December 31, 2011, total the overall sum of about NIS 193 million, *inter alia*, for the purpose of the purchase of trust funds and provident funds.

Menora Mivtahim Real Estate

The company has given owners loans to Menora Mivtahim Real Estate that, as of December 31, 2011, total the sum of about NIS 224.5 million. It should be noted that the Board of Directors of the company has approved an overall framework of owners loans up to the sum of about \$60 million. In 2011 the framework of the loan was extended in the sum of an additional 14 million Euros.

The loans were for the purpose of investment in real estate assets abroad, including by means of investment funds that invest in real estate abroad.

Menora Mivtahim Real Estate, together with third parties, purchased yielding assets in Germany in the field of commerce, offices, and logistics. Furthermore, it has invested in a company initiating the construction of hotels in partnership with third parties in India (international management chains). In addition Menora Mivtahim Real Estate has invested in development transactions of real estate assets in Russia and in the setting up of solar projects in Europe.

9.3.6.2 Special loans

Menora Mivtahim Insurance has given loans to customers (hereinafter, in this section: "**the borrowers**") during the period between October 2004 and March 2007, without guarantees on the date of providing the loans, against liens on life insurance policies issued by Menora Mivtahim Insurance on behalf of the borrowers shortly after the date of giving the loans. The borrowers were referred to Menora Mivtahim Insurance by agents. The total balance of the aforesaid loans in the Group, as of December 31, 2011, came to about NIS 98.4 million.

The redemption values of the policies encumbered as aforesaid against the giving of the loans, as of December 31, 2011, are in the sum of about NIS 10 million. Against the aforesaid loans provision was made for doubtful debts in the financial statements of the company, in the sum of about NIS 66.5 million.

It should be noted that as part of the arrangements for collection of the aforesaid loans, new loan agreements were signed with the company that will be used mainly for repayment of the loans given originally by Menora Mivtahim Insurance.

9.3.7 Investments of the monies of the insured and the planholders and the profitability attributed to the company from them

Investments in the life insurance and pension branches are intended to cover the commitments of the insurer *vis-a-vis* the insured and the planholders, as estimated by the appointed actuary.

The regulations for means of investment and the provident funds regulations include provisions in respect of the rules for investment of assets held against the various commitments, as well as rules in respect of the means of investment of the investments of the insurer.

9.3.7.1 Life insurance

The main life insurance reserves result from the savings element that is accumulated in policies. There is also a reserve for payments of risk claims (death, loss of work capability, nursing insurance, etc.) that are in part linked to the consumer price index and in part linked to yields obtained for the profit sharing policies, as set forth below.

Linked life insurance (guaranteed yield policies)

Up to and including 1990 Menora Mivtahim Insurance issued insurance policies that granted the insured guarantee yield or redemption values. In order to meet these commitments Menora Mivtahim Insurance and other insurance companies in the economy signed investment agreements with the Israeli government known as "life insurance linked" agreements that regulate the insurance reserves as aforesaid in special bonds issued by the State of Israel (hereinafter: "**the designated bonds**").

The aforesaid bonds bear linked interest at a rate that decreased over the years from 6.2% to 4%. The yield for the insured was derived from the interest of the designated bonds, less the profit for the insurer. The bonds by virtue of the life insurance linked agreements received a major part of the insurance reserves accumulated in the aforesaid policies, while the balance of the insurance reserves were invested in free investments in the capital market.

Because of the guaranteed yield or redemption values for the insured in these policies, the free investments risks apply to the insurer. Over the years until the end of 2002 Menora Mivtahim Insurance redeemed, pursuant to the arrangement with the Ministry of Finance, part of the designated bonds and converted them into investments in assets having a surplus yield. The total alternative investments (free investments instead of designated bonds) as of December 31, 2011, totaled the sum of about NIS 905 million.

Yield dependent life insurance

Starting from January 1991 the company issued investment profit sharing policies. In the policies sold up to December 31, 2003, the yield for the insured was based on the yield actually obtained on the investments, less fixed management fees at a rate of the accumulated monies (0.05% per month) and varying management fees at a rate of 15% of the real profits obtained.

Starting from 2004 Menora Mivtahim Insurance sells policies in which fixed management fees are charged from the accumulated monies only as well as management fees from current deposits. The rate of the management fees is up to 2% of the accumulated monies and/or up to 13% of the deposits, depending on the plans as set forth in the policies.

Starting from 2007, the Regulations for Supervision of Insurance Transactions (conditions in an insurance contract) were amended so as to permit the insurer, with the approval of the Commissioner, to charge management fees calculated as a percentage of the estimated value of the investment portfolio without a ceiling, provided that management fees from the current deposits are not charged in parallel.

The aforesaid policies are called "profit sharing" policies, i.e. policies in

which the monies of the savings are invested in various investment channels. The profits resulting from these investments are credited to the savings element in the policy.

In mixed (traditional) policies as set forth in section 3.2.1(a) above, when the investments yield positive returns, a bonus is added to the sum of the insurance or to the redemption value, or alternatively when they yield negative returns, the insured pays an additional premium ("malos") to preserve the sum of the insurance or the redemption value.

When the malos exceeds the rate as set forth in the policy, the insured is given the option of waiving the additional payment while reducing the sum of the insurance/ the redemption value, respectively.

In policies of the Adif type, as set forth in section 3.2.1(a) above, these mechanism does not exist in general. It should be noted that the management fees are charged on the real yield only so that if real losses are created (on an annual basis) the company is barred from charging management fees up to the cover of the real loss.

If real losses are created during the year, after management fees have already been charged in respect of that same year, the company is required to cancel the charge of varying management fees.

It should be noted that real losses may result from an increase in the Consumer Price Index (inflation) and/or losses from investments in securities and/or a combination of these.

In 2011 the real yield on the investments portfolio was negative and consequently it was not possible to charge varying management fees as aforesaid, until the aforesaid real loss was returned. In the light of the negative yields referred to the need arose to charge an additional premium in traditional policies as set forth above.

For details of the assets and the commitments in life insurance see note 3 in the financial statements.

9.3.7.2 Pension

The entire yield from investments that results from investment of the monies of the planholders is credited to the planholders. The company charges management fees from the contribution fees and from the accumulated assets of the fund.

The following are details of the rate of statutory management fees and the actual rate of management fees charges in the periods as set forth in the report.

Pursuant to the provisions as set forth in the income tax regulations, the company collected in the period 2009-2011 management fees at the following rates:

			2011	2010	2009	
New Mivtahim	Rate of statutory management fees	From contribution fees	6.00%	6.00%	6.00%	
		From assets of the fund	0.50%	0.50%	0.50%	
	Rate of management fees actually charged	From contribution fees	4.10%	4.19%	4.53%	
		From assets of the fund	0.33%	0.34%	0.34%	
	Rate of benefits given to the insured/ including commission to agents	From contribution fees	1.32%	1.19%	1.18%	
		From assets of the fund		-	-	
	Net rate of management fees including benefits and commission	From contribution fees	2.78%	3.00%	3.35%	
		From assets of the fund	0.33%	0.34%	0.34%	
	New Mivtahim Plus	Rate of statutory management fees	From contribution fees	2.00%	2.00%	2.00%
			From assets of the fund resulting from deposits up to 31.12.05	0.50%	0.50%	0.50%
Rate of management fees actually charged		From assets of the fund from deposits starting from 1.1.06	1.54%	1.65%	1.79%	
		From contribution fees	-	-	-	
		From assets of the fund resulting from deposits up to 31.12.05	0.42%	0.42%	0.46%	
		From assets of the fund from deposits starting from 1.1.06	1.48%	1.54%	1.65%	
Rate of benefits given to the insured/ including commission to agents		From contribution fees	-	-	-	
		From assets of the fund	-	-	-	
Net rate of management fees including benefits and commission		From contribution fees	-	-	-	
		From assets of the fund	0.99%	0.94%	0.91%	

- 1) In addition, in the case of a pension where the monthly sum is less than 5% of the average salary in the economy, the company charges management fees from the sum of the pension at a rate of 6% of the difference between the aforesaid minimum pension and the pension paid, as aforesaid.
- 2) In general, there is no significant seasonality in the collection of contribution fees for the pension funds. However, in certain months, that change from year to year, the amount of the contribution fees is higher, mainly in the light of one-time payments made by the employers, in respect of which provision is made for contribution fees, and in the light of the advancing of the payment for the working month of December to December itself (instead of its payment in January of the following year). The influence of one-time payments for workers as aforesaid is very significant in New Mivtahim Plus, in respect of the New Mivtahim.

It should be noted that the seasonality existing with customers of the

company in specific branches, that influences the number of workers in those branches, does not materially influence the breakdown of contribution fees over the months of the year.

9.3.7.3 Provident funds

The entire yield from investments that results from investment of the monies of the planholders is credited to the planholders. The company charges management fees from the contribution fees and from the accumulated assets of the fund.

The following are details of the rate of statutory management fees and the actual rate of management fees charges for all the products in the field of activity described in the report for 2011:

	2011	2010	2009
Menora Mivtahim Provident Funds			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	1.01%	1.14%	1.21%
Menora Mivtahim Provident Funds and Severance Pay			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	1.55%	1.53%	1.47%
Menora Provident Fund Meitar			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	1.52%	1.69%	1.71%
Menora Provident Fund Amiv			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	1.28%	1.69%	1.38%
Menora Further Education Fund			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	1.11%	1.14%	1.27%
Menora Mivtahim Further Education Fund			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	1.16%	1.22%	1.23%
Mivtahim – Central Severance Pay			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	0.94%	1.04%	1.05%
Menora – Central Severance Pay			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	0.87%	1.26%	1.03%
Menora Mivtahim participation in budget pension			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	0.21%	0.21%	0.44%
Provident funds for other purposes – vacation, festivals, and convalescence			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	2.00%	2.00%	2.00%
Mor Menora Mivtahim			
Statutory rate of management fees	0.39%	0.29%	0.29%

Rate of management fees actually charged	0.39%	0.29%	0.28%
Menora Mivtahim Taus			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	0.53%	0.35%	0.27%
Omega Further Education Fund			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	0.31%	0.31%	0.28%
Menora Mivtahim Yeter			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	0.42%	0.29%	0.28%
Lehava			
Statutory rate of management fees	2.00%	2.00%	2.00%
Rate of management fees actually charged	0.91%	0.75%	1.29%

Provident funds guaranteeing a yield (that are part of the provident fund activities)

Some of the provident funds managed in the Group are provident funds guaranteeing a yield that guarantee for their planholders a real yield of 4.5% or 5.5% per year (as the case may be).

75% or 89% of the monies of the investments are invested in a deposit of the accountant general, that give a yield linked to the consumer price index at a rate of 4.95% or 5.95%, respectively.

The balance of the monies are invested in free investments, as decided by the investment committee or Menora Mivtahim Provident Funds.

The company charges management fees from the profit arising from the guaranteed yield, but not more than the maximum management fees as set forth in the regulations. If the yield actually achieved is less than the guaranteed yield, the company must make up the difference in the accounts of the planholders.

It should be noted that Menora Mivtahim Insurance guarantees the commitments of Menora Mivtahim Provident Funds *vis-a-vis* the planholders to achieve the guaranteed yield.

9.4 Secondary insurance

9.4.1 General

The secondary insurance policies of the Group in the field of general insurance, life insurance, and health insurance, are made on an annual basis with various secondary insurers. The secondary insurance policies are intended to hedge the insurance risks of the Group by means of transferring part of them to the secondary insurers, thus reducing the Group's exposure accordingly.

However, the aforesaid transfer of risk does not release the Group from all its commitments *vis-a-vis* its insured. The Group is not dependent on any specific secondary insurer whatsoever.

In secondary insurance a premium is paid to the secondary insurers and in return

the secondary insurers participate in their share of the claim payments, and also pay commission to the insurer, in specific contracts, as the case may be.

In some of the residual branches the Group is covered by excess losses insurance against a catastrophe.

The various kinds of secondary insurance are presented in the financial statements in the items of premium, claims paid and pending, commission, insurance reserves, and sums receivable, and other commitments.

9.4.2 A description of the types of secondary insurance contracts and a brief description of the cover in respect of each major product in the various field of activity

In each of the branches the secondary insurance cover purchased is adjusted to the business policy of the Group and to the nature and level of the risk.

The basic distinction between types of secondary insurance is between contractual secondary insurance (proportional or not proportional) that is secondary insurance made for a branch or type of insurance depending on the terms of the contract and facultative secondary insurance, that is secondary insurance made for specific business(es) or a single policy.

The proportional insurance splits the risk proportionally between the insurance company and the secondary insurers, while non proportional insurance protects the company against claims that exceed the self residue that it determined for itself.

Details of the agreements in secondary insurance contracts with the secondary insurers are sent every year to the Commissioner. For details regarding the types of secondary insurance agreements see section 9.4.3 below.

9.4.3 The various types of cover customary in the insurance branch in general, and in the Group in particular, are as follows:

Contractual secondary insurance policies

These include quota share and surplus insurance. In proportional secondary insurance the Group transfers to the secondary insurer a specific part of the sum of the premium from every policy that is covered under the contract, and receives in return from the secondary insurer an identical part of the sum of every claim in respect of the aforesaid policy, as well as commission. In quota share insurance this share is fixed for all the policies in the insured branch, and in surplus insurance policies this share varies depending on the sum of the insurance for each policy.

Non proportional secondary insurance policies including insurance of the excess of loss type

Excess of loss insurance is insurance that covers claims or events that exceed a pre-defined sum. In other words, a single high claim or an event in which a number of cumulative risks are involved that exceed the agreed sum paid by the secondary insurer up to the sum of the agreed ceiling. On the other hand, a claim less than the pre-agreed sum will be paid by the insurance company by itself.

Facultative secondary insurance

Facultative secondary insurance policies are made in order to cover special risks embodied in specific policies. In general businesses are insured with this type of insurance when the sum of the insurance exceeds the contractual capacity of the automatic secondary insurance policies of the Group, or when the risk is excluded from the contract with the secondary insurer.

Multi line proportional secondary insurance

Prior to 2009 the Group made a proportional (25%) secondary insurance agreement of the company residue in most branches of general insurance with a secondary insurer (Swiss-Re). The agreement is unique in that it applies to a number of branches simultaneously. The aforesaid agreement was renewed in 2010 for an additional two years and was recently renewed for an additional two years, i.e. up to the end of 2013.

It should be noted that a similar agreement was signed on 2010 with an additional secondary insurer in the amount of 5% of the company's residue. This last agreement was not renewed for 2011.

9.4.4 Description of the major agreements for payment of commission received from secondary insurers

In non proportional secondary insurance contracts the Group does not generally receive commission from the secondary insurers. In proportional insurance contracts and in facultative insurance agreements the Group receives commission from the secondary insurers at an agreed rate and/or in accordance with the insurance results, as the case may be.

9.4.5 Exposure policy for secondary insurers

9.4.5.1 General insurance

The exposure policy of the Group is intended to guarantee, by means of use of tools for the transfer of various risks, the following major aims:

- 1) Maintenance of a ratio between the residual exposure and the equity.
- 2) Averaging fluctuations in the residual underwriting results.
- 3) Transfer of irregular risks to secondary insurers.

The type of risks transferred to the secondary insurers and the method of the transfer are determined by means of analysis of the nature of the risk and the effectiveness of its transfer to the secondary insurer, based on past experience and internal economic models.

The agreement with the secondary insurer is based on the quality of the service given by the secondary insurer, the duration and quality of the relations between the companies and the nature of the agreement (direct or via agents). In the field of elementary insurance the Group makes agreements with a large number of secondary insurers in order to prevent dependence on a single secondary insurer and to spread the credit risk embodied in such agreements.

In order to minimize the credit risk, the financial strength of the secondary insurer constitutes a major criterion in the decision regarding the agreement.

The agreements policy of Menora Mivtahim Insurance in all matters related to the international rating of secondary insurers is examined and approved each year.

The agreements policy as of the date of this report is as follows:

Short tail branches:

No agreement shall be made with a secondary insurer whose rating is less than A- of S&P or a similar rating from other agencies, except with special approvals in respect of specific circumstances.

Long tail branches:

No agreement shall be made with a secondary insurer whose rating is less than A- of S&P or a similar rating from other agencies, except with special approvals in respect of specific circumstances.

In addition, pursuant to the supervision instructions, the Board of Directors of the insurer once a year chooses a maximum exposure framework for secondary insurers. The aforesaid exposure framework is based on the international credit rating of the secondary insurer, and fixes exposure frameworks for the insurer, at the level of a single agreement and at the level of all the contracts.

The total exposure for a secondary insurer in earthquake insurance, after MPL (as set forth in this section below) in each of the insurers in the Group, shall not exceed \$200 million for a single secondary insurer in all contracts, provided that this insurer is rated AA and above. For insurers rated at A- the exposure shall be limited to \$125 million.

9.4.5.2 Exposure to earthquakes

The secondary insurers' exposure to earthquake risks comprises the risks transferred to them in the proportional property contracts, in which the secondary insurer participates in a proportional part of the risk. This exposure is limited to a maximum sum per event (event limit).

For an earthquake risk that is not included in the proportional secondary insurance contracts, the Group purchases protection in an excess of loss contract with different layers. The cover ceiling is parallel to the MPL limit that the company chooses to purchase. The MPL (maximum probable loss) present the maximum damage expected to be caused to the company as a result of a single event.

Since the risk of an earthquake is the major risk in Israel, spread over an extensive geographic area, the MPL represents a conservative average of the damage expected in the event of a catastrophe. The Group chooses a conservative MPL while taking additional safety margins, for each kind of risk, based on the breakdown of the company's portfolio, and while making use of international models.

The average sums of exposure to earthquakes that are covered by proportional secondary insurance totaled in 2011, as of the date of this report, the sum of about NIS 73 billion (not including Shomera), while the average sums covered in non proportional secondary insurance, as of the

date of this report, total the sum of about NIS 72 billion (including Shomera). As we have said, the secondary insurance agreements of the company do not protect the full sums but are based on conservative estimates of the maximum potential risk.

The secondary insurers whose share of the sum of exposure to earthquakes exceeds 10% are Swiss Re, Everest Re, and Munich Re, as of the date of this report.

9.4.5.3 The following is a summary of the results of secondary insurance in general insurance by field of activity:

	Property vehicle insurance			Compulsory vehicle insurance		
	2011	2010	2009	2011	2010	2009
Secondary insurance premiums	163,683	233,497	202,417	14,407	112,036	21,011
Results	14,748	(4,529)	4,579	(15,244)	(9,734)	(8,142)
	Property vehicle insurance branch			Liabilities insurance branch		
	2011	2010	2009	2011	2010	2009
Secondary insurance premiums	315,652	297,232	291,473	97,660	113,859	109,550
Results	(66,678)	(19,518)	(46,290)	(45,127)	4,631	(16,280)
	Total					
	2011		2010		2009	
Secondary insurance premiums	591,402		756,624		624,451	
Results	(112,302)		(29,150)		(66,133)	

Details of other property branches by types of premiums:

	2011	2010	2009
Secondary insurance premiums – proportional	212,296	204,251	208,428
Secondary insurance premiums – non proportional	5,829	3,983	9,494
Secondary insurance premiums – earthquakes	97,527	88,998	73,551
Total secondary insurance premiums	315,652	297,232	291,473

9.4.5.4 Life insurance

During 2011, in accordance with the exposure policy of the company, the company made agreements with secondary insurers having an international quality rating of BBB+ and above of S&P, where the maximum participation of the company in a contract is limited by the rating decided by the Board of Directors of the company, where the maximum rate of execution to a single secondary insurer shall not exceed 50% of the total premium in the said agreement including the company's residue.

It should be noted that the Board of Directors of the company, at the beginning of 2012, approved a different exposure policy, according to which the company shall not make an agreement with secondary insurers having an international policy rating of less than A-.

9.4.5.5 Health insurance

In accordance with the exposure policy of the company, the company made

agreements with secondary insurers having an international quality rating of BBB+ and above of S&P. the percentage of secondary insurance in each agreement depend on the degree of risk of the agreement and commercial considerations in accordance with the policy approved by the Board of Directors. The company did not purchase secondary insurance in 2011 for the event of a health catastrophe.

9.5 Suppliers and services providers

In the information systems used by the companies in the Group, the major hardware suppliers of the Group are IBM, that supplies the major applications servers and storage platforms, and EMC that supplies a significant part of the storage platforms.

In addition, Shomera, a subsidiary of the company, has made agreements with a number of hardware and software suppliers both for the purchase of new products and for the current maintenance of its systems. The major suppliers for maintenance of the software of the insurance policies system are Comtech Ltd., that is a software house supplying these services to Shomera and to additional insurance companies, and DorteL Ltd., that is a company giving support for the various types of software currently used by Shomera. If the need arises to shift to other software systems, this may involve a material increase in cost.

In the field of computer services, the Group has agreements with a number of suppliers who specialize in various fields relevant to the activities of the Group, and especially in the field of life insurance policies and long term savings, where the termination of the provision of services by them, if it occurs, is likely to involve investment in certain economic resources and time inputs for re-organization of the Group, by means of an alternative supplier.

Furthermore, the Group purchases services from various suppliers, including suppliers of equipment and maintenance, suppliers of legal services, assessors, damage adjusters, and investigators.

The Group has no dependence on any supplier whatsoever, in any of its field of activity, except in respect of its agreement with Sapiens, as set forth in section 2.7 above.

9.6 Humman capital

9.6.1 The following is the organizational structure of the Group as of the date of this report



*ביום 15 בפברואר 2012, לאחר תאריך המאזן, חילקה מנורה מבטחים ביטוח, את מניות מנורה מבטחים פנסיה, כדיבידנד בעין לחברה.

Summary of the Menora Mivtahim holdings group

Chairman of the Board of Directors

Internal auditor

CEO

Finance VP

Investments VP

Legal advisor

Menora Mivtahim Insurance

Menora Mivtahim Pension (*)

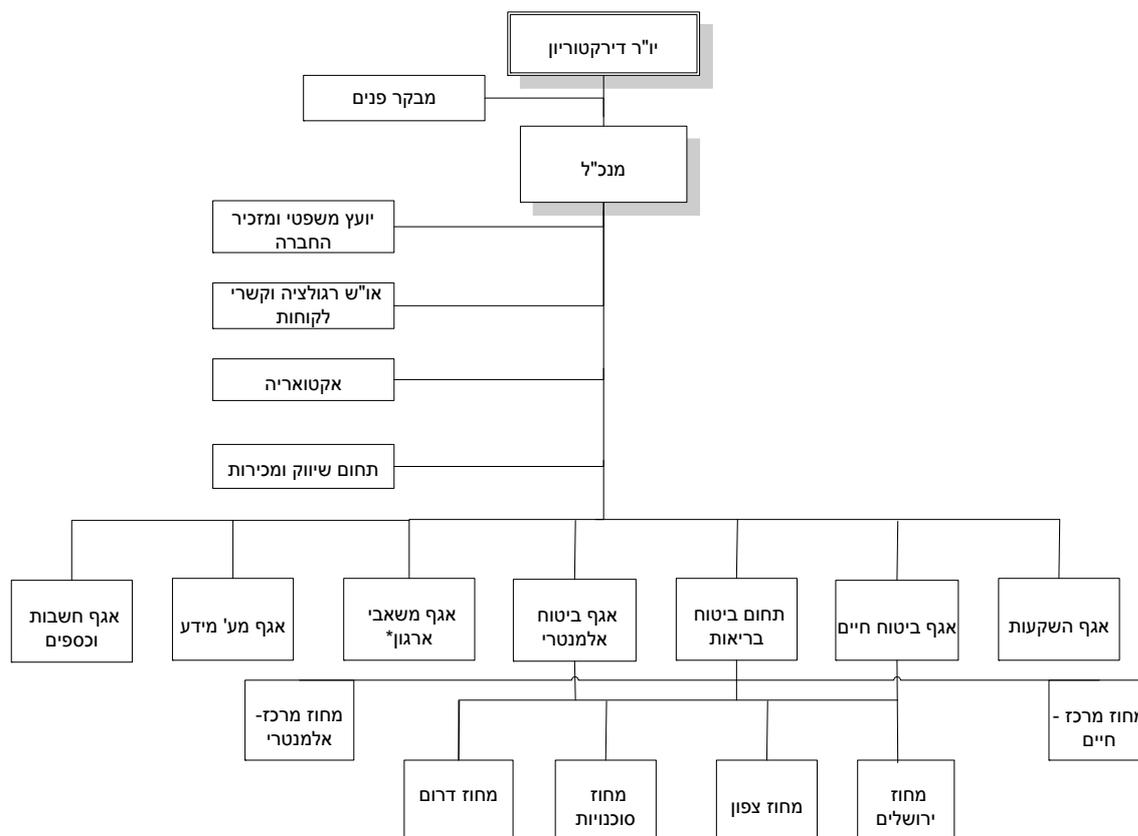
Shomera

Menora Mivtahim Finance

(*) On February 15, 2012, after the date of the balance sheet, Menora Mivtahim Insurance allocated the shares of Menora Mivtahim Pension as a dividend in kind to the company.

The staff of Menora Mivtahim Holdings comprises the CEO of the company, the Finance VP, the Investments VP, the legal advisor, the company secretary, and the internal auditor, who also serve in the corresponding positions in Menora Mivtahim Insurance (except for the CEO of the company who serves as the chairman of the Board of Directors of Menora Mivtahim Insurance), that constitutes the major business arm of the Group.

מבנה ארגוני של מנורה מבטחים ביטוח



* החל מחודש פברואר 2012, לאחר תאריך המאזן, שונה שמו של אגף משאבי ארגון ל- "אגף משאבי אנוש", ותחום לוגיסטיקה ונכסים הופרד מאגף זה, והוכפף ישירות למנכ"ל

The organizational structure of Menora Mivtahim Insurance

Chairman of the Board of Directors

Internal auditor

CEO

Legal advisor and company secretary
O&M, regulation, and customer relations
Actuarial affairs
Marketing and sales

Comptroller and finance
Information systems
Organizational resources *
Elementary insurance

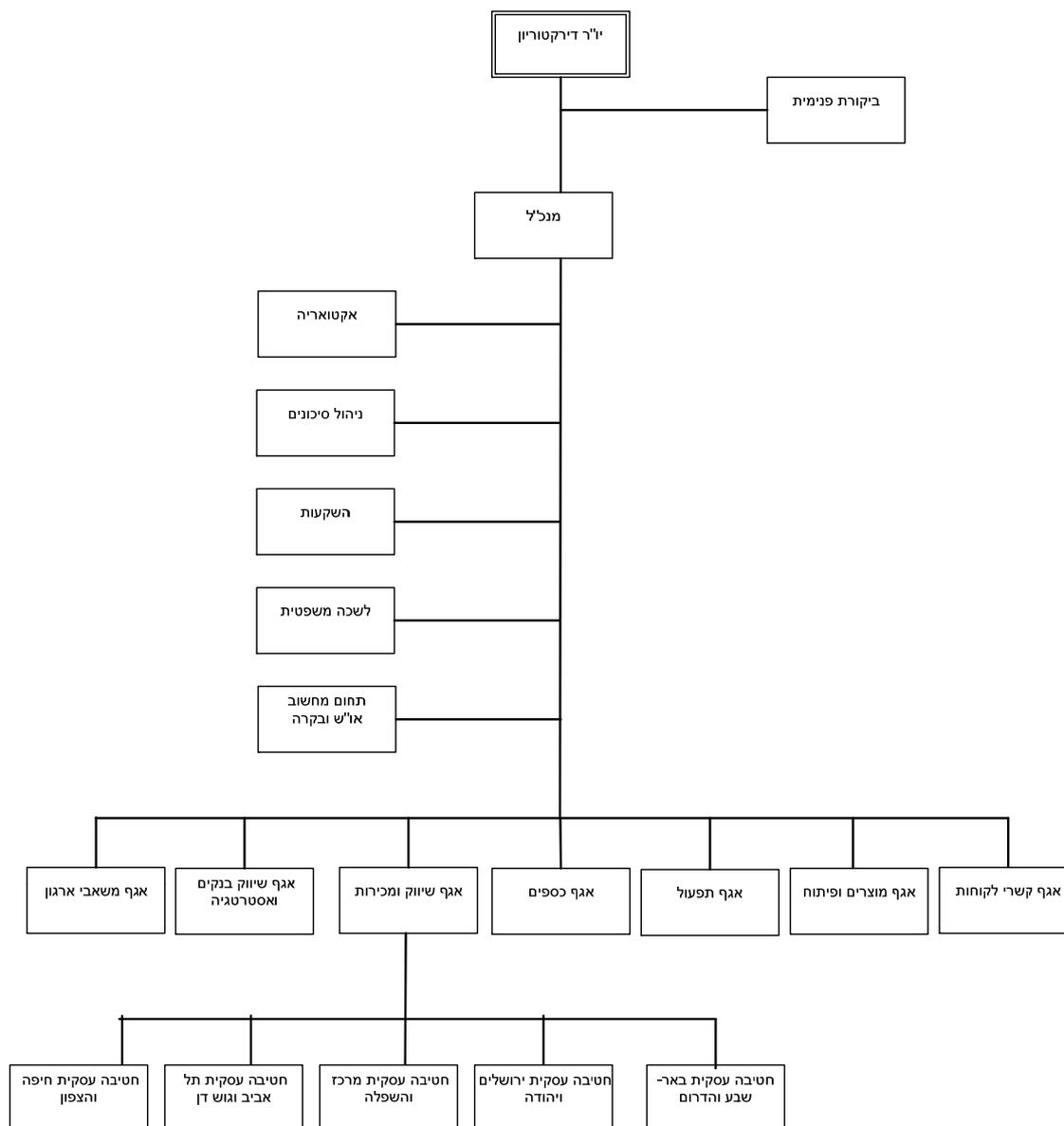
Health insurance
Life insurance
Investments

Central region – elementary
Central region – life insurance
Southern region
Agencies
Northern region
Jerusalem region

(*) Starting from February 2012, after the date of the balance sheet, the name of the organizational resources department was changed to "Human resources department", and the logistics and assets department was separated from this department, and reported directly to the CEO.

מבנה ארגוני של מנורה מבטחים

פנסיה



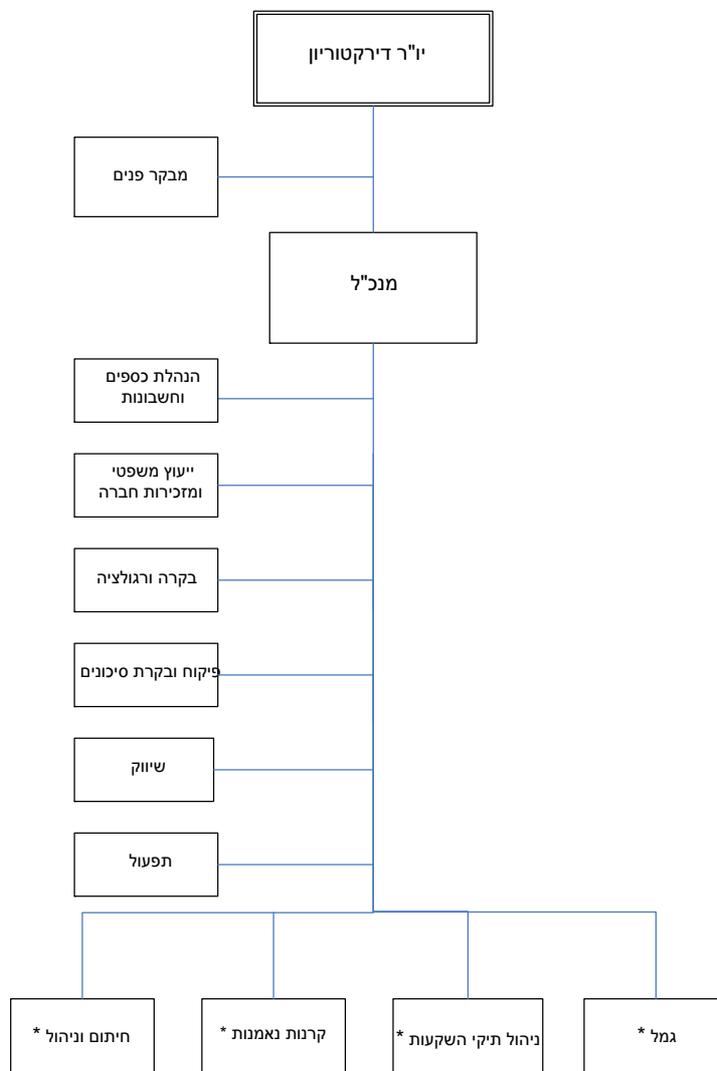
Organizational structure of Menora Mivtahim Pension:

Chairman of the Board of Directors
Internal auditing
CEO

Actuarial affairs
Risks management
Investments
Legal department
Computing, O&M, monitoring
Organizational resources
Marketing, banks, and strategy
Marketing and sales
Finance
Operations
Products and development
Customer relations

Business division – Haifa & the North
Business division – Tel Aviv and Dan bloc
Business division – Center and Coastal region
Business division – Jerusalem and Judea
Business division – Beersheba and the South

מבנה ארגוני של קבוצת מנורה מבטחים פיננסים



* פעילות מאוגדת באמצעות חברות- בנות נפרדות

Organizational structure of the Menora Mivtahim Finance group

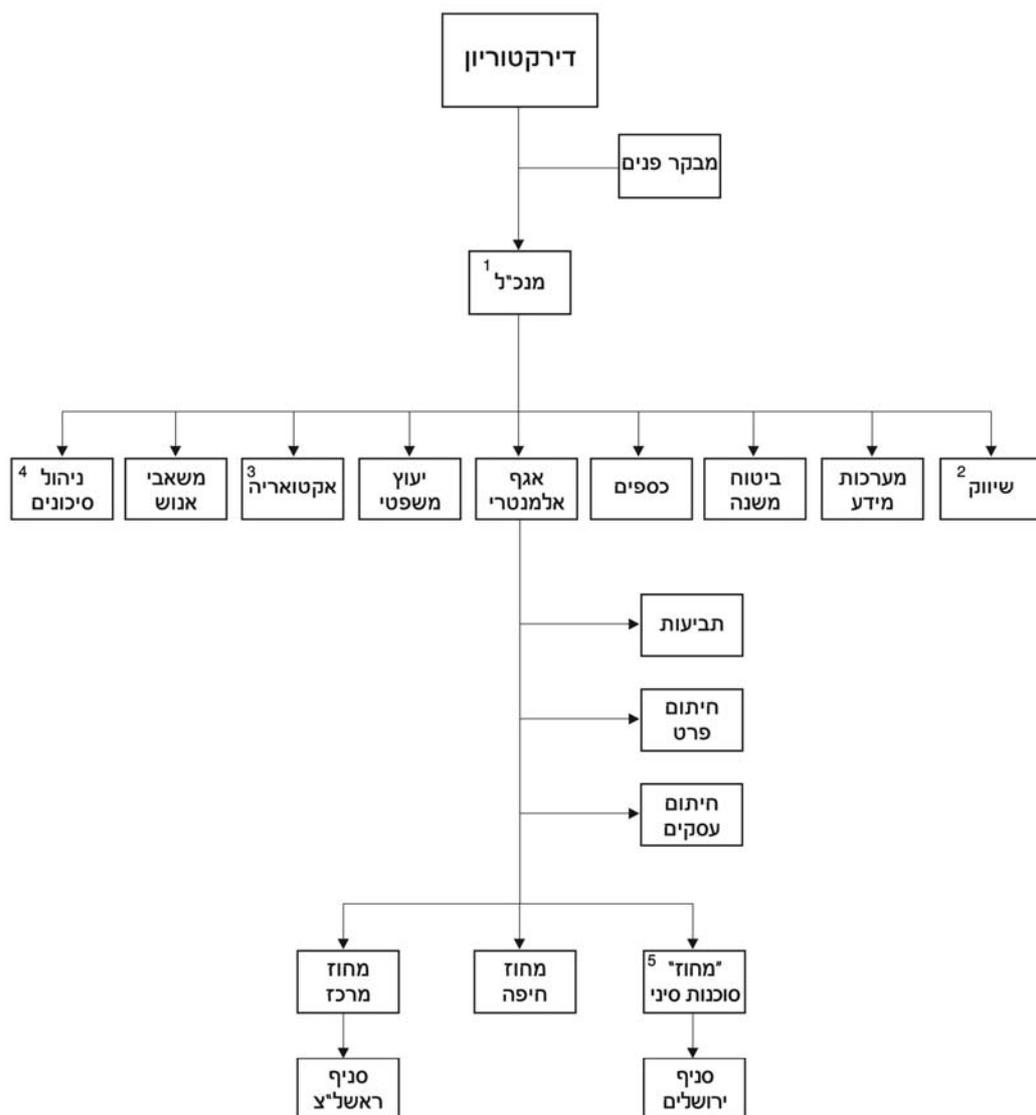
Chairman of the Board of Directors
Internal auditor
CEO

Management, finance, and accounts
Legal advice and company secretary
Monitoring and regulation
Supervision and risks monitoring
Marketing
Operations

Underwriting and management (*)
Trust funds (*)
Investment portfolios management (*)
Provident funds (*)

(*) Activity incorporated by means of separate subsidiaries.

מבנה ארגוני של שומרה חברה לביטוח בע"מ



1. מכהן גם כמנהל אגף אלמנטרי.

2. מנהל המחלקה מכהן גם כמנהל מחוז חמרכז.

3. בחברה מכהנים שני אקטוארים ממונים: אקטואר ממונה ביטוח כללי הינו עובד של החברה ואקטואר ממונה בביטוח רכב חובה בלבד הינו עובד מנורה מבטחים.

4. מנהלת הסיכונים הינה עובדת קבוצת מנורה מבטחים.

5. חברת-בת הפועלת כברוקר של מספר חברות ביטוח ובעלת היקף פעילות מהותי בשומרה.

Organizational structure of Shomera Insurance Company Ltd.

Board of Directors

Internal auditor
 CEO (1)
 Risk management (4)
 Human resources
 Actuarial affairs (3)
 Legal advice
 Elementary
 Finance
 Secondary insurance
 Information systems
 Marketing (2)
 Claims
 Private underwriting
 Business underwriting
 Central region
 Rishon Le Zion branch

Haifa region
Sinai Agency "region" (5)
Jerusalem branch

- 1) Also serves as manager of the elementary division.
- 2) The department manager also serves as the central region manager.
- 3) Two appointed actuaries serve in the company: the general insurance appointed actuary is an employee of the company; and an appointed actuary for compulsory vehicle insurance only is an employee of Menora Mivtahim.
- 4) The risks manager is an employee of Menora Mivtahim.
- 5) A subsidiary acting as a broker for a number of insurance companies that has a material scale of activities in Shomera.

9.6.2 Establishment of workers

Workers are employed in the Group as set forth below:

		31.12.2011	31.12.2010	31.12.2009
Management of the Group		23	24	22
Long term savings	Life insurance	477	455	395
	Pension	383	335	312
	Provident fund	85	71	43
General insurance		513	483	458
Health insurance		47	21	20
Workers of insurance agencies		115	87	84
Finance, without management of provident funds		64	64	60
Staff and service units for all the companies (organizational resources, information systems, actuarial affairs, finance, customer relations, etc.)		598	470	405
Total		2,305	2,010	1,799

As of the date of this report, the Group is not dependent on any individual worker whatsoever.

In addition to the data as set forth in the table above, the Group receives outsourcing services from software suppliers for the purpose of development of software for the Group, a significant number of whose workers are located in the Group's offices. As of December 31, 2011, the company received services from 207 workers of external suppliers, compared to 164 workers as of December 31, 2010. The change was due to an increase in the scale of the tasks of the information systems, new projects, and in response to regulation requirements.

9.6.3 Material changes to the establishment of workers and the organizational structure

In continuation of the trend of increase in the Group's activities, as of December 31, 2011, the establishment of workers in the Group increased by about 295 workers. This was due to the needs for development and improvement of the information systems of the Group, the transfer of a contractor's workers to employment as company workers, improvement of customer service of the Group, and for the purpose of compliance with the regulatory requirements.

At the beginning of 2011, as part of a change to the organizational structure of the Group, the life insurance and health insurance division was split into three field of activity – life insurance, health insurance, and sales (life insurance and long term savings and health insurance).

In addition some of the health insurance branches were attached to the life insurance branch, and subsequently (after the date of the balance sheet) those associated with the general insurance branch were transferred to the new field of health insurance.

Furthermore, activities were transferred from the O&M and regulation branch to

the elementary branch; and in addition changes were made to the structure of the branches themselves, such as merging fields in the elementary branch and re-definition of the fields in the life insurance branch, information systems, etc.

9.6.4 Training and organizational development

The Group invests considerable resources in professional training for workers and agents in accordance with the business needs and the regulatory instructions.

The training organization for workers and agents includes professional qualification, management and behavior qualification, organizational and personal consulting for managers, in order to develop a high professional standard in a variety of subjects, such as regulatory requirements, new insurance plans, training in the field of life insurance, long term savings and pension, taxation, finance, and the supply of service.

In addition the company took and takes steps to train workers in the field of life insurance in order to receive a license as a pension marketer in accordance with the directions of the Commissioner.

9.6.5 Benefits and the quality of employment contracts

Some of the long employed workers in Menora Mivtahim Insurance are employed in accordance with a work agreement whose provisions were agreed in the past between the management of the company and representatives of the workers, in which are anchored all the conditions of the employment, including the gross monthly salary elements, the 13th salary, Executive Insurance Policy, further education fund, additional benefits based on criteria, such as: a company car, a cell phone, participation in play school costs, professional literature, out-of-pocket expenses.

In addition, employees of the Group are entitled to receive loans in accordance with the procedure specified in this matter. Some of the workers are employed in Menora Mivtahim Insurance in personal work agreements, in respect of most of whom the personal employment agreements include most of the subjects included in the aforesaid work arrangement.

Starting from November 2011, a new work agreement was applied in the company to new workers, that does not include a 13th salary, provision for a further education fund, professional literature, participation in play school costs, and other accompanying social benefits. It is clarified that the new employment agreement is in accordance with the provisions of the law.

In addition, there are workers in the Group who engage in sales, including purchasing inspectors in the field of life insurance and long term savings, who are employed by means of a personal work agreement based on a basic salary and sales commission. In addition, there are workers, mainly in the field of marketing, who are employed jointly with a number of companies in the Group.

The Group conducts salary discussions in accordance with the decision of the management of the Group and the workers' performance is evaluated annually by their supervisors.

Apart from employees of Menora Mivtahim Pension (as set forth below), no collective agreements apply to the workers of the Group, except for the provisions

of the collective agreements applying, by virtue of the expansion orders, to all the employees and employers in Israel.

In December 2011 a collective agreement was signed between Menora Mivtahim Pension and the Histadrut of Clerks, for a period of 4 years, extendable to another year until November 2016. The agreement applies to about 226 of the employees of Menora Mivtahim Pension – all the employees of Menora Mivtahim Pension, except for marketers, senior workers employed with personal contracts, and additional workers specified in the collective agreement.

The collective agreement addresses the conditions of employment of the workers, and fixes rules in the following subjects: work arrangements, the trial period, the date and the conditions for receiving permanent status, work discipline, overtime, promotion scheme, salaries and accompanying conditions, annual bonus, annual vacation, convalescence pay, sickness pay, pension conditions, eligibility for the further education fund, festival gifts, termination of employment, retirement, etc.

9.6.6 Position holders and senior management employees

The position holders in the company and in institutional entities in the Group are rewarded in accordance with the instructions of the Commissioner in respect of remuneration policy for position holders in institutional entities. (For details of the remuneration policy see section 9.6.9 below.)

In February 2012 Menora Mivtahim Insurance re-evaluated the classification of its managers as "position holders" pursuant to the Companies Law, and based on a legal opinion in the subject, it was decided that managers bearing the title "VP" who are not in fact subordinate to the CEO, and whose function, in respect of its contents and nature, does not match the title that they bear, no longer fall into the category of those regarded by the company as a "position holder" pursuant to the Companies Law, in the light of evaluation of the contents and nature that accompany positions in which the managers serve.

Consequently there were classified as "position holders" managers who fill positions that, in accordance with their nature and contents, obligate subordination to the CEO or to which there apply regulatory provisions that indicate that they fill a position that by its nature obligates them as "position holders".

Furthermore, in parallel, in February 2012, the company decided to change the organizational structure, so that the name of the "organizational resources" description would be changed to "human resources" and that the logistics branch, that until then had formed part of the organizational resources division, would be directly subordinate to the CEO.

9.6.7 Remuneration for the company CEO

For details regarding the employment agreement of the CEO of the company, including the shares plan approved for him in 2003, as amended in 2008, see section 8(2) of the report of additional details (Part F of the periodical reports) and note 38(c)(2) of the financial statements.

9.6.8 Remuneration for senior management employees

The senior management is employed in the Group by means of personal

employment contracts. The employment contracts include, *inter alia*, gross salary elements, out-of-pocket expenses, 13th salary (in some of the companies), annual bonus (with the approval of the Board of Directors), a company car, a cell phone, and provision for social benefits and further education fund, as is customary in the economy.

In the light of amendment 16 of the Companies Law, Menora Mivtahim Insurance cancelled the remuneration committee (that was set up in 2007) while deciding that transactions with stakeholders and, in particular, transactions related to the conditions of office and employment of position holders and the remuneration policy for position holders, shall be discussed and approved, as the case may be, in the audit committee, pursuant to the provisions of the law. For additional details see section 10.2.6 below.

9.6.9 Remuneration policy for position holders in the Group

Further to the Commissioner's circular in respect of remuneration policy for position holders in institutional entities, for the first time, in December 2010, the Board of Directors of the company and of the institutional entities in the Group, approved a remuneration Foreign Minister for position holders in the company and in the institutional entities in the Group, after receiving recommendations from the remuneration committee and the audit committee, as the case may be (hereinafter: "**the authorized organs**").

The remuneration program comprises in principle four layers of remuneration: (1) basic salary; (2) accompanying conditions; (3) performance dependent remuneration – bonus; and (4) long term remuneration (remuneration units) (hereinafter: "**the overall remuneration policy**").

The remuneration policy shall apply, starting from 2011, to position holders defined by the Board of Directors of the company and of the institutional entities in the Group. These position holders do not include the CEO of the company, the CEO of Menora Mivtahim Real Estate, and position holders in Menora Mivtahim Insurance who are related to the holder of a controlling interest in the company. See section 8 of the additional details report (Part F of the periodical reports). It should be noted that, without limitation to the principles as set forth above and below, there is a difference between the remuneration policy specified in each institutional entity in the Group.

Prior to approval of the periodical reports for 2011 the Boards of Directors of the company and of Menora Mivtahim Insurance approved an updated overall remuneration policy for senior position holders in Menora Mivtahim Insurance for 2012, as set forth below:

The performance dependent bonus model contains two stages, the first of which is the determination of the sum of the overall bonus to be distributed in a specific year (hereinafter: "**the bonus budget**"), and the second stage is the division of the bonus between the position holders.

Stage 1 – Determination of the bonus (the bonus budget)

Every year the average profit target of the company before tax (overall profit) shall be fixed, after neutralizing irregular events (hereinafter: "**the profit target**").

The achievement of the profit target shall be measured by calculation of the

weighted average of the profits of the institutional entities, over three years, where for each year a different value will be given in the weighting of the profit target calculation.

A threshold condition for distribution of the bonus in a specific year is meeting the profit target by at least 75%. It is clarified that up to 75% of the profit target no bonus shall be paid (except for a bonus for excellence specified in this matter, subject to approval by the authorized organs), where above 75% and up to 150% of the profit target there shall be allocated for the purpose of distribution of a bonus a sum equal to the rate specified by each of the entities from the actual profit before tax, and up to a ceiling of 150% of the profit target.

In addition, starting from 100% of the profit target, an additional bonus budget shall be derived (hereinafter: "**the additional bonus**") at a rate specified as aforesaid from the actual profit before tax, that shall be given to the position holder on the recommendation of the CEO and/or the chairman of the Board of Directors (as the case may be), with the approval of the authorized organs.

Stage 2 – Distribution of the bonus to the position holders

In order to divide the bonus between the position holders, a potential bonus (hereinafter: "**the target bonus**") shall be fixed for each position holder, for precise compliance (100%) with the targets in respect of the said position holder as set forth below, and a maximum bonus, all as a function of a number of salaries.

The position holders shall be measured for performance at various levels of measurement – the company, the division, the unit, and personal performance based on estimation by the manager, in accordance with weights specified, while distinguishing between a business manager and a staff unit manager.

For each position holder measurement levels, the relevant elements, and the weight of each element shall be specified. It should be noted that not more than 5 elements shall be specified for a position holder and no weight shall be given less than 10% per element. *Inter alia*, the distribution of the weights between the level of the company, the level of the unit (business/professional) and the manager's estimation, shall be specified in accordance with the degree of importance and influence of the position holder on the activities of the company and each of the institutional entities.

The bonus shall be calculated for each element separately, where for each element a scale of points shall be specified, that shall be used for calculation of the bonus. The total bonuses calculated in respect of each of the elements shall constitute the overall bonus.

The sums of the bonus shall not be deemed to be part of the salary and no provisions shall be made for social benefits in respect of them.

The Board of Directors of each entity shall be responsible for the supervision and monitoring processes of the remuneration policy, where the bonus shall be calculated in accordance with the principles approved as aforesaid and shall be brought for approval by the CEO and the Board of Directors. During approval of the bonus by the Boards of Directors as aforesaid, detailed information shall be presented in respect of the method of calculation of the bonus budget and its distribution to the various position holders.

Without limitation to the aforesaid, the CEO and/or the chairman of the Board of Directors (as the case may be) shall be entitled to recommend a grant for special and unusual activities and/or from long term considerations (such as the retention of the position holder) and/or in respect of an activity that is not a current activity (hereinafter: "**special grant**") to which there shall not apply the provisions of the performance dependent bonus. The awarding of the special grant is subject to approval by the authorized organs. It is clarified that a special grant and/or a supplement to the bonus are not limited to the maximum number of salaries specified for each manager.

Long term remuneration – remuneration units (phantom options)

As part of the overall remuneration program, remuneration units were allocated to position holders in the company, to some of the members of the management in Menora Mivtahim Insurance, and to the CEO of Menora Mivtahim Pension, under the conditions as set forth below. The Board of Directors of Menora Mivtahim Insurance shall be responsible for management of the program for granting the remuneration units as part of the overall remuneration program, and for all the activities required for this purpose, including the determination of the identity of the offerees, the awarding of additional remuneration units for additional offerees pursuant to the provisions of the remuneration units program, or differing from its provisions in respect of specific offerees, and for any other matter required for the purpose of arrangement of the awards to the offerees, as well as management, clarification, and implementation of the program for awarding the remuneration units.

The remuneration units are units for the purpose of calculation of the (gross) financial remuneration due to the offerees on the date of realization of the remuneration units, only, and do not constitute options and/or any right whatsoever to purchase any securities whatsoever of any of the companies of the Group and/or any of the rights linked to any of the shares of the companies in the Group.

The sum to be paid to an offeree in respect of realization of any of the remuneration units shall be calculated based on the difference between the realization price of each remuneration units and the basic price of each remuneration units, multiplied by the number of remuneration units realized (hereinafter: "**the sum of the remuneration**").

The basic price of each remuneration unit shall be the average price of a share of the company on the Stock Exchange 90 days before the date of approval by the Board of Directors of the program (except in reference to the CEO of the subsidiary and the divisional manager in a subsidiary, in respect of whom the average shall be calculated for the period of 90 days that preceded the approval of the agreement with them).

The real price shall be the closing price of the company share in the Stock Exchange. On the realization day (and if the realization day is not a business day, then the first business day after the realization day). The sum to be paid to the offerees in respect of realization of the remuneration units shall be a "gross" sum, and any tax of any nature or type whatsoever that shall apply to the payment in respect of the remuneration units and/or that the company shall be obligated to deduct by law, shall apply to the offerees.

The remuneration units shall mature in a number of batches, over four years from the date of approval by the Board of Directors of Menora Mivtahim Insurance of the award of the remuneration units, where the first batch totaling 50% shall mature after two years, 25% after three years, and the remaining 25% after four years.

Every batch may be realized within one year of the date of maturity, where after the elapse of the last date for realization of the remuneration units in respect of each batch, the offerees shall not be entitled to realize the remuneration units by virtue of that batch, or to any right whatsoever by virtue of them.

Provisions have been specified in the program in respect of realization of remuneration units in the event of resignation, dismissal, retirement, termination of employer-employee relations as a result of disability/ death, as well as adjustments of the remuneration units are distribution of bonus shares, distribution of a dividend, and the offer of rights in the company, as well as because of additional events specified by the Board of Directors, if it specifies at its discretion, adjustment mechanisms, as the case may be.

It should be noted that the total value of the benefit for position holders in Menora Mivtahim Insurance and in Menora Mivtahim Pension, in respect of the award of remuneration units as aforesaid, when calculated in accordance with the binomial model, is, as of December 31, 2011, about NIS 5,546,000, that shall be spread over four years.

9.6.10 Remuneration policy for position holders in the field of investment

Prior to approval of the periodical reports for 2011, the Boards of Directors of the company and Menora Mivtahim Insurance approved an updated overall remuneration policy for position holders in the field of investments for 2012, while adopting the remuneration policy for this matter that was approved for 2011, without change, and as set forth below:

Pursuant to the directions of the Commissioner for insurance in respect of "remuneration policy for position holders in institutional entities" the institutional entities must also approve the remuneration policy for position holders and managers in the investments organization.

The following are the main features of the remuneration program for position holders and managers in the field of investment (hereinafter: "**the managers**") as approved by the Board of Directors of Menora Mivtahim Insurance in June 2010.

The managers shall be measured in respect of their performance at different measurement levels: the entire group, performance of the unit (the investments division), personal performance and the evaluation of the manager. The elements in the program include meeting the profitability targets of the Group, meeting the absolute yield targets of the investments division, location compared to competitors, and yields compared to the benchmark and mark portfolio.

In addition the managers are measured in respect of non financial elements. (As part of the evaluation of the manager specific criteria were defined that include controls and work in accordance with procedures, observance of the provisions of the law and the regulatory directions, etc.)

In all the quantitative parameters the bonus is based on **three yearly**

measurement of performance by means of weighting the performance of the last year (weight of 40%) and the accumulated performance in the last 3 years (weight of 60%).

The remuneration program for managers shall be implemented gradually (in 2011 two yearly measurement and starting from 2012, three yearly measurement).

The performance shall be evaluated both in respect of levels of execution and in respect of **the pre-determined levels of risk**. The investment decisions in the field of the investment division are subject to the limitations specified by the Boards of Directors and the investment committees.

The bonus is limited by an upper bound (bonus ceiling) by a number of monthly salaries for each manager. The sum of the bonus to be distributed is subject to approval by the CEO and the Board of Directors of Menora Mivtahim Insurance. The bonus for these subordinate to the investment managers shall be distributed based on the measurement principles in the program for the managers.

Workers are eligible for the bonus if they have worked in the company for at least 6 months during the year in respect of which the bonus is distributed. Workers who have not worked a full year shall be entitled to a bonus proportional to their period of employment. A worker who left the division during the year shall not be entitled to a bonus for that year, except in special cases with the recommendation of the manager of the division and with the approval of the CEO.

A worker shall not be entitled to a bonus if he infringed the work agreement, infringed fiduciary duty *vis-a-vis* the company, infringed the provisions of the law, perpetrated a breach of trust in the company or in the company's monies, behaved in an improper manner and/or not in accordance with the company's procedures.

9.6.11 For details in respect of the conditions of deeds of exemption and commitment for indemnification of position holders, see sections 22(4)(4) and (5) of the additional details report (Part F of the periodical reports).

9.6.12 For details in respect of liability insurance for position holders, see sections 22(4)(1) and (2) of the additional details report (Part F of the periodical reports).

9.7 Marketing and distribution

For a description of the marketing and distribution channels see details in the various fields.

9.7.1 The organization of agents of the Group

General

The Group markets its insurance policies mainly by means of insurance agencies and insurance agents (hereinafter: "**the agents**").

Despite the development of the direct insurance branch the Group continues to develop and improve the marketing of its products by means of an organization of agents and, as of the date of this report, the Group maintains business connections with about 2000 agents.

The Group is connected to most of the agents, both in general insurance

transactions and in life insurance and long term savings transactions, who carry out the sales of the Group. The agents are not solely associated with the Group and most of them also work with additional insurance companies. A core exists of agents who are clearly identified with the Group. The Group's agents work in accordance with tariffs and underwriting instructions that the Group circulates from time to time in the various field of activity.

In August 2004 the Commissioner published a circular in respect of agreements between an insurer and an insurance agent, with the aim of clarifying the provisions of section temporary order of the Supervision Law, that obligates the inclusion of a number of stipulations in the brokerage agreement between the insurer and the agent that address the collection of the premium and its transfer to the insurer, and of formulating binding working procedures for program of the premiums collected from the insured by means of the insurance agent for the insurer.

In December 2011 a circular was published that addressed an agreement between an institutional entity and a license holder. The circular was intended to extend the application of the provisions of the aforesaid insurance circular, *mutatis mutandis*, and to apply them to every agreement between a pension consultant and an insurance agent with an institutional entity. See also section 8.2.15 above.

In the field of general insurance and life insurance, the Group operates by means of central regions, mainly in the four large towns in Israel (Tel Aviv, Haifa, Jerusalem, and Rishon Le Zion), where in principle the agents are associated with regions based on their geographic location.

The organization of agents for general insurance

In the branches of general insurance, commission is paid to the agents, in most of the branches, as a percentage of the net annual premium, and in some cases as a percentage of the gross annual premium. The premium is paid as a one-time payment, and accounting is made with the agent in respect of cancellations of policies.

The rate of commission is partially fixed in accordance with the various insurance branches and sometimes even when taking into account the profitability of the agent's insurance portfolio. The rate of commission varies between agents.

As of the date of this report the Group has no dependence on any of its agents nor does the Group have an agent whose activities with it exceed 10% of any of the field of activity.

The organization of life insurance, long term savings, and health insurance agents

In life insurance the Group organizes its agents by means of regions for sales and service, as set forth above. In each region there are purchasing inspectors (mostly employees of the Group) who supervise the activities of the agents, including consulting and indicator for their insurance agents.

Commission at various rates is paid to the agents for the brokerage services, in cash or cash equivalent, where the rate of commission is partially determined by the product and partially conditional on the scale of the output of the agent, and sometimes even based on the profitability of his insurance portfolio.

As of the date of this report the Group has no dependence on any of its agents nor does the Group have an agent whose activities with it exceed 10% of any of the field of activity.

For an additional description of the organization of agents for life insurance and provident funds, see section 3.5.2 above.

The organization of agents in the field of financial products

One of the marketing channels of Menora Mivtahim Portfolio Management is marketing and distribution by means of referring potential customers to the company by means of the insurance agents of the Group.

9.7.2 Marketing of life insurance and structure insurance while giving loans for housing

The Group has made an agreement with a bank and an insurance agency owned by it for the sale of life insurance policies and structure insurance policies while giving a housing loan in the branches of the bank, subject to the arrangements specified by the Commissioner in this matter.

9.7.3 Insurance agencies

As of the date of this report, the Group controls an insurance agency (Orot Agency) that operates in the field of life insurance and long term savings, as well as in the field of health insurance. Furthermore, as part of the purchase of Shomera the Group also purchased Sinai Insurance Agency Ltd. (hereinafter: "**Sinai Insurance Agency**") and Sinai Underwriters Insurance Agency (1989) Ltd. (hereinafter: "**Sinai Underwriters**"), its subsidiaries, that operate in all fields of insurance.

In January 2011 Sinai Underwriters signed an agreement for the purchase of the activities of the insurance agency, Arnon and Weinstock Insurance Planning and Management, owned by two insurance agents (hereinafter: "**the agents**" and "**the purchased agency**", respectively).

The purchase included the insurance portfolios and the good name of the purchased agency and of the agents. The purchase was financed by means of a loan from Menora Mivtahim Insurance in the sum of NIS 22 million.

Furthermore, on the same date, Sinai Underwriters purchased the activities, property, and good name of Arnon and Weinstock Insurance Planning and Management, owned by the agents.

In February 2011 Sinai Underwriters changed its name to Arnon & Weinstock Insurance Agency (1989) Ltd.

9.8 Fixed assets and installations

9.8.1 The following are details of the assets used for the activities of the Group

The offices of the Group, except for Menora Mivtahim Pension, the regions, the Orot Agency, and Shomera, are mainly concentrated in a single area in Allenby St. in Tel Aviv, in two adjacent buildings owned by it, of accumulated area of about 12,000 m². One of the buildings is of 17 stories and 3 underground parking areas, where the Group occupies for its needs about 11 stories in the building and

an agreed proportional part of the parking areas.

The rest of the building is owned and occupied by other entities. During 2011 the Group signed an agreement for the purchase of about an additional 2,500 m² in the aforesaid area, that is expected to be handed over to Menora Mivtahim Insurance in May 2012.

The entire building is managed by means of a management company, Hetzron Investments Ltd., jointly owned (directly or indirectly) by the owners of the building. The parking in the building is also operated and managed by a company, Allenby 15 Parking Tel Aviv Ltd., that is jointly owned by the owners of the building, as aforesaid.

In 2011 the Group rented an area of about 3,500 m² for Menora Mivtahim Insurance, for use by the general insurance branch.

Menora Mivtahim Insurance has 5 regions located outside the aforesaid buildings, in which the workers of the regions are employed. The Jerusalem region (with an overall area of about 600 m²) is located in a building owned by Menora Assets and Investments. The Tel Aviv region, the central region, and the agencies region are located in a rented building in the center of Tel Aviv (with an area of about 2,500 m²).

The southern region is located in Rishon Le Zion (with an area of about 1,750 m²) and is situated in a building that Menora Mivtahim Insurance rents from an external entity. The northern region is located in a building rented by Menora Mivtahim Insurance from an external entity (with an area of about 1,800 m²), in Haifa.

In addition, the Group holds other real estate assets, mainly in the central region (office buildings and land) that are rented in part to external entities.

Menora Mivtahim Pension rents the management offices (located in Ramat Gan) with an overall area of about 3,360 m², and the offices of the business divisions and the service offices from leasers of assets, in an overall area of about 1,560 m², in consideration for rent and additional accompanying payments for parking, maintenance fees, and municipal taxes. Menora Mivtahim Provident Funds rents the management offices (located in Ramat Gan) with an overall area of about 500 m², in consideration for rent and additional accompanying payments for parking, maintenance fees, and municipal taxes.

Shomera Real Estate owns 100% of an office building of about 2000 m² in area (Sinai House) located at 13 Hasibim St., Petah Tikva. Some of Sinai House is used by the company for its own needs, and some is freely rented. Furthermore, it owns 50% of an office building of about 3,000 m² in area (Shomera House) located at 23 Hasibim St., Petah Tikva. In part of this building resides the staff of the company, as well as the central region of the company, and the rest of the building is freely rented.

Joint agreements have been signed with the purchaser of the other half of Shomera House, that permit the management of the building by Shomera Real Estate.

In addition, during 2009 Shomera Real Estate purchased a property in Haifa that is used by the company's Haifa branch, and that has an overall area of about 250 m².

Sinai Insurance Agency owns rights to a property used as part of the offices of Sinai Insurance Agency in Petah Tikva, and it uses it for its purposes and leases part of it to agents associated with it. Furthermore, Sinai Insurance Agency fully owns a property used as an office in Hadera. The ownership of the property has not yet been registered in its name in the Land Registration Office, but a warning notice has been registered on its behalf.

In 2011 Menora Mivtahim Insurance signed two sales agreements according to which it will purchase a real estate asset in Ramat Gan, including building rights on a scale of about 35,000 m², in consideration for the sum of about NIS 136 million, with the addition of the due amount of linkage differentials, VAT, and accompanying transaction costs. Menora Mivtahim Insurance intends to construct an office building, mainly for its own use and for use by additional corporations in the Group. Based on an initial estimate the cost of construction of the office building is expected to be about an additional NIS 285 million.

9.8.2 Vehicles used by the company

Starting from 2004 Menora Mivtahim Insurance adopted self purchase of the vehicle fleet used by it. As of December 31, 2011, the vehicle fleet of the Group (Menora Mivtahim Insurance and Menora Mivtahim Finance) comprises about 333 vehicles, compared to about 318 vehicles in 2010. Menora Mivtahim Insurance has a framework agreement for operational leasing of the vehicle fleet, that starting from 2004 was no longer operated, in respect of new vehicles. The monthly scale of the agreement in the operational leasing agreement, as of December 31, 2011, is not material.

In addition, Menora Mivtahim Pension has leasing agreements for a period of up to 36 months, from the date of commencement of the leasing, for all the vehicles. The leasing fees for 2011 total the sum of about NIS 3 million (including VAT) and the sum expected for 2012 totals the sum of about NIS 3.5 million (including VAT).

9.8.3 Cost of the fixed assets

The reduced cost of the fixed assets for the entire group as of December 31, 2011, is about NIS 365 million compared to the sum of about NIS 199 million as of December 31, 2010. In 2011 the company invested about NIS 201 million in fixed assets compared to the sum of about NIS 51 million in 2010. For additional details see note 7 of the financial statements.

9.9 Seasonality

9.9.1 The following is a table presenting the breakdown of gross premiums in the field of life insurance and long term savings, by quarters (thousands of NIS)

	2011		2010	
	(thousands of NIS)	%	(thousands of NIS)	%
1st quarter	404,144	24%	393,933	23%
2nd quarter	409,977	24%	428,210	25%
3rd quarter	436,269	26%	403,438	24%
4th quarter	430,512	26%	475,164	28%
Total	1,680,902	100%	1,700,745	100%

In general there is a trend of insurance in premiums in the 4th quarter of the year, *inter alia*, as a result of the desire of the insured to exploit the tax benefits calculated on an annual basis.

In 2006 the Group, as part of steps to exploit the synergic potential between the various branches in the field of life insurance and long term savings, began to distribute by means of its agents all the products existing in the Group in this field. Consequently some of the increase in sales that came to the Group were directed by the customers to the pension and benefits branches, at the expense of life insurance premiums.

9.9.2 Pension funds

In general there is no seasonality in the collection of contribution fees for pension funds. However, in some months, that change from year to year, the scale of the contribution fees is greater, mainly in the light of one-time payments made by the employers to the employees for which the contribution fees are provided.

It should be noted that the seasonality existing with customers of Menora Mivtahim Pension in certain branches, that influences the number of workers in those branches, does not significantly influence the breakdown of contribution fees during the months of the year.

The following is the breakdown of contribution fees by quarters:

New Mivtahim

	2011		2010	
	(thousands of NIS)	%	(thousands of NIS)	%
1st quarter	1,076,551	22%	922,234	22%
2nd quarter	1,180,634	24%	996,515	24%
3rd quarter	1,298,726	26%	1,090,281	26%
4th quarter	1,348,523	27%	1,144,686	28%
Total	4,904,434	100%	4,153,716	100%

Mivtahim Supplement

	2011		2010	
	(thousands of NIS)	%	(thousands of NIS)	%
1st quarter	19,512	27%	10,517	21%

2nd quarter	15,700	22%	12,225	25%
3rd quarter	16,604	23%	14,049	29%
4th quarter	19,808	28%	12,816	26%
Total	71,624	100%	49,607	100%

9.9.3 Provident funds

The activities in the field are characterized by a certain degree of seasonality since a large part of the deposits of the planholders (mainly self employed persons) is done towards the end of the year for the purpose of exploiting tax benefits. However, the self employed planholders constitute a relatively small percentage of all the planholders in the field of activity in the Group.

It should be noted that the Group has not found that seasonality exists in all the fields in respect of claims.

9.9.4 General insurance

The following is a table presenting the breakdown of gross premiums in the field of general insurance, by quarters, (thousands of NIS).

	2011		2010	
	(thousands of NIS)	%	(thousands of NIS)	%
1st quarter	702,952	30%	691,106	31%
2nd quarter	535,007	23%	532,073	23%
3rd quarter	589,540	25%	544,944	24%
4th quarter	527,393	22%	511,164	22%
Total	2,354,892	100%	2,279,287	100%

In general insurance the premium recorded in the first quarter is the largest, because of the tendency of businesses to renew their insurance policies (compulsory vehicle insurance, property vehicle insurance, liabilities insurance, and property insurance) at the beginning of the budgetary year.

The reserve mechanism for risks that have not yet passed regulates the influence of seasonality of turnover on the profit.

9.9.5 Health insurance

The following is a table presenting the breakdown of gross premiums in the field of health insurance, by quarters, (thousands of NIS)

	2011		2010	
	(thousands of NIS)	%	(thousands of NIS)	%
1st quarter	77,707	24%	74,719	24%
2nd quarter	79,573	24%	67,674	22%
3rd quarter	77,577	24%	71,817	23%
4th quarter	91,072	28%	98,118	31%
Total	325,929	100%	312,328	100%

The insurance in premiums, in the 4th quarter, is due to the issue of large collective policies towards the end of the year.

The reserve mechanism for risks that have not yet passed regulates the influence of seasonality of turnover on the profit.

9.10 Intangible assets

Some of the companies in the Group own a number of separate secure databases, that have been registered in the databases register, that mainly address customers, workers and suppliers of the said companies, as the case may be, all pursuant to the provisions of the Law for Protection of Privacy, 5741-1981, as set forth in section 8.2.3 above.

The Group manages information security activities accompanied by an external company and additional consultants, in order to ensure proper security for the aforesaid registered databases and for additional databases that do not obligate registration, pursuant to the provisions of the Law for Protection of Privacy, 5741-1981, and the directions of the Commissioner in respect of information security.

The Group uses the trade names "Menora Mivtahim" and "Shomera". For details regarding the reputation and the purchase of activities of provident funds and trust funds see note 5 in the financial statements.

The Group has a number of trademarks registered with the Patents Registrar, samples and trademarks including "Mivtahim", "Menora", "Menora Mivtahim", "Shomera Insurance Company Ltd. – Israeli Family", etc.

9.10.1 Information systems

The Group invests considerable sums in information systems used by for the current operation and management of its business affairs. Regulatory requirements and business changes obligate the company to upgrade the computer systems and to customize them for the current management of its business activities. In 2011 the company invested NIS 127 million in development of the aforesaid systems, compared to the sum of NIS 116 million in 2010.

The Topaz system

The Topaz system is a main information system for management and operation of life insurance products. The system is intended to serve as a major tool in operation of the life insurance branch. As of the end of 2009 the company began to issue all its products (except for a few exceptions) by means of this system. The Group continues in development of the system and invested the sum of about NIS 19 million in 2011 and about NIS 27 million in 2010.

Based on the development of a life insurance system, a compatible system was developed for management and operation of pension and benefit products. The aim of the this move is to create a uniform automated platform for all its products in the field of life insurance and long term savings. This step permits future operational unification of the aforesaid field.

In addition to the development of the system as aforesaid, the Topaz project included conversion of data and the development of numerous accompanying modules. The system entered operation in August 2006. Over the years additional modules have been developed for the system. In 2011 the sum of about NIS 12 million was invested and in 2010 the sum of about NIS 15.7 million was invested.

For details in respect of the agreement with Sapiens regarding the Topaz systems and other systems that were developed with the aid of Sapiens, see section 3.7 above.

9.10.2 Information security

Menora Mivtahim Insurance invests considerable resources in the field of information security for protection of its private and sensitive information and that of its customers, including pursuant to the provisions of the law and the regulatory requirements.

The investment includes conducting risk reviews, security reviews, improvement of the subject of security in the company's systems, the purchase of various tools for monitoring and authorization, the networks project, the SIM project, etc.

The total investment in this subject was about NIS 3.3 million in 2011 and about NIS 5.7 million in 2010.

9.11 Legal proceedings

The Group is a party to legal proceedings, including insurance claims, claims by suppliers, and claims in various additional subjects (as plaintiffs and as defendants), all during the regular business affairs of the Group. For a description of material legal proceedings, including class actions, see note 39 of the financial statements.

9.12 Financing

The Group finances its activities by itself, by means of bank credit, and by means of extra-bank credit.

9.12.1 The loans of the Group and the rates of interest

The following are details of the average rate of interest on loans that are not intended to uniquely serve the Group, with a breakdown into short term credit and long term credit from bank and extra-bank credit sources that were in effect from 2009 until 2011.

	Short term loans		Long term loans		Average rate of interest	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Linked bank sources	-	-	19,088	31,928	6.60%	6.38%
Unlinked bank sources	2,498	-	31,250	34,375	6.60%	6.60%
Other sources	-	-	1,901,992	1,694,193	4.46%	4.49%
Average rate of interest	-	-	4.52%	4.56%	4.52%	4.56%

In this matter see also note 25 of the financial statements.

The Group has credit frameworks in banks in the sum of about NIS 4,030,700,000, as of d3 2011.

From the credit frameworks of the Group, as set forth above, a credit framework is allocated for the benefit of Menora Mivtahim Insurance in the sum of about NIS 3,622.7 million, compared to NIS 2,806 million in the previous year, for activities in financial derivatives as part of the current Internet website activities

of the Group. In addition frameworks exist in corporations in the Group for current activities in various bank accounts on a scale of about NIS 56 million.

The Group has no credit framework on behalf of Menora Mivtahim Finance in banks. Menora Mivtahim Finance took loans from banks in the cumulative the sum of about NIS 31 million as of d3 2011.

Menora Mivtahim Pension, as part of its current activities, receives short term credit from suppliers in non material sums, as well as long term credit against a deferred commitment deed that was issued to Menora Mivtahim Insurance in November 2011. For additional details see section 9.12.2 below.

9.12.2 Capital raising

- 1) Menora Mivtahim Insurance (a subsidiary of the company) has a fully owned subsidiary – Menora Mivtahim Capital Raising, that was set up for the purpose of capital raising by means of the issue of liabilities deeds whose consideration shall be deposited in full in Menora Mivtahim Insurance, against deferred liabilities deeds of Menora Mivtahim Insurance.
- 2) In October 2011 the Group raised capital in the overall sum of NIS 300 million, in two parallel processes. The company raised capital in the sum of NIS 100 million by means of a private issue of bonds to institutional entities by means of expansion of Series A traded on the Stock Exchange. Prior to the issue the company published a rating report that stated that the bonds rating of the company remained in effect and stood at Aa3 in a stable channel.

The rating report was based on, *inter alia*, the fact that a structural change would be made that includes the transfer of shares of Menora Mivtahim Pension from Menora Mivtahim Insurance to the company, a step that would be actually taken in February 2012. In addition the company declared its intention to retain liquid assets and lines of credit at a rate of 125% of the debt repayments (principal + interest) one year in advance, based on the bonds repayment schedule. See also note 25 of the financial statements.

- 3) In October 2011 the sum of NIS 200 million was raised by Menora Mivtahim Capital Raising, by means of a private bonds issue (Series B) for institutional entities, that was invested in Menora Mivtahim Insurance (the parent company of Menora Mivtahim Capital Raising) against the issue of deferred commitment deeds for the benefit of Menora Mivtahim Capital Raising. The capital raised in this way serves as complex secondary capital in Menora Mivtahim Insurance. Prior to the issue the company published a rating report that stated that the rating of the aforesaid bonds was Aa2 in a negative channel.

9.12.3 Deferred liabilities deeds

In addition to the capital raising in the year of the report as set forth in section 9.12.2 above, additional deferred liabilities deeds (negotiable and non negotiable) exist in Menora Mivtahim Insurance, that were raised in private issues for institutional investors and in public issues. The overall total of the deferred liabilities deeds in Menora Mivtahim Insurance is NIS 964,213,000, of which the sum of NIS 708,423,000 constitutes inferior secondary capital.

9.13 Rating and credit rating

In March 2012 Midrug published a rating in respect of the management quality of Menora Mivtahim Pension, by means of evaluation of the quality of the human capital and the financial strength of the aforesaid company, as well as its capability of managing the risks to which it itself is exposed and the risks to which planholders of New Mivtahim are exposed.

Midrug awarded the management company the highest rating – MQ1 – of five ratings of a management company of investment and savings entities (investment manager quality rating). In addition, Midrug awarded New Mivtahim the highest rating – FR1 – of five ratings of pension funds (pension fund rating). The FR1 rating reflects the fact that in Midrug's opinion the fund is based on entities that are estimated to have very high quality, and the level of specific risks latent in it is very low.

The following are the ratings of the bonds of the Group as of the date of this report:

The liabilities certificates (Series A and Series B) of the company are rated by Midrug as Aa3 with a stable channel (approval of the rating from October 2011).

The deferred liabilities deeds of Menora Mivtahim Insurance (both liabilities deeds issued by the Menora Mivtahim Insurance and liabilities deeds (Series A) issued by Menora Mivtahim Capital Raising) are rated by Midrug as Aa2 with a negative channel (updated follow-up report from October 2011).

The deferred liabilities deeds (Series B) that were issued by Menora Mivtahim Capital Raising and defined as complex secondary capital of Menora Mivtahim Insurance, are rated by Midrug as Aa3 with a negative channel (the rating report from October 2011).

9.14 Environmental risks and their methods of management

The company is exposed to environmental risks in two major ways. On the one hand, specific environmental risks are a risk factor covered by liabilities insurance policies sold by Menora Mivtahim Insurance, such as bodily injury insurance and professional liability as a result of pollution caused by a sudden event. The means of reducing this risk are similar to those that address other insurance risks, including exceptions, transfer of the risk to secondary insurers, and dispersion of the insurance portfolio.

On the other hand, the company is exposed to environmental risks in investments, in other words to the indirect influence of these risks on the value of negotiable assets in its possession and the capability of repayment by borrowers.

No direct environmental risks exist for the company and the Group that have or are expected to have a material influence on the Corporation. Furthermore, the provisions of the law, within the meaning of section 28 of the first supplement of the Securities Regulations (details of the prospectus and draft prospectus – format and shape), 5729-1969, have no material ramifications on the activities of the Corporation.

In addition, as of the date of this report, no material legal or administrative proceedings exist that are related to the environment, to which the company or a senior position holder therein is a party, and there were no such proceedings that ended in the year preceding the date of publication of this report.

9.15 Taxation

For a description of the subject of taxation see note 15 of the financial statements.

9.16 Targets and business strategy

The information as set forth below is forward looking information and as such the information is uncertain regarding the future, and is liable to not be realized, in whole or in part. The forward looking information is based on information existing in the Group as of the date of this report, and includes estimations of the Group or its intentions as of the date of this report. The actual results are liable to be significantly different from the results estimated or implied from this information, *inter alia* because of changes that may occur to the risk factors as set forth in section 11 below.

9.16.1 Strategy

The profitability of the Group depends mainly on the yields from the capital market. This is reflected in transactions involving general insurance and yield dependent life insurance (in respect of policies issued up to 2003) and also in policies guaranteeing a yield, and provident funds guaranteeing a yield. In order to reduce the aforesaid dependence, the Group engages in the development of additional business anchors that are not dependent, at least not significantly and directly, on yields from the capital market.

The Group acted in this way in 2004 when it purchased the New Mivtahim Pension Fund, that apart from its importance for synergy of the activities of the Group in the field of financial products, its activities, and at least its results, are not significantly influenced by yields in the capital market, but by its income in respect of management of the planholders' assets, that are a function of the extent of the contribution fees and the accumulated assets.

In addition, the Group acted and acts for continuation of the development of the activities of Menora Mivtahim Real Estate as the real estate arm of the Group. Furthermore, the Group shall strive, as far as possible, and by exploiting suitable opportunities, to develop additional activities and to reinforce existing ones that are not directly and clearly dependent on yields from the capital market.

9.16.2 Strategy in the field of life insurance and long term savings

9.16.2.1 The life insurance branch

The Group's strategy in life insurance

- 1) Improvement of the service and the monitoring systems and management of a fair relations system with the customers of the Group.
- 2) Maintenance of the profitability of the life insurance activity while focusing on the sale of products having a high profit margin, such as risk policies and additional insurance cover.
- 3) Retention of customers of the Group while reducing the number of cancellations of policies and redemptions.
- 4) Extension of the Group's markings in insurance and long term savings products and top finance products to all the customers, and especially to the "third age" population.
- 5) New products and solutions in the field of life insurance while providing an advanced response for trends of competition in the market and for the needs of the insured. Retention of the Group's status in the

field of insurance by products accompanying the mortgage.

The steps that the Group takes in order to achieve these aims are as follows:

- 1) Improvement of the service and the relations with the company's agents and customers by means of monitoring and measurement of the service processes, evaluation and improvement of the work processes, and effective assimilation of advanced information systems for the management of life insurance policies and pension agreements.
- 2) Maximizing the synergy between the various divisions of the Group for leverage of new sales in the field, while maintaining the Group's advantages in the field of pension and assets management.
- 3) Expansion of sales of life insurance by recruiting agents, development of new products, especially in the field of risk, pure savings, and the third age.
- 4) Taking steps for retention of customers while providing a response for treatment of monies at the end of the period of the insurance and savings, and systematic and orderly treatment of customers' debts.
- 5) Increasing the professionalism of the management of the life insurance division by the recruitment of leading manpower in the branch and the professional and methodical training of the managers regarding knowledge in life insurance, as well as improvement of managerial skills.
- 6) Adapting the mortgage insurance product to the competition environment in the market while retaining high profitability.

9.16.2.2 The pension funds branch

The long term strategic aim of the company is to be a leading entity in the long term savings market, outstanding in the quality of the service and expertise that it supplies to its customers, while striving for high profitability. As part of this strategic aim the company will take steps to expand the circle of insured in the pension funds, retain the existing pension portfolio, enter into new business activities, while preserving suitable profitability and using the synergy with the companies in the Group (Menora Mivtahim Insurance and Menora Mivtahim Finance and the companies controlled by them).

The company's strategic map is based on four major elements: finance, customers, processes, and learning and innovation.

The financial element addresses the targets of profitability, the value of the pension portfolio, the market share in assets, the market share in collection, and its share of the distribution channels.

The customers element addresses five main types of stakeholders in the company – the insured, the employers, the workers, organizations, the agents, and the banks. The targets that addresses this element include level of service, the yields on the assets, the supply of added value compared to the competitors, reliability in management of the customer's monies, etc.

The processes element addresses the following aspects – technology, service, marketing and sales, products, and regulation. The targets that address this element include the mix of products that meets the customer's needs, construction and assimilation of the overall marketing concept, innovative sales processes, development of direction marketing and sales platforms for the end customers, service adapted to the distribution channels, inter organizational service that supports synergy, operational systems that support efficiency and reliability, etc.

The study and innovation element addresses expertise, excellence of service, improvement of monitoring processes, organizational efficiency, etc.

In order to achieve the aforesaid targets the company shall, *inter alia*, take steps for expansion of the financial services to arrangements management services, and Executive Insurance Policies while providing overall solutions for the customer's needs and realization of the potential synergy existing in the Group.

As part of the expansion of the circle of the insured in the pension funds, the company shall take steps to maximize the potential of the insured from amongst the existing employers joining the pension funds managed by it, and to additional products of the Group.

In addition the company shall continue to hold pension courses for the agents of Menora Mivtahim Insurance, in order to expand the circle of new people joining the pension funds by means of the insurance agents.

The entry by the banks to the field of pension consulting and the continuation of the influence of the compulsory insurance arrangement, in combination with the legislation permitting long term pension savings in the pension plan only, opens before the pension funds the option of recruiting new insured that were not insured in the past in pension funds.

Consequently the company acts by means of the various distribution channels *vis-a-vis* a large population that in the past joined products managed by the bank corporations, in their role as the manufacturers of long term savings products (management of provident funds for benefits and Severance Pay and further education funds).

In this context the company is taking steps to provide the tools (know-how and product) that will permit the relevant brokers to adapt in the best possible way to the changes, and will give the consumer the optimal solution.

The information as set forth below is forward looking information and as such the information is uncertain regarding the future, and is liable to not be realized, in whole or in part. The forward looking information is based on information existing in the Group as of the date of this report, and includes estimations of the Group or its intentions as of the date of this report. The actual results are liable to be significantly different from the results estimated or implied from this information, *inter alia* because of changes that may occur to the risk factors as set forth above.

9.16.2.3 The provident funds branch

The strategic targets of the provident funds branch in the Group are: preservation and enlargement of the market share of the Group in all the fields of activity, while maintaining and even increasing profitability, positioning the company as a quality, dominant, and professional management entity, having strength and long term experience, excellence in the investments of the Group, improvement of operational efficiency, management of a varied basket of quality funds available for the customers, excellence of service, leverage of the technological strength and marketing capabilities of the Group to the following provident funds, and increasing the monitoring mechanisms.

9.16.3 General insurance strategy

In the field of general insurance, as of the date of this report, the Group has achieved a market share of about 14%, and it maintains its status as the third largest insurer in the field of general insurance. Emphasis shall be placed in 2012 on maintenance of its status as the third largest insurer in the field of general insurance while, *inter alia*, exploiting the capabilities and quality of Shomera and enlarging the market share in large transactions.

Furthermore, it shall continue its policy of improvement and disposal of the insurance portfolio between the various branches, and improvement of profitability. The Group growth in this field will be due to the increase in the number of agents working with it, while removing agents who create losses over a period of time.

In the field of treatment of claims the Group shall continue to focus on efficient service for the insured while extending the use of computerized systems for improvement of the treatment of claims and for working with suppliers.

9.16.3.1 The field of activity of compulsory vehicle insurance

In this field the Group intends to focus on the market share of older drivers, with the intention of retaining and improving profitability in the field. The tariff model of the Group is directed at the need to achieve this aim. The avoidance of group insurance policies, in which the profitability is doubtful, will continue. In all the Group expects to grow at slightly more than the rate of growth in the economy so that its market share in this field will increase slightly in 2012.

9.16.3.2 The field of activity of property vehicle insurance

The market share of the Group in the field of property vehicle insurance is less than its general market share, and the Group's strategy in the coming years is to increase this market share, while ensuring positive underwriting results and suitable profitability.

9.16.3.3 The field of other general insurance

The field of activity of property insurance

The Group's market share in the field of property insurance is less than its

general market share, and the Group's strategy in the coming years is to increase this market share.

The Group will focus on maximizing its access to customers, by means of the various solutions existing in the Group, in order to increase this market share.

The field of activity of liabilities insurance

Directors insurance will continue to constitute a major product in the Group liabilities insurance portfolio, while leveraging the Group's expertise in specific market share in this branch.

Regarding the other liabilities branches, the Group shall continue to offer a comprehensive insurance solution for the insured that will include property insurance policies and liabilities insurance policies.

9.16.4 Strategy in the field of health insurance

The Group's strategic target in health insurance is to be a significant player in the private health insurance market.

The steps taken by the Group in order to achieve this aim are as follows:

- 1) Development of new products in the field of health insurance while supporting an advanced solution for the customers' needs and for developments in the field of medicine in Israel and abroad.
- 2) Increasing the professionalism of the management of the first part; and their workers by means of the recruitment of leading manpower in the branch and professional and managerial development of the existing manpower.
- 3) Improvement of the service to customers and agents and increasing contacts with the agents.
- 4) Improvement of the professionalism and expertise of the agents and workers by means of professional training throughout the entire year.
- 5) Expansion of the sales organization by recruiting new agents and expanding the activities of existing agents for sales of health insurance.
- 6) Creating synergy with other branches in the Group in order to provide leverage for the health insurance products.

9.16.4.1 The field of finance

The following are the parameters on which the strategy of the Menora Mivtahim Finance group is based:

- 1) Increasing the market share in the activities of the funds company and the investment portfolios management company, while increasing the profits of the Group.
- 2) Meeting the regulatory requirements.
- 3) Constituting a leading entity in the field of investment.

9.16.5 Monitoring

The Group intends to continue to invest resources in the improvement of the

overall monitoring organization of the Group and especially in the business branches, and for the purpose of strengthening the internal monitoring of the financial reporting. The resources invested will take the form of manpower and means of automation, with assimilation of the customary methodologies in this field.

Part E – Corporate structure

10 Corporate structure

This part is furnished pursuant to the instructions of the Commissioner for insurance and refers to insurers in the Group only.

10.1 General – Meetings of the Board of Directors and its committees

The following is information in respect of plenary meetings of the Board of Directors in the year of the report, and information in respect of the Board of Directors committees and the investments committees:

The Board of Directors			The committees		
Name of company	No. of meetings	No. of directors participating	Type of committee	No. of member in the committee	No. of meetings and their dates
Menora Mivtahim Insurance	14 ¹⁶	Between 6 and 8	Audit committee	¹⁷ 3-4	15 ¹⁸
			Yield dependent investments	¹⁹ 5	32 ²⁰
			Non yield dependent investments	3	21 ²¹

¹⁶ The following are the dates of the meetings:

26.01.2011; 07.02.2011; 27.02.2011; 24.03.2011; 30.03.2011; 01.05.2011; 26.05.2011; 30.05.2011; 26.06.2011; 21.07.2011; 28.08.2011; 26.09.2011; 24.11.2011; 26.12.2011

¹⁷ Until 1.10.2011 the audit committee of Menora Mivtahim Insurance (hereinafter, in this sub section: "the company") comprised four members. On 1.10.2011 Mr. Israel (Izzy) Tapuhi retired from the Board of Directors of the company, because of his appointment to a position abroad. On 03.10.2011 the general meeting approved the appointment of Mr. Chaim Aharon as an external director in his place, and he was consequently appointed to be a members of the audit committee.

¹⁸ The following are the dates of the meetings: 05.01.2011; 30.01.2011; 27.02.2011; 22.3.2011; 3.4.2011; 15.5.2011; 19.6.2011; 20.7.2011; 21.07.2011; 24.07.2011; 25.08.2011; 4.9.2011; 19.09.2011; 27.10.2011; 21.11.2011; 01.12.2011; 25.12.2011.

¹⁹ As of 31.12.2011 and as of the date of this report, five members serve in the yield dependent investments committee of the company, four of whom are representatives of the public.

²⁰ The following are the dates of the meetings: 12.01.2011; 26.01.2011; 9.02.2011; 23.02.2011; 9.03.2011; 10.03.2011; 23.03.2011; 06.04.2011; 14.04.2011; 17.04.2011; 04.05.2011; 18.05.2011; 18.05.2011; 01.06.2011; 15.06.2011; 21.06.2011; 29.06.2011; 07.07.2011; 13.07.2011; 27.07.2011; 10.08.2011; 24.08.12; 7.09.2011; 26.09.2011; 5.10.2011; 26.10.2011; 9.11.2011; 17.11.2011; 23.11.2011; 07.12.2011; 14.12.2011; 21.12.2011.

²¹ The following are the dates of the meetings: 31.01.2011; 21.02.2011; 21.03.2011; 04.04.2011; 07.04.2011; 17.04.2011; 02.05.2011; 19.05.2011; 30.05.2011; 23.06.2011; 30.06.2011; 25.07.2011; 16.08.2011; 29.08.2011; 03.10.2011; 06.10.2011; 31.10.2011; 20.11.2011; 30.11.2011; 19.12.2011; 22.12.2012.

			Balance sheet and Solvency II	²² 3-4	9 ²³
			Profitability ²⁴	3	1 ²⁵
			Credit ²⁶	3	²⁷ 20
Menora	8 ²⁸	8	Audit committee	3	7 ²⁹
Mivtahim			Yield dependent investments	5	32 ³⁰
Pension			Monitoring of recipients of disability person	3	1 ³¹
			Credit ³²	3	20 ³³
Shomera	12 ³⁴	Between 7 and 8 ³⁵	Audit committee	4	8 ³⁶
			Non yield dependent investments	3	³⁷ 12
			Balance sheet	5	³⁸ 4
			Credit ³⁹	3	⁴⁰ 20

²² Until 1.10.2011 the balance sheet committee of Menora Mivtahim Insurance (hereinafter in this sub section: "the company") comprised three members. On 26.09.2011 Uri Kariatek was appointed to the balance sheet committee, instead of Mr. Israel (Izzy) Tapuhi (ex director), who retired from his position on 01.10.2011. As of 31.12.2011 and as of the date of this report, the balance sheet committee comprised four members.

²³ The following are the dates of the meetings: 06.02.2011; 9.03.2011; 21.03.2011; 22.03.2011; 23.05.2011; 26.05.2011; 20.07.2011; 22.08.2011; 21.11.2011.

²⁴ In the light of amendment 16 of the Companies Law, and especially in the light of sections 117 and 272(c), the Board of Directors of Menora Mivtahim Insurance decided on 26.06.11 to abolish the remuneration committee. For additional details see section 10.2.6.

²⁵ The meeting was held on 14.03.2011.

²⁶ The credit committee is a joint committee of Menora Mivtahim Insurance (for yield dependent commitments and for non yield dependent commitments), Menora Mivtahim Provident Funds, 1 Pension, and Shomera ("**the joint credit committee**"). During 2011 no change occurred to the composition of the committee.

²⁷ The following are the dates of the meetings: 5.1.2011; 31.1.2011; 14.2.2011; 28.2.2011; 28.2.2011; 11.4.2011; 9.5.2011; 6.6.2011; 29.6.2011; 18.7.2011; 26.7.2011; 15.8.2011; 21.8.2011; 1.9.2011; 12.9.2011; 10.10.2011; 14.11.2011; 21.11.2011; 5.12.2011; 19.12.2011.

²⁸ The following are the dates of the meetings: 30.01.2011; 23.03.2011; 25.05.2011; 04.07.2011; 24.08.2011; 31.10.2011; 23.11.2011; 27.12.2011.

²⁹ The following are the dates of the meetings: 30.01.2011; 23.03.2011; 25.05.2011; 24.08.2011; 25.09.2011; 23.11.2011; 27.12.2011.

³⁰ See note 19 above.

³¹ The committee was convened on 04.07.2011.

³² See note 22 above.

³³ See note 26 above.

³⁴ The following are the dates of the meetings:

³⁵ Until 22.12.2011 the Board of Directors of Shomera comprised 8 members. On 22.12.2012 Mr. Danny Yitzhaki, who also serves as the CEO of Shomera, announced his retirement from the Board of Directors of Shomera, and from that date the Board of Directors comprised 7 members.

³⁶ The following are the dates of the meetings: 27.01.2011; 28.02.2011; 13.03.2011; 17.04.2011; 23.06.2011; 22.08.2011; 17.11.2011; 29.12.2011.

³⁷ The following are the dates of the meetings: 27.01.2011; 17.02.2011; 15.03.2011; 17.04.2011; 25.05.2011; 23.06.2011; 31.07.2011; 22.08.2011; 22.09.2011; 27.10.2011; 17.11.2011; 22.12.2011.

³⁸ The following are the dates of the meetings: 13.03.2011; 22.05.2011; 16.08.2011; 15.11.2011.

10.2 Committees of the Board of Directors

There are various Board of Directors committees in the insurers in the Group, as set forth in the aforesaid table, whose major functions are:

10.2.1 Audit committee

The audit committees of the insurers in the Group were set up following amendment 16 of the Law for Supervision of Financial Services (insurance), 5741-1981, that imposed this obligation on them in a similar way to public companies.

The audit committee is responsible for examination of defects in the business management of the company, approval of the annual working program and the multi-year working program of the internal auditing organization, discussion of the subjects as set forth in the Regulations for Supervision of Financial Services (insurance) (the Board of Directors and its committees), 5767-2007 (hereinafter: "**the regulations of the Board of Directors and its committees**"), *inter alia*, while relying on the reports of the internal auditor and consulting with him and with the auditor of the company, and giving recommendations to the Board of Directors in respect of the ways of correction of defects discovered and monitoring execution of the auditing program and implementation of the findings of the reports of the internal auditor.

In addition, the audit committee discusses and decides regarding the transactions of the company that obligate its classification and/or approval by law and especially pursuant to the provisions of section 117 of the Companies Law.

The audit committee of Menora Mivtahim Pension has functioned since 2004, in the light of a provision in this matter specified in the income tax regulations (rules for approval and management of provident funds), 5724-1964 (hereinafter: "**the provident funds regulations**"). The audit committee of Menora Mivtahim Pension also functions as a remuneration committee, whose task is, *inter alia*, to advise the Board of Directors in subjects related to the salary policy in the company and to the terms of employment of position holders.

In addition the audit committee of Menora Mivtahim Pension discusses the correctness of the audits of the financial statements and the opinion on auditor in respect of the said reports prior to their submission for approval by the Board of Directors.

10.2.2 The committee for non yield dependent investments (nostro)

Menora Mivtahim Insurance has a nostro investments committee that was appointed in accordance with the Supervision Law and the regulations for methods of investment. The nostro investments committee is a committee for

³⁹ See note 22 above.

⁴⁰ See note 26 above.

⁴¹ The following are the dates of the meetings: 27.01.2011; 15.03.2011; 25.05.2011; 31.07.2011; 22.12.2011.

management of investments that do not result from yield dependent commitments.

The functions of the committee are, *inter alia*, the formulation of the investments policy, as part of the overall investments policy of the Corporation as specified by the Board of Directors; approval of specific types of transactions prior to their execution; and the rates of holdings of various investment assets, the formulation of investment procedures, control and monitoring of implementation of the investment policy specified.

In addition the nostro investments committee supervises the granting of loans to the insurance agents pursuant to the conditions as set forth in the Commissioner's circular in this matter.

Pursuant to the investment regulations, meetings of the nostro investments committee shall be held at least once monthly.

10.2.3 Yield dependent investments committees ("participating" pension and provident fund)

Menora Mivtahim Insurance has a "participating" investments committee that was appointed in accordance with the Supervision Law and the regulations for methods of investment.

The functions of the committee are, *inter alia*, the formulation of the investments policy regarding the monies standing against yield dependent commitments as part of the overall policy specified by the Board of Directors and, especially, the determination of the investment policy for the various investment plans in the profit sharing policies; approval of specific types of transactions prior to their execution; and the rates of holdings of various investment assets; decisions regarding use of the means of control in various corporations held as part of the aforesaid investments; formulation of investment procedures, control and monitoring of implementation of the investment policy specified.

Menora Mivtahim Pension has an investments committee appointed pursuant to the provisions of the Provident Fund Law (and that functioned prior to the enactment of the aforesaid law, by virtue of similar provisions in the provident funds regulations). The functions of the committee are similar to those as set forth above, in respect of the provident funds managed by Menora Mivtahim Pension and the investment plans therein.

Menora Mivtahim Provident Funds has an investments committee appointed pursuant to the provisions of the Provident Fund Law (and that functioned prior to the enactment of the aforesaid law, by virtue of similar provisions in the provident funds regulations). The functions of the committee are similar to those as set forth above, in respect of the provident funds managed by Menora Mivtahim Provident Funds and the investment plans therein.

The committees currently comprise five members, whose identity is the same in all the committees, four of whom are representatives of the public. The committees hold joint meetings.

Pursuant to the investment regulations, the meetings of the yield dependent investments committees are held at least once every two weeks.

10.2.4 Joint credit committee

Pursuant to the provisions of the Commissioner's circulars from August 2007, that address the management of credit risks resulting from investment activities and the supply of non negotiable credit by institutional entities and a foundation for operational, professional, and managerial support, and following the recommendations of the investments committees, the Boards of Directors of the institutional entities in the Group approved the composition of the joint credit committee for Menora Mivtahim Insurance (for yield dependent commitments and for non yield dependent commitments), for Menora Mivtahim Provident Funds, for Menora Mivtahim Pension, and for Shomera.

The committee is responsible for approval in advance of the supply of credit together with investment activities that are not exceptional credit, pursuant to the powers granted to it and to the credit policy approved in the investments committees and in the Boards of Directors of the institutional entities.

A member of a credit committee shall have proved expertise and experience in the field of credit. The credit committee comprises 3 members, 2 of whom are representatives of the public.

10.2.5 The balance sheet committee and Solvency II

In 2007 the Board of Directors of Menora Mivtahim Insurance and the Board of Directors of Shomera appointed balance sheet committees, pursuant to the regulations of the Board of Directors and its committees and the Companies Law.

The functions of the committees are, *inter alia*, to discuss and recommend to the Board of Directors of the company in subjects related to the financial statements of the company, as the case may be, including estimations and estimates made in connection with the financial statements, the internal audits related to the financial statements, the completeness and due diligence of the financial statements, review of the internal audits, the opinion of the auditor, the accounting policy adopted, and the accounting treatment implemented in substantive affairs of the Corporation.

It should be noted that the balance sheet committee is not the audit committee of the company.

Pursuant to the supervision circular dated July 2008 in the subject of preparations for Solvency II, the Board of Directors of Menora Mivtahim Insurance, in October 2008, empowered the balance sheet committee of the company to be responsible for supervision and monitoring of the process of preparations by the company for implementation of the Solvency II directive. The committee meets from time to time, as necessary, a number of times a year. The committee reports to the Board of Directors, as necessary.

In August 2008 the Board of Directors of Shomera empowered the Solvency II committee, that comprises 3 members of the Board of Directors, including one external director, that will be convened from time to time, as necessary, a number of times a year.

10.2.6 Remuneration committee

In July 2007 the Board of Directors of Menora Mivtahim Insurance appointed a remuneration committee. The functions of the remuneration committee are, *inter alia*, to advise the Board of Directors in subjects related to salary policy in the company and to the terms of employment of position holders.

However, in the light of amendment 16 of the Companies Law, and especially in the light of sections 117 and 272(c), the Board of Directors of Menora Mivtahim Insurance decided on June 26, 2011, to abolish the remuneration committee, while stating that transactions with stakeholders, and especially transactions related to the conditions of office and employment of position holders and the remuneration policy for position holders, as the case may be, shall be discussed and approved in the audit committee, pursuant to the provisions of the law.

In Shomera, and in the light of the Commissioner's circular in the subject of remuneration for position holders, the audit committee was appointed in 2010 as the remuneration committee of the company. Its task as a remuneration committee is to discuss the reports of the CEO, to monitor and supervise the method of implementation in fact of the salaries policy, and to formulate recommendations and advise the Board of Directors in this field, at its request.

10.2.7 Committee for monitoring recipients of disability pensions

Menora Mivtahim Insurance has a committee for monitoring recipients of disability pensions that functions pursuant to the instructions of the Commissioner in this subject.

10.3 Compliance officer

Although the legislative arrangement applying to the institutional entities in the Group does not obligate the appointment of a compliance officer, the institutional entities in the Group appointed compliance officers, as set forth below.

The Law for increased enforcement **in the capital market (amendments to legislation), 5771-2011** (hereinafter: "**the law**") was passed in August 2011. The law, *inter alia*, extends the powers of supervision and enforcement of the Commissioner and grants him powers of supervision and administrative clarification (some of them subject to a court order).

In addition the law gives a list of infringements, as part of the first supplement, in respect of which he is granted the authority to impose financial sanctions (authority that had actually existed even prior to the enactment of the law), while increasing the sums of the financial sanctions and giving an alternative option of a commitment to avoid infringement or giving a suspended sanction, while giving details of the proceedings in connection with the imposition of the financial sanction and the considerations for its reduction.

In addition the law specified the obligation of supervision by the CEO or a partner in a supervised corporation, while stating the presumption of infringement of the obligation for supervision in the event of an infringement of the provisions as aforesaid and with the authority to impose a financial sanction, unless adequate procedures were specified for protection of infringements ("**the enforcement program**").

It was further specified that a person may not be insured directly or indirectly against a financial sanction imposed on him, nor may the company indemnify or directly or indirectly pay the financial sanction imposed on another person. For additional details regarding the increased enforcement in the capital market see section 9.2.2 above.

It should be noted that in January 2012 a draft circular was published that addressed **the management of compliance risks in institutional entities**. Pursuant to the provisions of the draft, that if it comes into effect is expected to apply from January 1, 2013, the management of an institutional entity must appoint a person responsible for the compliance and internal enforcement organization.

Menora Mivtahim Insurance

In December 2010 Menora Mivtahim Insurance appointed advocate Rona Lehrer to be a compliance officer, on a full time basis, and directly subordinate to a member of the management who is responsible for, *inter alia*, the fields of O&M and regulation. Advocate Lehrer holds a lawyer's license and a license as an investments marketer from the Securities Authority, and has served since 2008 as a risks supervisor and a compliance officer for Menora Mivtahim Finance Ltd., a subsidiary of the company, and as a risks supervisor of the life insurance and health insurance branch, since 2009 and until her present appointment.

In addition, she engaged in the past in investigative inspection. As part of her job, a compliance officer supervises the compliance by the company and its workers with the provisions of the law and takes steps to locate "compliance risks", monitor and deal with them by means of execution of compliance control as part of an orderly work program. Two workers are employed in the field of compliance, apart from the compliance officer. Advocate Lehrer also serves as the person responsible for observance of the provisions of the law in Menora Mivtahim Provident Funds and in Menora Mivtahim Engineers Histadrut.

Furthermore, the management of Menora Mivtahim Insurance is promoting the assimilation of the provisions of the law in additional ways – regulatory provisions related to the activities of Menora Mivtahim Insurance as an insurer are distributed to the heads of the relevant departments and branches that take steps to implement them in various ways, including by means of the formulation of procedures and controls, as well as by means of training and courses for workers. During 2011 employees of the company began partially sending compliance reports by means of an automated system for regulation management.

Menora Mivtahim Pension

Furthermore, the management of Menora Mivtahim Pension is promoting the assimilation of the provisions of the law in additional ways – regulatory provisions related to the activities of Menora Mivtahim Pension are distributed to the heads of the relevant departments and branches that take steps to implement them in various ways, including by means of the formulation of procedures and controls, as well as by means of training and courses for workers.

In August 2011 Menora Mivtahim Pension appointed advocate Alon Alpert, VP, the legal advisor and company secretary of Menora Mivtahim Pension, to be a compliance officer, from July 2011. Advocate Alpert served until December 2010 as the head legal advisor, responsible for the field of regulation, and as a member of the main management of Migdal Capital Markets.

As part of his function the compliance officer acts in order to aid the Board of Directors of Menora Mivtahim Pension and its active management to ensure compliance on the part of Menora Mivtahim Pension with all the requirements of the law applying to Menora Mivtahim Pension, while emphasizing the activities of Menora Mivtahim Pension *vis-a-vis* its customers, and for the purpose of reduction of the probability of the infringement of the aforesaid requirements, early discovery of the infringement of such requirements, reduction of the exposure of Menora Mivtahim Pension and its managers to claims and financial losses, and preservation of the reputation of Menora Mivtahim Pension.

Shomera

At the end of 2006 Shomera hired a regulation supervisor whose tasks include the implementation and assimilation of the various regulatory provisions, and starting from 2008 she also functions as the legal advisor of the company. Furthermore, starting from 2009 the company appointed the assistant legal advisor to be a compliance officer subordinate to the regulation supervisor and to help her in assimilation of the provisions of the law and monitoring of their implementation.

As part of his job, the compliance officer of Shomera is required to execute current monitoring of Shomera's compliance with all the provisions of the law, based on a working program specified by the CEO of Shomera and the legal advisor (who also functions as the regulation supervisor).

Furthermore, the compliance officer is responsible for coordination between the various departments in Shomera, in preparation for compliance with the provisions of new laws, for verification of their familiarity with the provisions of existing laws, and their actual implementation.

The position of compliance officer of the company is currently filled by advocate Roi Ben Yosef, who holds a lawyer's license since May 2009. The compliance officer is employed in the company on a full time basis, and there are no workers subordinate to him.

The manager of the information systems department in Shomera is responsible for information security, for the purpose of ensuring implementation of the provisions of the law in respect of protection of privacy and the instructions of the Commissioner in this matter.

Furthermore, the various regulatory provisions related to the activities of Shomera as an insurer are from time to time, and as necessary, brought to the attention of the Board of Directors of the company, and currently to the management and to the heads of branches who takes steps for their assimilation, each in his own field of responsibility, *inter alia*, by means of a comprehensive project for writing procedures and by means of modification of the automated systems of Shomera.

10.4 Ethical code

The Group is taking steps for the writing and assimilation of a code of ethics.

Part F – Risks management

11 Risks management

11.1 Risks management policy

For details of this subject see note 37 of the annual financial statements.

11.2 Working processes

For details of this subject see note 37 of the annual financial statements.

11.3 Discussion of risk factors

Macro economic risks:

11.3.1 Changes to the political situation

The company is exposed to changes to the political and security situation of the State of Israel in insurance business and also in respect of investments. Firstly, the occurrence of a political security event, such as a war, is liable to cause an economic slowdown and to the increase of claims in respect of events that the company insures (such as bodily injuries). Secondly, changes in the financial markets as a result of expectation of a political-security event are liable to influence the value of the company's assets and assets managed by it.

11.3.2 Changes to the state of the economy

The Group is exposed to the economic situation and to the level of employment in the economy. A recession in the economy is liable to influence the scale of insurance transactions, *inter alia* by reduction of sales, an increase in redemption of life insurance policies, provident funds, and units of participation in trust funds, and an increase in the scale of claims.

Furthermore, a worsening in the state of the economy is liable to influence the market value of the financial assets and the capability of repayment of entities in Israel to whom the Group is exposed.

11.3.3 Market risks

This risk results from changes to the fair values of financial instruments and insurance commitments as a result of fluctuations of market factors, such as the rate of interest, the rate of exchange, the rate of inflation, shares and real estate prices in the local and world markets. Changes to these risks factors are liable to influence the value of the company's assets (nostro), its commitments, and the value of the assets portfolio that it manages for planholders/ insured (yield dependent policies, pension funds, provident funds, and further education funds), in respect of which it charges management fees.

A significant element in the company's income results from income from management fees. Income from management fees is influenced by the scale of the portfolio managed ("**fixed management fees**") and by the yield achieved on the assets managed by the company ("**variable management fees**"), in respect of policies issued up to 2003 (inclusive).

The variable management fees are calculated as a function of the real annual yield. A negative real yield will affect the company's income in the cur period and even in a future period until the achievement of a positive real yield for the insured.

In life insurance products and in yield dependent provident funds the influence of a change to the aforesaid risk factors on the financial margin of the company (the difference between the yield promised by the company to the insured/ planholders and the yield achieved on these assets) is high.

Extreme changes in risk factors in the market are liable to cause economic incompatibility between the company's assets and its commitments, mainly in the light of the fact that the influence on their accounting value does not necessarily reflect the influence on their economic value, especially in respect of non negotiable assets and commitments.

The Group has limited exposure to types of complex assets whose market price is liable to be influenced by credit crises in Israel and abroad. As of the date of this report the exposure to this risk is negligible.

11.3.4 Credit risks

The Group invests some of its assets in providing credit and guarantees to corporations and to various borrowers, and also in deposits. Consequently damage to the stability and capability of repayment of various entities with whom the company has made agreements, such as borrowers, issuers, banks, and secondary insurers, is liable to influence the value of its assets.

Furthermore, credit assets given from the monies of planholders, and negotiable credit assets in the nostro portfolios, that are presented with a fair value, are influenced by changes to the credit margins as a result of changes to the risk premium attributed to the borrowing companies/ issuers.

11.3.5 Liquidity risks

The liquidity risks results from uncertainty regarding the timing and extent of realization of the Group's insurance commitments, including insurance claims, redemptions, and additional rights of the insured/ planholders, against the availability of assets on the same date. Consequently the need for repayment of commitments on a significant scale on an unexpected date (mainly following a catastrophe event such as an earthquake and/or war) by realization of assets is liable to cause erosion of their value relative to their fair value and/or to force the Group to raise sources of capital in a high risk premium.

Branch risks

11.3.6 The level of retention of the portfolio

The company is exposed to the possibility of exercise of the option of cancellation and redemption of the policies by its customers, mainly in the field of life insurance and health insurance and long term savings.

The risk of the mobility of monies, expressed in the decision of its customers and the broad public to transfer monies managed by the company to competitor in the market and transfers of monies to the Group from competitors, is influenced, *inter*

alia, by changes in choices of the public regarding the level of savings and/or various savings channels, by the terms offered by competitors, by regulatory provisions that facilitate the mobility of long term savings monies, and by the level of service.

The level of retention of the portfolio has a large influence on the profitability of the company and on the latent value of the insurance and long term savings transactions.

11.3.7 Insurance risks

The Group sells insurance policies that cover various risks, including life expectancy (death or long life), disability, illnesses (including occupational illnesses), liabilities in respect of bodily injuries and professional liability, fire, damage from nature (including earthquake), theft, and burglary.

The probability and gravity of these events that the company covers in insurance policies is calculated by means of actuarial estimates based on past experience (of the company and of its secondary insurers), and the known regulatory and judicial situation.

The risk results from the fact that the premium charged in respect of the insurance policies will not be enough to pay the claims created as a result of unexpected changes to the risk factors on which the pricing is based, especially in cover in which there is likely to be a significant time lag between the sale of the cover and the occurrence of the damage/claim.

For catastrophic risk the model for coping with the risk is mainly based on the transfer of the risk to secondary insurers, because of the low probability coupled with the very great gravity of events of this kind.

Use of an unsuitable model or of incorrect parameters in pricing and/or in preparation of reserves, as well as new regulatory directions in respect of the method of calculation of the reserves, are liable to cause fluctuations in the company's profitability.

The method of calculation of the reserves is checked from time to time, and the assumptions used in estimation of the future claims are also checked against the actual accumulated experience that is updated as necessary. The company allocates a "premium in deficit" in cases in which it estimates that the premium charged is insufficient to cover the risk and the costs involved in its management, and it sometimes relies for this purpose on the experience of the secondary insurers.

11.3.8 Catastrophic events

The Group is exposed to the risk that a single event, such as a natural disaster (earthquake), war, a large scale terrorist attack or a mass epidemic will cause the accumulation of claims from a number of field of activity of the Group simultaneously on a scale endangering its financial stability.

The event of an earthquake, for example, is liable to cause a sudden significant increase in the scale of life insurance, health insurance, and property insurance claims. Furthermore, a catastrophic event is liable to have an indirect influence on the company, such as a fall in the financial markets, damage to liquidity and an

increase in the gravity of claims in the property branches as a result of the rise in prices of raw materials and wages in the building industry.

The Group copes with catastrophic risks mainly by their (partial) transfer to secondary insurers by means of various contracts. The material risk is that the level of cover purchased from the secondary insurers, that is based on a quantitative model, will be significantly less than the damage actually caused as a result of an earthquake in Israel.

11.3.9 Regulatory changes

Changes to the provisions of the law, regulations, and various regulatory directions that apply to institutional entities involve financial costs for implementation of the required adjustments, for example, for information systems and manpower, and/or directly influence the business results in the branch.

The following are examples of regulatory changes that directly influence the financial state of the company:

- a) Increase of the capital requirements;
- b) Formulation of requirements that influence current business operations;
- c) Change to the tax laws applying to the company or to its products;
- d) Change to the rules for determination of insurance tariffs;
- e) Change to the formulas for calculation of reserves;
- f) Change to the principles for the products sold (capital plans, pension plans).

11.3.10 Changes to the judicial climate

The cost of defense against claims, the payment of claims and changes to the judicial climate (legal precedents in respect of insurance products) are factors that embody uncertainty and that are liable to influence the results of the Group. The Group is aware of a trend of proliferation of class actions following the development of the legal tools for execution of these claims and the expertise of lawyers in them, as well as the developing trend of approval of claims of this kind.

Consequently the Group intends to follow up the development of claims of this kind, to analyze their unique characteristics, and to estimate their practical ramifications on the company, with the aim of taking preventative/ alleviative action.

11.3.11 Changes to the conditions of competition

The business results depend on the company's capability of acting in a competitive branch. The insurance branch and the long term savings branch are undergoing numerous changes that increase the competition in the market. The companies competing with the Group are not only insurance companies but also pension funds, provident funds and investment management companies.

The Group's capability of creating innovative products and of developing proper working relations with distributors (insurance agents and consultants in banks) while at the same time improving operational efficiency is critical for the company's continued profitability.

11.3.12 Changes to the world secondary insurance branch

A decrease in the availability of secondary insurance and an increase in the agreements are liable to limit the growth of the company's business affairs. In particular, in such a situation, the Group is liable to be required to withstand greater residual exposure or to change the mix of its business, where in both cases the profitability is liable to be affected.

The Group has no control over the secondary insurance market (most of which is abroad), and there is no certainty that the secondary insurers will be prepared to take security risks under the same conditions that exist today.

In order to reduce the risk as a result of the inability of the secondary insurer to meet its commitment to the company, the Group spreads its exposure amongst a number of secondary insurers having a high international rating. In addition, the Group has made an agreement with one of the leading secondary insurers in the world for multi branch secondary insurance that improves the business connection between the parties while strengthening the capability of achieving secondary insurance even during periods of crisis in this market.

11.3.13 General operational risks

The operational risk refers to a loss resulting from a failure or unsuitability of processes, persons, or internal systems or as a result of an event outside the organization. For example, embezzlement or fraud of the company's monies are liable to cause unexpected losses; break-in into a computer system is liable to cause the temporary shutdown of activities; as well as human errors in the execution of processes of investment, underwriting, collection, claims, and secondary insurance.

The occurrence of external events that are not included in the disaster recovery program (DRP) and business continuity cause damage to its business affairs.

11.3.14 Dependence on information systems

The company's activities materially depend on information systems. A failure in development, assimilation, and current operation of the information systems that support the core processes in the Group is liable to harm the company's capability of functioning properly, and its capability of developing new products and providing proper service to its customers.

11.3.15 Legal proceedings

The Group's activities in the field of insurance and long term savings create significant exposure to legal risks, including class actions and sanctions on the part of the Regulator. Legal precedents are liable to increase the sums of the claims as a result of legal proceedings in respect of defects in design and operation of agreements to which the company is subject (including policies, and agreements with third parties).

During 2011 administrative enforcement laws were enacted in the field of securities and in the field of the capital market that expanded the powers of the Securities Authority and the Commissioner for Insurance, respectively, to impose fines and financial sanctions on reporting companies and/or on institutional entities (as the case may be) and on position holders therein, as a result of

infringements of the provisions as set forth in the supplement to the aforesaid laws, while imposing personal supervisory responsibility on the CEO in this matter, unless an enforcement program was adopted in the company.

11.3.16 Table of risk factors

In the following table the risk factors described above are presented by types – macro risks, branch risks, and risks particular to the company, that have been graded in accordance with the estimates of the management of the company, based on their influence on the business activities of the company in general.

Description of the risks	Rating of the risk			Remarks (section)
	Low influence	Medium influence	High influence	
Macro risks				
Changes to political situation		X		11.3.1
Changes to the state of the economy		X		11.3.2
Changes to the financial markets		X		11.3.3
Credit risks			X	11.3.4
Liquidity risks	X			11.3.5
Branch risks				
Level of retention of the portfolio		X		11.3.6
Insurance risks		X		11.3.7
Catastrophic risks			X	11.3.8
Regulatory risks			X	11.3.9
Changes to the judicial climate		X		11.3.10
Changes to the conditions of competition		X		11.3.11
Changes to the world secondary insurance branch		X		11.3.12
Risks unique to the company				
General operational risks			X	11.3.13
Dependence on information systems			X	11.3.14
Legal proceedings		X		11.3.15

11.4 The position of the Board of Directors in respect of the method of risks management

Taking into account of all that set forth above and in the annual financial statements, in the opinion of the Board of Directors the risk management is reasonable in the circumstances.

Menachem Gurevitz
Chairman of the Board of Directors

Ari Kalman
CEO

Tel Aviv, March 29, 2012

Menora Mivtachim
Holdings Ltd.

Chapter B:
The Board of Directors' Report

Menora Mivtachim
Experts in Insurance * Pension * Finance

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Menora Mivtachim holding Ltd.

2011 Directorate report

This chapter of the periodic report, including forward looking information, as defined in the Security Law 5728-1968. Forward looking information is uncertain information regarding the future, based on information existent in the company at the date of the report's publication and includes the company's estimate or intentions, as of the date of the report's publication. The actual outcomes may be substantially different from the outcomes estimated or evident from this information. In certain cases, sections containing forward looking information may be identified by statements such as "the company/ group estimates", "the Company/ group believes", "the Company/ group intends," "expects" and similar phrases, but it is also possible that this information will appear in different phrases.

The directorate report below reviews the activity of Menora Mivtachim holding Ltd. (hereinafter: "**the company**") for 2011 (hereinafter: "**the report period**").

The 2011 directorate report reviews the main changes in the company's activity during the report period. The report was conducted in accordance with the Securities Regulations (Periodic and Immediate Statements), 5730-1970. The directorate report is an inseparable part of the periodic report including all its sections, and the entire periodic report must be read as a single unit.

Regarding the united insurers businesses described in the report, the report was conducted in accordance with the Insurance Business Control Regulations (Particulars of Report) 5758-1998 and in accordance with the circulars issued by the commissioner of Capital Markets, Insurance, and Savings.

1. Directorate explanations for the state of the corporation's businesses

1.1. General

The company is a publicly held company whose shares are listed for trade on the Tel Aviv Stock Exchange. Its main activity is the holding of companies active in the fields of insurance, pension, provident, finance and real estate. The company's principal shareholders are Najaden Establishment and

Palamas Establishment (foreign corporations) that hold about 61.86% of the company's shares in trust for Mr. Menahem Gurevitch. The Company's CEO, Mr. Ari Kalman, who also serves as the chairman of Menora Mivtachim Insurance Ltd., a subsidiary of the Company (hereinafter: "**Menora Mivtachim Insurance**"), holds about 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.

1.2. The company's fields of activity

As of the time of the report the company is engaged, through the subsidiaries which it controls, in all the central branches of insurance, including life assurance and long term saving (which includes life assurance, provident, and pension), vehicle insurance

(compulsory and property), other general insurance and health insurance¹.

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 also 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. Likewise, the company holds three insurance agencies Arnon and Weinstock Insurance Agency (1989) Ltd. and Sinai Insurance Agency Ltd. through the Shomera Insurance Agency Ltd. (hereinafter: “Shomera”) and Orot Life Assurance Agency (2005) Ltd. through Menora Mivtachim Insurance, all as detailed in the chart of the group’s holdings structure, in article 1.2 of the report on the corporation’s activities.

For a description of the group’s fields of activity see article 1.3 of the chapter detailing the corporation’s activities.

1.3. Developments during report period

1.3.1. Menora Mivtachim Real Estate – expansion of credit frame

In addition to the previous credit frame given to Menora Mivtachim Real Estate Ltd., a subsidiary of the company (Hereinafter: “**Menora Mivtachim Real Estate**”), totaling \$60 million for investments in various real estate initiatives, real estate investment funds and solar energy development projects abroad (hereinafter, for this article: “**investments in real estate**”), the company’s board of directors approved, in February 2011, an expansion in the frame of investment in Menora Mivtachim Real Estate at a range of up to an additional 14 Million Euros, for further development of investments in real estate, both existing and new. As of 31 December 2011 a total of 225 million ILS of the overall credit frame were utilized.

1.3.2. Foreign initiative

In March 2011 the company’s board of directors approved entering negotiations with Direct Insurance Financial Investments Ltd. regarding a joint initiative to establish a direct insurance company in Brazil (hereinafter: “**the initiative**” or “**the joint company**”). The

¹ The field of health, which includes the company’s activity in the marketing and sale of long term insurance policies, individual or collective (including illness and hospitalization insurance, dental insurance, nursing insurance and serious illness insurance), constitutes, starting on January 2011, a separate field of activity. It should be mentioned that, starting from 1 January 2012, following the date of the balance, the field of health will include most of the different short term health insurance policies. For additional details see articles 13.1 and 13.2 of the report on the corporation’s activities.

anticipated scope of investment in the initiative stands at about 400 Million Brazilian Real (about 890 million ILS) wherein the company was offered to join at a holding rate of 15% of the joint company's capital. In August 2011 the company announced that negotiations regarding the investment in the initiative ended without consolidating into a binding agreement.

1.3.3. Purchase of asset through subsidiary – The Industrial Development Bank of Israel.

On 29 March 2011 Menora Mivtachim Insurance signed an agreement to purchase the complete (100%) stocks included in the issued and outstanding capital stock of The Industrial Development Bank of Israel Ltd. (hereinafter: “**IDB**”). On 4 March 2011, after the balance date, the transaction was completed, after all the postponing conditions were met, including the court's approval for the merger of IDB with Menora Mivtachim Insurance and approval of the Tax Authority. For details see article 9.5 below as well as clarification 40 B of the financial reports.

1.3.4. Israel Securities Authority investigation – sub-subsidiary company.

During July 2011 the CEO of Menora Mivtachim Mutual Funds Ltd. (a sub-subsidiary of the Company), who also served as the CEO of Menora Mivtachim Finances, a subsidiary of the company, was arrested and investigated by the Israel Securities Authority (Hereinafter “**the authority**”) under the suspicion of committing criminal offences in the capital market.

Corollary to this, and as stated by Menora Mivtachim Mutual Funds, Menora Mivtachim Mutual Funds is not aware of any damage caused to the unit holders in the funds. If it is discovered that the unit holders were injured and as far as they were injured, Menora Mivtachim Mutual Funds will indemnify them. In addition, to the best of the company's knowledge, the investigation has no connection to other companies in the group which deal with, among other issues, the fields of insurance, pension, and provident funds.

In August 2011 the CEO of Menora Mivtachim Mutual Funds announced his resignation from his position as the CEO of Menora Mivtachim Mutual Funds as well as any other position he held in the company.

On 22 August 2011 a claim was received by the company along with a request for its approval as a class action suit regarding the aforementioned events.

1.3.5. Purchase of real estate – subsidiary

In August 2011 Menora Mivtachim Insurance, a subsidiary of the company, signed two sales agreements according to which Menora Mivtachim Insurance would purchase from two sellers all of their rights and obligations relating to real estate property in Ramat Gan,

which includes building rights at a range of 35 thousand Square meters, for an overall cost of 136 million ILS, with the addition of index based linkage differentials, VAT, and additional transaction expenses. The group intends to construct an office building to be used mainly by Menora Mivtachim Insurance as well as additional corporations in the group. According to a preliminary estimate the cost of constructing the office building is estimated at about an additional 285 million ILS. In October 2011 these agreements became fully valid.

1.3.6. Renewal of liability insurance policy for directors and officers

In August 2011 the liability insurance policies for directors and officers (D&O) were renewed for the company and its subsidiaries in the group until 31 July 2012 (hereinafter: **“the base year”**), with an overall liability limit of \$75 million per event and period. The policies' liability limit is composed of a basic level of coverage for the company, Menora Mivtachim Insurance, Menora Mivtachim Pensions Ltd. and Menora Mivtachim Finances Ltd. and the subsidiaries of each company (hereinafter: **“Menora Mivtachim Pensions”**, **“Menora Mivtachim Finances”** and **“the departments”**, respectively), with a limited liability of \$15 million, and additional levels of coverage within the framework of two “umbrella” policies, for all the departments in the group, with an overall liability limit of \$60 million. In October 2011 the general meeting of the company approved the renewal of the aforementioned policies in the group, including a framework deal to renew the policies for the next 3 years (including the base year), including for the holder of the controlling interest and his relatives, in terms identical to other office holders.

1.3.7. Debt recruitment

In October 2011 the group performed debt recruitment at an overall scope of 300 million ILS, in two parallel processes: (a) the company recruited debt totaling 100 million ILS through private issuance of bonds to institutional entities by expanding the publicly traded series A; (b) debt recruitment at a range of 200 million ILS through Menora Mivtachim Capital Recruitment Ltd. a sub-subsidiary of the company (hereinafter: **“Menora Mivtachim Capital Recruitment”**), by private issuance of bonds (series B) to institutional organizations, when the value of said recruitment was invested in Menora Mivtachim Insurance against the issuance of deferred liabilities deeds for Menora Mivtachim Capital Recruitment. The value of the recruitment serves as composed secondary capital in Menora Mivtachim Insurance. For additional details see clarification 15 of the financial reports.

1.3.8. Dividend

In May 2011 Menora Mivtachim Insurance distributed a cash dividend to the company totaling 100 million ILS.

1.3.9. Board of directors and senior officers

In October 2011 Mr. Israel (Izzy) Tapuchi retired from his position as external director in the company and in Menora Mivtachim Insurance, and this in light of his appointment as President of the Israeli Bunds Organization in the United States.

In November 2011 Attorney Haim Aharon was appointed an external director in the company with professional qualification, as defined in the companies regulations (conditions and tests for a director with financial and accounting expertise and a director with professional qualification), 5766 – 2005. Parallel to this Mr. Aharon was also appointed as an external director in Menora Mivtachim Insurance.

1.3.10. Legal proceedings

Regarding the development of exposure to class action suits and the approval of claims served against the company and/or its consolidated companies, as class action, see clarification 39 of the financial reports.

1.4. Description of business environment

The economic environment and the impact of external factors on the Corporation's activity

1.4.1. The capital market – developments in the macroeconomic environment

During 2011 a negative turn occurred in the global economy, which also influenced the Israeli economy due to the fact that the export branches constitute a central facet of Israel's economy. The shocks suffered by the Western economies were joined by the negative impacts of the instability in the Arab world and the public outcry for social justice.

Macroeconomic indicators publicized in Israel during the second half of 2011 point to continued growth of economic activity in the Israeli economy, but at a more moderate pace than the first half of the year.

For additional details see article 9.1.1. of the corporation's business status report.

1.4.2. The bond and stock markets

2011 opened with a general stability in the stock rates, but a turn occurred at the end of April and rates began to decline and continued to do so until the end of the year. The turn in the stock market reflects the negative development occurring in the global economy, on one hand, and their anticipated influences on the Israeli economy, on the other hand.

After many years where the Tel Aviv Stock Exchange stood out with a higher yield than its global counterparts, in 2011 the local stock indexes yielded a significantly short yield in comparison to global stock indexes.

For additional details see article 9.1.1.2. of the corporation's business status report.

2. Financial situation

2.1. Principal data from financial statements:

2.1.1. Data from the consolidated balance sheets (in thousand ILS):

(in thousand ILS)	December 31, 2011	December 31, 2010
Total assets for yield-dependent contracts	12,124,752	11,974,019
Total other financial investments	14,718,541	14,413,561
Other assets	5,138,959	4,783,420
Total assets	31,982,252	31,171,000
Shareholders' equity	2,208,642	2,260,506
Liabilities		
Liabilities for insurance contracts and non yield-dependent investment contracts	14,401,448	13,805,715
Liabilities for insurance contracts and yield-dependent investment contracts*	11,790,264	11,908,196
Financial liabilities	2,063,120	1,760,496
Other liabilities	1,518,778	1,436,087
Total capital and liabilities	31,982,252	31,171,000

* Some of the liabilities for yield-dependent investment contracts are presented in the articles for entitled and balances and financial liabilities.

At 31 December 2011, the Company's assets totaled 31,982 million ILS, compared with a total of 31,171 million ILS at 31 December 2010. The increase in assets during the Reporting Period was mainly the result of insurance fees collected, payments for net debt recruitment performed by the group with the deduction of capital market rate declines which cause a decrease in the value of assets for insurance contracts, yield based investment contracts, and other financial investments.

At 31 December 2011 The total obligations of the company amounted to 29,774 million ILS compared with a total of 28,910 million ILS as of 13 December 2010, the increase in the overall obligations during the period of the report was mainly caused by insurance fees

collected, the net debt recruitments performed by the group with the deduction of the capital market yield allocation for obligations due to insurance contracts and yield based investment contracts.

2.2. Equity

As of December 31, 2010, the Company's equity totaled 2,209 million ILS, compared with NIS 2,261 million ILS at December 31, 2010. The decrease in equity can be attributed principally to an overall loss of 53 million ILS. The overall loss is composed of a profit of 38 million ILS, minus a decrease in the capital fund principally stemming from available-for-sale financial assets totaling 91 million ILS. In addition, an increase in a capital reserve occurred in respect of a share-based payment transaction in the amount of 1 million ILS.

In accordance with the financial services supervision regulations (Minimum Equity Required of Insurer), 5758-1998 (hereinafter: “**Equity Regulations**”) that apply to the Group's insurers, Menora Mivtachim Insurance and Shomera hold, as of the date of this report, a capital surplus of 250 million ILS and 35 million ILS, respectively. Debt recruitment totaling 200 million ILS, which was performed in October 2011 through Menora Mivtachim Capital Recruitment, serves as composed secondary capital in Menora Mivtachim Insurance, see clarification 15 of the financial reports.

In addition, the amount of investments which must be held in Menora Insurance against capital surpluses according to the supervisor's instructions, and which therefore constitute surpluses that cannot be distributed total 19 million ILS and in Shomera about 12 million ILS.

Regarding Menora Mivtachim Pensions' distribution of shares as dividend in kind, from Menora Mivtachim Insurance to the company, see article 9.1 below and clarification 15 of the financial reports. In November 2011 Menora Mivtachim Pensions issued a promissory note to Menora Mivtachim Insurance at a total of 30 million ILS which served as composed secondary capital in Menora Mivtachim Pensions. As of 31 December 2011 Menora Mivtachim Pensions has a capital surplus, following the addition of said capital, totaling 33 million ILS.

In February 2012 the **Financial Services Supervisory Regulations (Provident Funds) (Minimum Equity Required of Provident Fund or Pension Fund Managing Company), 5772-2012** were published (hereinafter: “**Capital Regulations for Managing Companies**”), and at the same time the supervisor published a circular concerning capital requirements of managing companies, which includes provisions in addition to the Capital Regulations for Managing Companies.

In case the Capital Regulations for Managing Companies were fully valid on 31 December

2011, the managing companies' capital requirements were as detailed below:

- (a) In Menora Mivtachim Pensions the capital requirement would stand at 80 million ILS, and it would also be required to maintain liquid assets, as defined in the new capital regulations, at a sum of no less than 40 million ILS. As of 31 December 2011 Menora Mivtachim Pensions has a capital surplus, following the addition of the aforementioned capital requirement, totaling 26 million ILS.
- (b) In Menora Mivtachim Gemel the capital requirement would stand at 24 million ILS, and it would also be required to maintain liquid assets at a sum of no less than 12 million ILS. As of 31 December 2011 Menora Mivtachim Gemel has a capital surplus, following the addition of the aforementioned capital requirement, totaling 37 million ILS.
- (c) In Menora Mivtachim Engineers the capital requirement would stand at 10 million ILS, and it would also be required to maintain liquid assets at a sum of no less than 5 million ILS. As of 31 December 2011 Menora Mivtachim Engineers has a capital surplus, following the addition of the aforementioned capital requirement, totaling 9 million ILS.

The company has additional subsidiaries, to which the provisions of maintaining a minimum equity also apply. As of the date of the financial reports' approval all the member companies in the group meet the equity requirements established for them, as the case may be.

For additional details regarding equity see clarification 15 of the financial reports.

2.3. Dividend

In 2009 to 2011 no dividend was distributed.

2.4. Assets managed for the group's insured and members

In million ILS	December 31, 2011	December 31, 2010	Change in %
For insurance contracts and yield-dependent investment contracts	12,125	11,974	1.3%
For provident fund and pension fund members	50,690	46,732	8.5%
For trust fund and portfolio management customers	5,455	8,592	(36.5%)
Total assets managed for group's customers and members*	68,270	67,298	1.4%

* The consolidated financial statements do not include the assets managed in pension funds,

provident funds (excluding yield guaranteeing provident funds), trust funds and portfolio management.

The total assets managed for the group's insured and members as of 31 December 2011 totals 68,270 million ILS compared with 67,298 million ILS as of December 31 2010. An increase of 972 million ILS occurred, which stems from the collection of insurance fees and contributions principally for pensions. In addition a decrease occurred in the provident fund and portfolio management assets totaling 3,137 million ILS, due to an increase in the rate of redemptions.

3. Composition of incomes during report period

3.1. Data regarding insurance premiums

(In thousand ILS)	1-12/2011	1-12/2010	1-12/2009
Vehicle property	891,154	886,312	866,188
Vehicle compulsory	616,130	609,679	601,875
Property and other branches	557,078	527,563	528,369
Other liabilities branches	241,884	243,950	246,766
Total General Insurance field	2,306,247	2,267,504	2,243,198
Life insurance and long-term savings field	1,680,902	1,700,745	1,537,349
Health field	331,545	302,013	289,931
Total premiums earned, gross	4,318,694	4,270,262	4,070,478

The incomes from premiums earned during the report period totaled 4,319 million ILS, compared to 4,270 million ILS in the previous year, an increase of about 1 percent. When neutralizing one-time life insurance premiums for government offices totaling about 125 million ILS and vehicle property premiums totaling about 41million ILS, for communication with an agent regarding heavy vehicle insurance which has ended, the rate of increase is about 5%. The premiums during the year of the report include an overall total of 1,681 million ILS in life insurance and long term savings which constitute a rate of about 39% of the total premiums earned and a total of 2,306 million ILS in general insurance which constitute a rate of 53% of the total premiums earned and a total of 332 million ILS in health insurance which constitute a rate of 8% of the total premiums earned. For explanations regarding the change I premiums in the fields of activity see articles 4.4.1, 4.4.2, and 4.4.3 below.

3.2. Life insurance (in million ILS):

	Annualized premiums	One Time premiums	Total
1-12/2011			
Total gross premiums	1,587	94	1,681
Rate of total life insurance fees	94%	6%	100%
	Annualized premiums	One Time premiums	Total
1-12/2010			
Total gross premiums	1,508	193	1,701
Rate of total life insurance fees	89%	11%	100%
	Annualized premiums	One Time premiums	Total
1-12/2009			
Total gross premiums	1,461	76	1,537
Rate of total life insurance fees	95%	5%	100%

3.3. General insurance (in million ILS):

	Vehicle property	Vehicle compulsory	Property	Liabilities	Total
1-12/2011					
Total gross premiums	904	635	584	232	2,355
Rate of total insurance fees	38%	27%	25%	10%	100%
	Vehicle property	Vehicle compulsory	Property	Liabilities	Total
1-12/2010					
Total gross premiums	902	602	536	240	2,279
Rate of total insurance fees	40%	26%	23%	11%	100%
	Vehicle property	Vehicle compulsory	Property	Liabilities	Total
1-12/2009					
Total gross premiums	878	622	532	246	2,278
Rate of total insurance fees	39%	27%	23%	11%	100%

3.4. Health insurance (in million ILS):

	Gross premiums	Retained premiums
1-12/2011		
Total gross premiums	326	225
1-12/2010		
Total gross premiums	312	217
1-12/2009		
Total gross premiums	292	201

4. Results of activity**4.1. Data from consolidated statements of profit and loss**

(in thousand ILS)	1-12/2011	1-12/2010	1-12/2009
Gross earned premiums	4,318,694	4,270,262	4,070,478
Premiums earned in retention	3,440,261	3,365,444	3,338,757
Earnings from investments, net and financing income	266,093	2,309,385	4,112,174
Revenues from management fees	584,214	635,871	455,327
Revenues from fees	206,392	230,131	178,421
Other revenues	1,435	427	195
Payments and change of liabilities for insurance contracts and gross investment contracts	2,669,127	4,477,619	5,959,108
Fees, marketing expenses and other acquisition expenses	929,334	914,837	868,805
Administration and other general expenses	681,577	592,334	521,314
Financing expenses	143,905	121,874	140,076
Share in earnings (losses) of held companies, net	16,533	121	(1,808)
Earnings before taxes on income	90,985	434,715	593,763
Taxes on income	52,685	152,768	190,793
Total earnings	38,300	281,947	402,970
Total earnings (loss)	(53,192)	301,056	672,547

4.2. General**Summary of activity results (in thousand ILS):**

Profit (loss) from fields of activity: (in thousand ILS)	1-12/2011	1-12/2010	1-12/2009
Profit (loss) from fields of activity:			
Profit (loss) from life insurance and long term savings	(27,663)	212,090	241,209
Profit from life insurance	51,290	11,826	99,234
Profit from general insurance	124,552	156,540	215,173
Total profit (loss) before tax from reportable fields of activity	148,179	380,456	555,616
Profit (loss) before tax from others (not included in fields)*)	(57,194)	54,259	38,147
Total earnings before taxes on income	90,985	434,715	593,763
Taxes on income	52,685	152,768	190,793
Total earnings	38,299	281,947	402,970
Attributed to:			
Company shareholders	37,816	281,616	402,798
Minority rights	484	331	172
Total earnings	38,300	281,947	402,970

*) Includes chiefly financing expenses, results of activity not defined in field of activity and incomes from investments not affiliated with a specific field of activity.

Total profit (loss) from fields of activity: (in thousand ILS)	1-12/2011	1-12/2010	1-12/2009
Profit (loss) from fields of activity:			
Profit (loss) from life insurance and long term savings	(40,416)	230,755	312,234
Profit from life insurance	47,046	13,643	102,359
Profit from general insurance	45,357	164,325	391,875
Total profit before tax from reportable fields of activity	51,987	408,723	806,468
Profit (loss) before tax from others (not included in fields)*)	(96,783)	52,538	200,636
Total earnings (loss) before taxes on income	(44,796)	461,261	1,007,104
Taxes on income	8,397	160,206	334,556
Total earnings (loss)	(53,192)	301,056	672,547
Attributed to:			
Company shareholders	(53,676)	300,725	672,375
Minority rights	484	331	172
Total earnings (loss)	(53,192)	301,056	672,547

*) Includes chiefly financing expenses, results of activity not defined in field of activity and incomes from investments not affiliated with a specific field of activity.

4.3. Changes in results of activity during report period

Net profit during the Reporting Period totaled 38 million ILS compared to a net profit of 282 million in 2010 and a net profit of 403 million in 2009.

The overall loss, consisting of the net profit plus the net change in a capital reserve in respect of available-for-sale assets and other changes that influence equity, totaled 53 million ILS in 2011, against an overall profit totaling 301 million ILS in 2010 and an overall profit of 673 million ILS in 2009. The overall loss this year, compared with the overall profit of the previous year, is mainly due to a decrease in the value of financial assets caused by the declining rate in the local and global capital markets, which caused a decline in incomes from investments in nostro activity and the financial margin of life insurance and long term savings, the increase in management and general expenses, mainly following the increase in the number of employees and following competition in the field of vehicle property which has cause an erosion in the average premium and following the increase in the claims that are paid out.

The overall loss from the life insurance and long term savings business before income tax, totaled 40 million ILS in 2011, compared to a profit of 231 million ILS in 2010, and a profit of 312 million in 2009 (see Section 4.4.1 below).

The overall profit from the general insurance business before income tax, totaled 45 million ILS in 2011, compared to a profit of 164 million ILS in 2010, and a profit of 392 million in 2009 (see Section 4.4.2 below).

The overall profit from the health insurance business before income tax, totaled 47 million ILS in 2011, compared to a profit of 14 million ILS in 2010, and a profit of 102 million in 2009 (see Section 4.4.3 below).

The overall loss from other activity that is not insurance business, before income tax, totaled 97 million ILS in 2011, compared to a profit of 53 million ILS in 2010, and a profit of 201 million in 2009. The change in the outcomes of other activity compared with the corresponding period last year is mainly due to a decrease in the value of financial assets caused by the declining rate in the local and global capital markets, which caused a decline in incomes from investments totaling 151 million ILS, and an increase in management and general expenses totaling 11 million ILS (mainly caused by the rate increase in comparison to the corresponding period last year and the increase in the scope of financial obligations) and on the other hand an increase in the outcomes of the activities of member companies abroad totaling 7 million ILS and an improvement in the outcomes of remainder of the activity which is not attributed to activity sectors totaling 6 million ILS, stemming mainly from a decrease in management and general expenses not attributed to activity sectors.

On 5 December 2011 the law to Change the Tax Burden (Legislative Amendments), 5772 - 2011 was passed by the Knesset. As part of this law, among other things, the layout for reducing the rate of the companies tax was cancelled, starting from 2012. The influence of this change should cause an increase in tax expenses in 2011 attributed to the profit and loss and the overall profit totaling about 21 million ILS.

4.4. Financial information according to fields of activity

4.4.1. Life insurance and long term savings field

Results of long term savings field (in thousand ILS):

	1-12/2011	1-12/2010	1-12/2009
Gross earned premiums	1,680,902	1,700,745	1,537,349
Profits from investments, net and financing income	1,218	1,868,215	3,572,104
Revenues from management fees	502,341	549,031	389,573
Revenues from fees	29,056	31,068	25,578
Payments and change of liabilities for insurance contracts and gross investment contracts	1,396,809	3,179,739	4,592,110
Fees, marketing expenses, and other acquisition expenses	338,098	322,981	299,995
Administration, general, and other expenses	462,039	393,814	346,848
Profit (loss) before tax	(27,663)	212,090	241,209
Overall profit (loss) before tax	(40,416)	230,755	312,234

The overall loss from the life insurance and long term savings business before income tax, totaled about 40 million ILS in 2011, compared to a profit of 231 million ILS in 2010. The decline in the overall profit stems from a decrease in the profit from life insurance activity totaling 208 million ILS, a decrease in the profit from pension activity totaling about 5 million ILS and a decrease in the profit from provident activity totaling about 58 million ILS. For additional details see articles 4.4.1.1 to 4.4.1.4 below.

4.4.1.1. Life insurance branch

Thousand ILS	1-12/2011	1-12/2010	1-12/2009
Gross earned premiums	1,680,902	1,700,745	1,537,349
Profits from investments, net and financing income	(304,087)	1,524,709	3,164,447
Revenues from management fees	94,232	193,325	79,307
Revenues from fees	28,634	30,738	25,342
Payments and change of liabilities for insurance contracts and gross investment contracts	1,080,408	2,887,202	4,244,814
Fees, marketing expenses, and other acquisition expenses	252,718	257,399	243,743
Administration, general, and other expenses	236,748	203,678	176,393
Profit (loss) before tax	(113,740)	63,332	98,763
Overall profit (loss) before tax	(126,493)	81,997	169,788

The premiums in life insurance totaled 1,681 million ILS in 2011 compared with 1,701 million ILS in 2010 and compared with 1,537 million ILS in 2009, respectively. In 2011 a decrease of 1% occurred in comparison to 2010. In 2010 one time premiums totaling 125 million ILS were received from government offices for immediate pension payments. Neutralizing the effect of said one time premiums the increase in premiums is at a rate of about 7%.

In addition, in 2011 premiums were received which were directly accredited to insurance liabilities (without risk components – investment contracts) totaling 408 million ILS compared to 400 million ILS in 2010.

The policies redeemed in 2011 totaled 576 million ILS compared to redemptions of 554 million ILS in 2010, an increase of 4%. The rate of redemptions from the average reserve (not including investment contract redemptions) stood at 3.8% during the year of the report (identical to the previous year's rate).

Redemptions for policies where the premiums for them were directly accredited to insurance liabilities (without risk component – investment contracts) totaled about 284 million ILS in 2011 compared to a total of 189 million ILS in 2010.

The overall loss from the life insurance business, before tax, totaled about 126 million ILS in 2011, compared to an overall profit, before tax, of about 82 million ILS in 2010.

The change in the overall profit from life insurance activity derives from two main sources: (a) change in the financial margin and financing expenses and (b) change in the outcomes of underwriting and operational activity in this field.

The change in the financial margin mainly derives from a decrease in the incomes from management fees totaling 99 million ILS, and this due to the fact that in 2011, based on the negative real yield obtained, no changing management fees were collected, as well as a decrease in incomes from investment in policies which are not yield dependent compared to the obligations for those same policies and financing expenses totaling 64 million ILS, and an overall decrease of about 163 million ILS. For details regarding the management fees mechanism in yield based policies and details of the permanent and changing management fees, see article 4.4.1.2. below.

The change in the outcomes of underwriting and operational activity totaling about 45 million ILS mainly derives from the increase in management and general expenses totaling 33 million ILS mostly due to an increase in the number of employees and expenses for depreciation and mechanization, along with a decline in the underwriting profit which derives from, among others, updating the liabilities for insurance contracts and payments for insurance cases (including for updating estimates, discounts and actuarial estimates) totaling about 12 million ILS.

4.4.1.2. Detailing of results according to policy types

Below are additional details concerning the information appearing in clarification 19 of the financial reports:

Policies containing a savings component

The premiums from policies 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), totaled approximately 101 million ILS in the year 2011, compared to approximately 92 million ILS in the year 2010, an increase of approximately 9 million ILS. The overall profit from these policies totaled approximately 21 million ILS in the year 2011 compared to approximately 73 million in the year 2010, a decrease of approximately 52 million ILS. The decline in the overall profit mainly derives from the decline in the financial margin from these policies totaling approximately 57 million ILS, from a margin of approximately 14 million ILS in 2011 against a margin of approximately 71 million ILS in 2010.

The premiums in yield dependant policies which were issued between 1991 and 2003 inclusive totaled approximately 620 million ILS in the year 2011 compared to approximately 632 million ILS in the year 2010, a decline of approximately 12 million ILS. The overall loss from these policies totaled approximately 29 million ILS in the year 2011 compared to an overall profit totaling approximately 56 million ILS in the year 2010, a decrease of approximately 85 million ILS. The

overall loss compared to the corresponding period last year arises mainly from the collection of fixed management fees totaling 52 million ILS compared to the collection of management fees (both fixed and variable) totaling 159 million ILS, a decline of approximately 107 million ILS.

Policies issued from 2004 onwards and which are not yield dependent are mostly in respect of a transaction with government offices for immediate pension payment. The premiums from these policies in 2011 were negligible compared to premiums totaling approximately 125 million ILS received for the same policies in 2010. The overall loss from these policies totaled approximately 5 million in the year 2011 compared to an overall loss of approximately 14 million ILS in the year 2010. The overall loss arises from capitalization 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 therefore increased the liability for future pension payments. It should be mentioned that in light of the aforementioned commissioner directives, the loss was registered at the date of receiving the premiums for yield promised above the risk free interest according to which the premiums are received. This loss does not necessarily represent the economic gain which should derive from this transaction, the overall loss in 2011 was registered due to the decline in the risk free interest in comparison to 2010.

The premiums in yield dependant policies issued from the year 2004 onwards totaled approximately 661 million ILS in the year 2011 compared to approximately 566 million ILS in the year 2010. The increase in premium derives mainly from an increase in new sales and from an increase in one time premiums. The loss from these policies totaled approximately 114 million ILS in the year 2011 compared to a loss of approximately 84 million ILS in the year 2010. The increase in the loss arises mainly from an increase in managerial and general costs. On the other hand there is an increase in management fees which are collected as a percentage of the balance of assets totaling approximately 8 million ILS arising from an increase in the volume of managed assets. The increase in loss mainly derives from new transactions added for which provision has not yet been accumulated at any significant scope.

Policies not containing a savings component

The premiums in term assurance policies sold as stand-alone policies, to individuals, totaled approximately 289 million ILS in the year 2011 compared to approximately 269 million in the year 2010, an increase of 7%. Between 2010 and 2011 a decline in the overall profit totaling approximately 47 million ILS. The reduction in overall profit arises predominately from declines in the capital market, an increase in managerial and general expenses, and an increase in payments and

actuarial estimates for insurance cases.

Yield Dependent 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 credited to the insured with the deduction of management fees.

Liabilities arising from yield dependant policies as of 31 December 2011 totaled approximately 11,744 million ILS compared to a total of 11,863 million ILS as of 31 December 2010, a decrease of approximately 1%. This decrease derives mainly from losses on investments and the collection of management fees and against incomes from premiums and payments for investment contracts minus redemptions and settlements.

Details concerning yield rates in yield dependent policies:

Policies issued from 1992-2003 (Fund J)

	1-12/2011	1-12/2010	1-12/2009
Real yield before payment of management fees	(8.02%)	9.14%	35.37%
Real yield after payment of management fees	(8.58%)	7.22%	34.43%
Nominal yield before payment of management fees	(5.67%)	11.63%	40.53%
Nominal yield after payment of management fees	(6.24%)	9.66%	39.56%

Policies issued from 2004 (New Fund J):

	1-12/2011	1-12/2010	1-12/2009
Real yield before payment of management fees	(7.92%)	9.14%	35.37%
Real yield after payment of management fees	(9.10%)	7.53%	33.82%
Nominal yield before payment of management fees	(5.57%)	11.63%	40.53%
Nominal yield after payment of management fees	(6.78%)	9.98%	38.92%

Details concerning investment profit (loss) credited to holders of profit-sharing policies and management fees (in million ILS):

	1-12/2011	1-12/2010	1-12/2009
Nominal investment profit (loss) credited to policyholders after management fees	(698.0)	937.4	2,536.1
Fixed management fees	94.2	85.2	69.5
Variable management fees	-	108.1	9.8
Total management fees	94.2	193.3	79.3

In yield dependent policies issued between 1991 and 2003 the insurer is entitled to collect fixed management fees and variable management fees at rates determined in the regulations and derived from the real yield of 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 cumulative real loss. 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 these management fees.

During the Reporting Period, income from management fees on yield dependent life insurance policies amounted to approximately 94 million ILS compared with approximately 193 million ILS in 2010. This decrease derives from the fact that the company did not collect variable management fees for yield dependent life insurance policies issued between 1991 and 2003 following the real negative yield and against an increase in the collection of fixed management fees in 2011, following the increase in the scope of assets for policies issued starting in 2004, compared to 2010. As mentioned above, following the decline of rates in the capital market in 2011 a net real negative yield was registered at a rate of 8.58%, therefore the group will not collect variable management fees until the completion of said negative yield. The estimate of said management fees which would not be collected due to the real negative as of 31 December 2011 yield stands at a total of approximately 106 million ILS and close to the date of publishing the report is estimated at a total of 40 million ILS.

Composition of the assets in yield-dependent policies (in thousand ILS):

	As of 31 December 2011	As of 31 December 2010
Deferred acquisition costs	8,457	9,041
Receivables and debit balance	47,392	20,063
Premiums due	67,347	71,728
Marketable debt assets	4,001,963	3,978,995
Non-marketable debt assets (including loans and deposits)	3,082,928	3,113,895
Shares	2,682,486	3,226,378
Other	1,698,864	1,486,344
Cash and cash equivalents	535,315	67,575
Total	12,124,752	11,974,019

4.4.1.3. Pension branch

The results of activity in the pension branch relate to performance by a consolidated

company – Menora Mivtachim Pensions.

Principal results of operations in the pension branch (in thousand ILS):

	1-12/2011	1-12/2010	1-12/2009
Income from management fees	323,313	279,447	246,964
Income from commissions	422	330	236
Net profit from investments and financing income	1,490	10,712	18,046
Commissions, marketing expenses and other purchasing expenses	68,163	55,596	48,661
General and other administrative expenses	166,076	138,878	124,713
Profit before tax	90,986	96,015	91,872

As of the date of the report the group manages assets for new pension fund members through Menora Mivtachim Pensions totaling 37,628 million ILS, compared to assets totaling 34,114 million ILS as of 31 December 2010, an increase of 10%. The main increase derives from the collection of remuneration fees in 2011 totaling approximately 4,976 million ILS compared to a collection total of 4,203 million ILS in 2010, an increase of 18%.

During the period of the report a profit of approximately 91 million ILS before tax in pension activity, compared to a profit totaling approximately 96 million ILS in 2010. The decrease in profit stems mainly from a decrease in incomes from investments totaling approximately 9 million ILS while the pension activity increased by approximately 4 million ILS. The incomes from management fees increased by approximately 44 million ILS, an increase of approximately 16% compared to 2010. This increase stems from an increase in the scope of incomes from management fees, from remuneration fees collected, and from the increase in the scope of managed assets. The marketing, management, and general expenses increased during the period of the report by a total of approximately 40 million ILS, an increase of approximately 20% compared to 2010. The increase mainly derives from an increase in fees and marketing expenses due to the increase in the scope of business and an increase in general and management expenses derived from an increase in the number of employees and an increase in computing expenses.

4.4.1.4. Provident fund branch

The results of activity in the provident fund sector related to sub-subsiary, Menora Mivtachim Gemel Ltd. (hereinafter: “**Menora Mivtachim Gemel**”)

Principal results of operations in the provident fund branch (in thousand ILS):

	1-12/2011	1-12/2010	1-12/2009
Income from management fees	84,796	76,259	63,302
Net profit from investments and financing income	303,815	332,794	389,611
Change in liabilities for investment contract Commissions, marketing expenses and other purchasing expenses	316,401	292,537	347,296
General and other administrative expenses	17,217	9,986	7,591
Financing expenses	59,215	51,258	45,742
	687	2,529	1,710
Profit (loss) before tax	(4,909)	52,743	50,574

As of the date of the report the group manages assets for provident fund members through Menora Mivtachim Gemel totaling 13,062 million ILS, of them a total of approximately 4,512 million ILS in yield guaranteeing provident funds, compared to assets totaling 12,612 million ILS, of them a total of approximately 4,342 million ILS in yield guaranteeing provident funds, as of 31 December 2010, an increase of 4%. The main increase derives from the purchase of the managing rights to the Lehava provident fund which includes assets totaling 426 million ILS as well as the collection of remuneration fees in 2011 totaling approximately 798 million ILS compared to a collection total of 716 million ILS in 2010, an increase of 11%.

During the period of the report a loss of approximately 5 million ILS before tax in provident activity, compared to a profit totaling approximately 53 million ILS in 2010, a decrease of approximately 58 million ILS. The decrease in profit stems mainly from a decrease in net incomes from yield guaranteeing provident funds totaling approximately 53 million ILS (a loss of 13 million ILS in 2011 compared to a profit of approximately 40 million ILS in 2010) and an increase in marketing, management, and general expenses totaling 15 million ILS, an increase of 25% compared to the previous year. The increase in expenses derives mainly from an increase in the number of employees and an increase in fees and marketing expenses. On the other hand there has been an increase in the incomes from management fees (due to the growth in the number of managed assets) by approximately 9 million ILS, an increase of 11% compared to the previous year.

4.4.2. Results in the general insurance operating segments

The general insurance business is divided into three fields of activity: Compulsory vehicle, vehicle casco, and other general insurance business (other liabilities and other property branches).

Principal results in the general insurance branch (in thousand ILS):

	1-12/2011	1-12/2010	1-12/2009
Gross premiums	2,354,892	2,279,287	2,277,818
Net profit from investments and financing income	187,298	236,342	290,980
Income from commissions	153,666	166,970	119,505
Payments and changes in liabilities for insurance contracts, gross	1,629,905	1,730,966	1,664,935
Commissions, marketing expenses and other purchasing expenses	492,731	494,049	487,397
General and other administrative expenses	132,942	97,024	99,035
Profit before tax	124,552	156,540	215,173
Overall profit before tax	45,357	164,325	391,875

The incomes from gross premiums during the period of the report totaling 2,355 million ILS compared to a total of 2,279 million ILS in the previous year. The increase in gross premiums derives from an increase in the premium in the field of compulsory vehicle totaling approximately 33 million ILS, an increase in premiums in the field of general insurance totaling approximately 41 million ILS (an increase of about 48 million ILS in other property fields and a decrease of about 7 million ILS in other liability fields) and an increase in premiums in the field of vehicle Casco totaling approximately 2 million ILS. Regarding the details of the change in gross premium see articles 4.4.2.1, 4.4.2.2 and 4.4.2.3 below.

The overall profit before tax from the general insurance business during the period of the report totaled approximately 45 million ILS compared to an overall profit before tax totaling approximately 164 million ILS in 2010. The decrease in the profit derives from a decline in the overall profit in the field of vehicle Casco insurance totaling approximately 63 million ILS, a decline in the overall profit in the field of compulsory vehicle totaling approximately 10 million ILS, and a decline in the overall profit in other liability branches totaling approximately 36 million ILS. For details regarding the change in overall profit from the general insurance branches see articles 4.4.2.1, 4.4.2.2 and 4.4.2.3 below.

4.4.2.1. Principal results of operations in the compulsory Vehicle branch (in thousand ILS):

	1-12/2011	1-12/2010	1-12/2009
Gross premiums	634,780	602,065	621,979
Net profit from investments and financing income	121,182	152,771	177,447
Income from commissions	3,771	12,058	-
Payments and changes in liabilities for insurance contracts, gross	491,199	605,126	615,264
Commissions, marketing expenses and other purchasing expenses	63,539	57,064	60,652
General and other administrative expenses	39,854	31,555	32,144
Profit before tax	126,375	78,570	74,946
Overall profit before tax	73,872	83,815	187,921

The incomes from premiums in 2011 totaled 635 million ILS compared to a total of 602 million ILS in 2010, an increase of 5%. The growth derives from an increase in the scope of customer portfolios and increase in the average premium due to a change in the portfolio's mix.

The overall profit before tax in 2011 totaled approximately 74 million ILS, compared to a profit before tax of approximately 84 million ILS in the previous year. The decrease in the overall profit mainly derives from the following factors: the declines in the Israeli and global capital markets, both the stock markets and the bonds markets which caused a gap between the incomes from investments and the sum credited to the yield based insurance liabilities, at a real annual rate of 3% on investments in open years, in 2011 compared to 2010, totaling approximately 91 million ILS, from an increase in managerial and general expenses which were not credited to the calculation of accumulation totaling 7 million ILS, and on the other hand from an increase in release from accumulation totaling approximately 38 million ILS and from a benefit in claim development (change of setup for the closed years) totaling approximately 49 million ILS.

4.4.2.2. Principal results of operations in the vehicle Casco branch (in thousand ILS):

	1-12/2011	1-12/2010	1-12/2009
Gross premiums	904,352	902,069	877,843
Net profit from investments and financing income	18,407	24,706	37,196
Income from commissions	49,053	58,110	28,659
Payments and changes in liabilities for insurance contracts, gross	705,041	638,300	607,760
Commissions, marketing expenses and other purchasing expenses	221,045	227,107	220,022
General and other administrative expenses	45,190	33,155	37,757

	1-12/2011	1-12/2010	1-12/2009
Profit (loss) before tax	(47,083)	6,367	40,129
Overall profit (loss) before tax	(55,297)	7,248	64,941

The gross premiums in 2011 totaled approximately 904 million ILS compared to a total of approximately 902 million ILS in 2010. Neutralizing the non renewal of communication in 2011 with agents regarding the insurance of heavy vehicles, the gross premium grew in 2011 compared to 2010 at a rate of 8%, derived mainly from an increase in the number of insured vehicles against erosion in the average premium, as a result of competition in the market.

The overall loss before tax in 2011 totaled approximately 55 million ILS compared to an overall profit before tax of approximately 7 million ILS in 2010. The overall loss derives mainly from competition in the branch which has caused erosion of the average premium collected and from an increase in the payment of claims and updating the insurance liability estimate totaling approximately 29 million ILS (mainly derived from allocation to short premiums totaling approximately 18 million ILS), from a decline in incomes from investments totaling approximately 15 million ILS and an increase in managerial and general expenses totaling approximately 14 million ILS. The increase in managerial and general expenses derives mainly from an increase in the number of employees.

4.4.2.3. Principal results of operations in other general insurance branch (in thousand ILS):

	1-12/2011	1-12/2010	1-12/2009
Gross premiums	815,760	775,153	777,996
Net profit from investments and financing income	47,709	58,865	76,337
Income from commissions	100,842	96,802	90,846
Payments and changes in liabilities for insurance contracts, gross	433,665	487,540	441,911
Commissions, marketing expenses and other purchasing expenses	208,147	209,878	206,723
General and other administrative expenses	47,898	32,314	29,134
Profit before tax	45,260	71,603	100,098
Overall profit before tax	26,782	73,262	139,013

The gross premiums in 2011 totaled approximately 816 million ILS compared to a total of approximately 775 million ILS in 2010, an increase of about 5%. The increase in premiums derives from other property branches totaling approximately 48 million ILS and against a decline in premiums in other liabilities branches totaling approximately 7 million ILS. The increase in premiums in other property

branches derives from an increase in the number of business customers.

The overall profit before tax in 2011 totaled approximately 27 million ILS, compared to an overall profit before tax of approximately 73 million ILS in 2010. The overall profit before tax in other property branches in 2011 totaled approximately 26 million ILS compared to a total of approximately 36 million ILS in 2010, a decline of about 10 million ILS, and the overall profit before tax in other liability branches totaled approximately 0.65 million ILS, compared to a total of approximately 37 million ILS in 2010, a decline of 36 million ILS.

The decline in overall profit from other property branches derives from the decline in incomes from investments totaling approximately 5 million ILS, from an increase in managerial and general expenses totaling approximately 12 million ILS and against an increase the underwriting profit totaling approximately 7 million ILS mainly due to an increase in premiums.

The decline in the overall profit from other liability branches derives from the declines in the Israeli and global capital markets which caused a gap between incomes from investments and the sum credited to the insurance obligations based on yield, at a real annual rate of 3%, for investments in open years, in 2011 compared to 2010, a total of approximately 23 million ILS, from a worsening in the development of claims (change of estimate for closed years) totaling approximately 25 million ILS, from an increase in managerial and general expenses not credited for the calculation of accumulation totaling approximately 2 million ILS and from a loss totaling approximately 5 million ILS registered in 2011 due to the concurrent underwriting year. On the other hand the release from accumulation in 2011 compared to 2010 was greater by 18 million ILS due to a low release in 2010 for claims in the directors and office holders branch for the underwriting year 2007.

4.4.2.4. Insurance premiums and profit according to general insurance fields of activity (in thousand ILS):

	Compulsory vehicle	Property vehicle	Property and others	Liabilities	Total
Total gross premiums					
01-12/2011	904,352	634,780	583,562	232,198	2,354,892
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
Profit (loss)					
01-12/2011	(47,083)	126,375	29,002	16,258	124,552
01-12/2010	6,367	78,570	35,928	35,675	156,540
01-12/2009	40,129	74,946	51,517	48,581	215,173

4.4.3. Results of health insurance activity

	1-12/2011	1-12/2010	1-12/2009
Gross earned premiums	331,545	302,013	289,931
Net profit from investments and financing income	27,135	38,761	98,041
Income from commissions	9,534	13,485	15,957
Payments and changes in liabilities for insurance contracts and investment contracts, gross	213,113	246,663	201,572
Commissions, marketing expenses and other purchasing expenses	72,325	67,526	61,475
General and other administrative expenses	28,323	28,821	28,587
Profit before tax	51,290	11,826	99,234
Overall profit before tax	47,046	13,643	102,359
	331,545	302,013	289,931

The incomes from premiums earned in 2011 totaled approximately 332 million ILS compared to approximately 302 million ILS in 2010, an increase of 10%. The increase in premiums derives mainly from an increase in the range of customer portfolios.

The overall profit before tax during the reporting period totaled approximately 47 million ILS, compared to an overall profit of approximately 14 million ILS in the previous year. The increase in overall profit derives from insurance liabilities updates mainly conducted during the previous year totaling approximately 37 million ILS and from an improvement in the underwriting profit totaling approximately 17 million ILS which derives mainly from an increase in the earned premium, and against a decline in incomes from investments totaling approximately 18 million ILS and an increase in managerial and general expenses (including managerial and general expenses classified under the article of fees and marketing expenses) totaling 2 million ILS.

4.4.4. Results of activity in the financial products and services sector

Results in the financial products and services sector relate to the subsidiary – Menora Mivtachim Finance Ltd., which operates through subsidiaries, and do not include the results of Menora Mivtachim Gemel Ltd. (a subsidiary of Menora Finance), whose results appear separately as part of the results for life insurance activity and long-term savings. The results in this field of activity are included in the sector not attributed to the sectors of activity in the company's consolidated financial reports.

In thousand ILS	1-12/2011	1-12/2010	1-12/2009
Income from management fees and underwriting commissions	89,299	102,463	80,050
Profit (losses) from investments, net	(384)	3,166	29,492
Total incomes	88,915	105,629	109,542

Total expenses	82,166	95,290	79,674
Profit on income before income tax	6,749	10,339	29,868
Net profit for the period	7,376	10,629	27,251

Following developments in the bond and stock markets a significant decline occurred in the range of trust fund assets and portfolio management which as of 31 December 2011 totaled approximately 5,455 million ILS, compared to a total of approximately 8,592 million ILS as of 31 December 2010.

The profit for 2011 totaled approximately 7 million ILS compared to a profit of approximately 11 million ILS in 2010. The decline in profit derives from a decline in income from management fees totaling 7 million ILS, mainly following the decline in the range of assets managed by Menora Mivtachim Trust Funds and a decline in underwriting fees totaling approximately 6 million ILS, from a decline in incomes from investments in 2011 compared to 2010 totaling approximately 4 million ILS, and against a decrease in expenses totaling 13 million ILS derived mainly from a decrease in intangible assets.

4.5. Cash flow

The net cash flows from concurrent activity totaled approximately 678 million ILS for the Reporting Period.

The net cash flows used in investment activity totaled approximately 498 million ILS for the Reporting Period.

The net cash flows derived from financing activity totaled approximately 149 million ILS for the Reporting Period.

After the effect of the exchange rate on cash balances in the amount of approximately 4 million ILS, the cash balances increased during the Reporting Period totaled approximately 333 million ILS.

The cash balance at the beginning of the year totaled approximately 504 million ILS. The total cash and cash equivalents at the end of the year totaled approximately 837 million ILS.

4.6. Sources of finance

At the reporting date, retained financial liabilities totaled approximately 1,952 million ILS, compared with approximately 1,760 million ILS at December 31, 2010.

The average volume of the financial liabilities in the reporting year totaled approximately 1,885 million ILS.

In October 2011 the group recruited debt at an overall range of approximately 300 million ILS, accomplishing this in two parallel processes – recruitment within the company at a range of approximately 100 million ILS and recruitment through Menora Mivtachim Capital Recruitment at a range of approximately 200 million ILS. As part of the bond rating the company declared its intention to maintain liquid assets and credit lines at a rate of 125% from the debt repayments (fund and interest) a year in advance, in accordance with the bonds' amortization schedule.

In 2011 the group redeemed loans for the banks and institutional entities totaling approximately 152 million ILS (of them approximately 75 million ILS were redeemed by the company and approximately 74 million ILS were redeemed by Menora Mivtachim Insurance), compared to a total of approximately 85 million ILS in 2010 (of them approximately 74 million ILS were redeemed by Menora Mivtachim Insurance).

During the period of the report Menora Mivtachim Insurance distributed dividends totaling 100 million ILS to the company.

For additional details regarding the company's bonds and their rating see article 8 below and for additional details regarding the company's financing sources see article 9.9 of the report regarding the company's businesses.

As of the date of the report the company (individually) has financial obligations totaling approximately 932 million ILS from issuing two series of bonds. On the other hand the company has concurrent financial assets at a range of approximately 359 million ILS. In addition the company has loan balances to subsidiaries totaling 682 million ILS, of them loans to Menora Mivtachim Insurance totaling 263 million ILS. The company sees importance in keeping financial assets available at a range required for bond repayments as well as to answer its concurrent needs and the activity of the held companies. The company has unused credit lines in the banks totaling approximately 40 million ILS which are at its disposal for its ongoing activity. For the issue of bonds see also article 6 below.

5. Report regarding exposure to market risks and their management

The report concerning market risks presented below refers to the investments of the Company and its subsidiaries, excluding the insurance companies (Menora Mivtachim Insurance Ltd. and its subsidiaries), pursuant to the Securities (Periodic and Immediate Reports) Regulations, 5730-1970.

For the issue of risk management at Menora Mivtachim Insurance, in accordance with the supervisor's provisions, see chapter 11 of the report detailing the corporation's businesses.

5.1. The company's Risk management supervisor

Starting from May 2011 the company's supervisor of risk management is Dr. Dana Heller. Dr. Heller received a PhD in Business Administration from Stanford University in the United States/ prior to her appointment she served as deputy CEO in a subsidiary of the international insurance broker Marsh & McLennan. It should be mentioned that during 2011 and until the aforementioned date the company's supervisor of risk management was Mr. Yaron Granot.

5.2. General description of market risks

The market risk derives from fluctuations in the fair value of financial instruments due to changes in factors such as interest, currency exchange rates, share indexes, and so on. The Company (and its subsidiaries) is exposed to market risks in its nostro portfolio as well as to changes in management fees which are influenced by a change in the value of assets it manages through its subsidiaries (assets under management). During the course of its business activity, the Company acquires financial and real assets against its equity 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. These companies 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 influence the level of management fees these companies collect, thus affecting their profitability. Furthermore, the subsidiary Menora Mivtachim Gemel manages five yield guaranteed provident funds. Most of the obligations to the members of these funds are backed by the accountant general's 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.

Menora Mivtachim Underwriting and Management serves as an underwriter for new issuances. As part of its activity, Menora 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.

The assets managed as part of the activities of the subsidiary Menora Mivtachim Real Estate, which include investments and loans chain linked to companies investing in foreign real estate assets, are exposed to market risks mainly as a result of changes in interest rates and exchange rates. The company is exposed to the financial durability and political stability in Italy through loans the company has made to the Solangia Company which operates solar energy production sites in the country. The communication contracts for Solangia's services in Italy and governmental institutions are long term and at a fixed rate guaranteeing adequate repayment power for Solangia's obligations towards Menora Real Estate. Significant changes in these contracts as a result of an injury to Italy's financial durability or regulatory changes resulting from political changes could substantially influence Solangia's repayment power. The fair value of Menora Real Estate's loans is approximately 60 million ILS.

5.3. Changes in exposures during the report period

5.3.1. 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. It should be mentioned that 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. At the end of 2011, the Group's assets were exposed (in terms of fair value) to this risk in the amount of 1,237 million ILS (in the previous year – 1,227 million ILS). At the end of 2011, the Group's liabilities were exposed (in terms of fair value) to this risk in the amount of 994 million ILS (in the previous year – 1,011 million ILS). There was no significant change in the profile of the interest rate risk. See article 5.6.1 for the sensitivity test relating to this risk.

5.3.2. Exposure to currency risk

The Group's principal currency risk exposure is to the US dollar and the Euro. This risk stems mainly from activity by the subsidiary Menora 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 2011. See article 5.6.2 for the sensitivity test relating to this risk.

5.3.3. Exposure to equity risk (shares, funds, and capital instruments)

The group is exposed to changes in the market value of capital instruments as a result of fluctuations in the capital market in Israel and abroad. The company's exposure to this risk (in terms of fair value) totaled approximately 84 million ILS at the end of 2011 (approximately 90 million ILS in the previous year). See article 5.6.3 for the sensitivity test regarding this risk.

5.3.4. Exposure to spread risk / credit default risk

The group is exposed to changes in the fair value of a marketable corporate debenture due to an expansion of the credit spread inherent in the price of the debenture when there is a worsening in the market estimate regarding the capacity of the issuer / lender to meet its obligations. Likewise, the group is exposed to the credit default risk inherent in marketable and nonmarketable debt assets as a result of change in the probability that companies that have issued the debt become insolvent, fail to pay the interest and/or principal and that the

Group will be forced to recognize the loss and reduce value in the books. The Group records its investment in marketable debentures at market value and its investments in non-marketable bonds at adjusted costs. The Group's overall exposure to credit risk (in terms of fair value) is 835 million ILS (in the previous year – 863 million ILS).

5.3.5. Exposure to property risk

The Company is exposed to changes in the real-estate market as part of Menora Real Estate's activity in Russia, India and Germany in the amount of 123 million ILS (in the previous year – 127 million ILS). The fair value of the loans provided by Menora Real Estate to its held companies and its investments in them are influenced by changes in the value of real estate in the relevant areas. During 2011, there was no significant change in the exposure to property risks.

5.3.6. 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.

5.4. Company policy in managing and supervising the market's risks

The group's main activity, and hence the main risks to which it is exposed, involve its main activity which is the insurance company activity. Regarding the activity which is the subject of this chapter, the boards of directors for the different companies in the group approve the main features of the investment policy as well as the main features of the policy for providing credit. The investments by the nostro investment committees and the subsidiary investment committees are subject to the approval of the board of directors and the investment regulation, as the case may be. The companies' boards of directors receive periodic reports and updates and hold discussions regarding these exposures from time to time.

The company manages the financial risks mainly through limiting its exposure to fluctuation risks related to stock indexes in Israel and abroad, interest rates, foreign currency and credit. The limitations established by the subsidiaries' management are intended to limit the risks and the damage that could be caused by unexpected changes in markets. The system of limitations delineates the influence of the portfolio's exposure to these unexpected changes. Generally, the limitations are established at the level of exposure to the risk factors (as a portion of the overall assets in the portfolio).

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 company's policy regarding the management of market risks in Menora Real Estate

focuses on establishing a credit frame for the company's activity and a geographical distribution of the investments.

As part of the management of provident funds the limitations on exposure to market risks are derived from the strategic allocation of assets included in the investment policy. The restrictions are regularly monitored by the middle office and by the risk controller and reported to the investments committee. In order to limit the exposure to market, credit, and liquidity risks, restrictions are defined, adjusted to the nature of the fund, which relate to the maximum exposure rate in shares and bonds, the portion in the portfolio of a single issuer or a group of issuers, and a maximum rate of non-negotiable securities holdings in the fund. Likewise, the limitations relate to risk regarding benchmark portfolios adjusted for each and every fund.

As part of the management of mutual funds the limitations on exposure to various assets, as established in the fund prospectus, are monitored at the fund level on an ongoing basis.

Holding of derivatives – the Company holds derivatives designed to hedge the exposure to foreign exchange resulting from the activity of the subsidiary Menora Real Estate abroad. The derivatives 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.

5.5. Balance of linkage bases

Linkage balance without insurance at December 31, 2011

Million ILS	ILS – not linked	ILS Linked	In foreign currency or linked to it (*)	Non – financial details and others	Insurance company	Total
Intangible assets	-	-	-	793	366	1,159
Deferred tax assets	-	-	-	-	8	8
Deferred acquisition costs	-	-	-	94	846	940
Fixed assets	-	-	-	7	358	365
Investments in affiliates	-	-	5	-	116	121
Investment real estate	-	-	-	119	69	188
Reinsurance assets	-	-	-	-	1,372	1,372
Current tax assets	-	19	-	-	90	109
Receivables and debit balances	3	-	-	2	146	151
Premiums due	-	-	-	-	548	548
Finance investments for yield- dependent contracts	-	-	-	-	11,466	11,466
Other finance investments						
Marketable debt assets	114	356	5	-	3,680	4,155

Million ILS	ILS – not linked	ILS Linked	In foreign currency or linked to it (*)	Non – financial details and others	Insurance company	Total
Non-marketable debt assets	17	4,286	207	-	5,248	9,758
Shares	16	-	3	-	262	281
Other	77	22	33	-	392	524
Total financial investments	224	4,664	248	-	9,582	14,719
Cash and cash equivalents for contracts						
Yield dependent	-	-	-	-	535	535
Other cash and cash equivalents	83	-	8	-	211	302
Assets intended for distribution to owners	(58)	(19)	(3)	(610)	690	-
Total assets	252	4,664	258	405	26,403	31,982
Total equity	-	-	-	292	1,917	2,209
Liabilities						
Liabilities for non yield dependent insurance contracts and investment contracts	-	4,511	-	-	9,890	14,401
Liabilities for yield dependent insurance contracts and investment contracts	-	-	-	-	11,790	11,790
Deferred tax liabilities	-	-	-	35	82	117
Liabilities for employee benefits, net	5	-	-	-	126	131
Current tax liabilities	-	1	-	-	6	7
Surplus losses over investments in affiliates	-	-	5	-	-	5
Other payables and credit balances	49	6	-	-	1,203	1,258
Financial liabilities	-	717	3	-	1,343	2,063
Liabilities related to assets intended for distribution to owners	(41)	(2)	-	(2)	45	-
Total liabilities	13	5,233	8	33	24,486	29,774
Total equity and liabilities	13	5,233	8	325	26,403	31,982
Total balance sheet exposure	239	(569)	250	80	-	-
Exposure to underlying assets through derivatives in delta term	197	-	(197)	-	-	-
Total exposure	436	(569)	53	80	-	-

(*) mainly Dollar and Euro

Most of the exposure to basis risks derives from index-linked liabilities that were partially

invested in a subsidiary in the currency relevant for its operation, as the case may be (Dollar and/or Euro). The Company is exposed to increases in the Consumer Price Index that may result in an increase of its financing expenses. About 80% of the exposure to changes in the exchange rate of the Shekel against the Dollar and the Euro is hedged through currency derivatives (currency contracts).

5.6. Sensitivity tests

The following table presents the Company's assets and liabilities at their fair value (middle column). Likewise, the effects of changes in various market risk factors on the fair value of the assets and liabilities were also measured.

The fair value of the assets and liabilities that are exposed to changes in real , ILS, USD, and Euro interest rates, is calculated as the present value of future and quarterly cash flows, capitalized 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 and quarterly cash flows, capitalized 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 according to 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 for exposure to stocks in Israel, and the S&P500 index for exposure to stocks abroad.

5.6.1. Sensitivity tests of interest rate factor (relative change in interest rate curve)

All amounts are in thousand ILS at 31 December 2011

Risk factor – real interest rate

(in thousand ILS)	2% Increase in real interest rate	10% Relative increase in real interest rate curve	5% Relative increase in real interest rate curve	Fair value	5% Relative decrease in real interest rate curve	10% Relative decrease in real interest rate curve	2% Decrease in real interest rate
Marketable debt assets	(20,499)	(1,426)	(716)	360,794	721	1,448	23,374
Non-marketable debt assets	(66,327)	(14,124)	(7,149)	593,964	7,328	14,840	81,561
Marketable debenture that was issued	50,459	3,391	1,700	(723,461)	(1,708)	(3,425)	(56,936)
Non-marketable Debenture that was issued	28,852	2,918	1,466	(238,300)	(1,479)	(2,971)	(34,265)
Total	(7,515)	(9,241)	(4,699)	(7,003)	4,862	9,892	13,734

Risk factor – Shekel interest rate

	2% Increase in Shekel interest rate curve	10% Relative increase in Shekel interest rate curve	5% Relative increase in Shekel interest rate curve	Fair value	5% Relative decrease in Shekel interest rate curve	10% Relative decrease in Shekel interest rate curve	2% Decrease in Shekel interest rate curve
Marketable debt assets	(3,657)	(682)	(343)	100,948	347	699	4,116
Non-marketable debt assets	(731)	(135)	(68)	17,735	69	138	821
Bank loan	1,379	362	182	(32,332)	(184)	(369)	(1,489)
Total	(3,009)	(455)	(229)	86,352	232	468	3,447

Risk factor – Dollar interest rate

	2% Increase in Dollar interest rate curve*	10% Relative increase in Dollar interest rate curve	5% Relative increase in Dollar interest rate curve	Fair value	5% Relative decrease in Dollar interest rate curve	10% Relative decrease in Dollar interest rate curve	2% Decrease in Dollar interest rate curve
Marketable debt assets	(217)	(11)	(6)	5,082	6	11	236
Real Estate debt assets	(4,697)	(1,586)	(803)	45,417	823	1,666	5,437
Total	(4,914)	(1,597)	(808)	50,499	828	1,677	5,673

Risk factor – Euro interest rate

	2% Increase in Euro interest rate curve	10% Relative increase in Euro interest rate curve	5% Relative increase in Euro interest rate curve	Fair value	5% Relative decrease in Euro interest rate curve	10% Relative decrease in Euro interest rate curve	2% Decrease in Euro interest rate curve
Real Estate debt assets	(10,393)	(4,000)	(2,031)	112,977	2,097	4,264	11,994

All amounts are in thousand ILS at 31 December 2010

Risk factor – real interest rate

(in thousand ILS)	2% Increase in real interest rate	10% Relative increase in real interest rate curve	5% Relative increase in real interest rate curve	Fair value	5% Relative decrease in real interest rate curve	10% Relative decrease in real interest rate curve	2% Decrease in real interest rate
Marketable debt assets	(26,517)	(1,583)	(795)	380,157	802	1,611	30,419
Non-marketable debt assets	(72,419)	(6,760)	(3,405)	581,933	3,456	6,965	90,020
Bank loan	67	0	0	(4,125)	0	0	(69)
Marketable debenture that was	50,739	3,526	1,769	(680,460)	(1,780)	(3,570)	(57,740)

issued							
Non- marketable							
Debenture that was issued	38,834	4,270	2,147	(283,565)	(2,170)	(4,364)	(47,088)
Total	(9,297)	(546)	(285)	(6,060)	308	642	15,542

Risk factor – Shekel interest rate

	2% Increase in Shekel interest rate curve	10% Relative increase in Shekel interest rate curve	5% Relative increase in Shekel interest rate curve	Fair value	5% Relative decrease in Shekel interest rate curve	10% Relative decrease in Shekel interest rate curve	2% Decrease in Shekel interest rate curve
Marketable debt assets	(6,092)	(1,158)	(582)	116,398	588	1,183	6,730
Bank loan	1,872	465	234	(42,657)	(236)	(474)	(2,033)
Total	(4,220)	(693)	(349)	73,741	352	709	4,697

Risk factor – Dollar interest rate

	2% Increase in Dollar interest rate curve	10% Relative increase in Dollar interest rate curve	5% Relative increase in Dollar interest rate curve	Fair value	5% Relative decrease in Dollar interest rate curve	10% Relative decrease in Dollar interest rate curve	2% Decrease in Dollar interest rate curve
Marketable debt assets	(152)	(14)	(7)	3,508	7	14	165
Real Estate debt assets	(3,146)	(363)	(182)	39,963	183	367	3,502
Total	(3,298)	(377)	(189)	43,470	190	382	3,667

Risk factor – Euro interest rate

	2% Increase in Euro interest rate curve	10% Relative increase in Euro interest rate curve	5% Relative increase in Euro interest rate curve	Fair value	5% Relative decrease in Euro interest rate curve	10% Relative decrease in Euro interest rate curve	2% Decrease in Euro interest rate curve
Real Estate debt assets	(7,094)	(962)	(483)	105,342	487	979	7,989

In 2009-2010 the interest environment was low (around zero), therefore absolute low changes will be expressed by relatively large changes. Since no absolute daily changes over 2% were observed in the course of the last 10 years an extreme scenario was selected as absolute 2%, in accordance with legal position no. 105-22.

5.6.2. Sensitivity tests of Shekel / Dollar foreign exchange risk factor and Shekel / Euro foreign exchange risk factor

All amounts are in thousand ILS at 31 December 2011**Risk factor – Shekel / Dollar foreign exchange rate**

	10% increase in foreign exchange rate	5% increase in foreign exchange rate	Fair value	5% decline in foreign exchange rate	10% decline in foreign exchange rate
Assets exposed to foreign currency	5,420	2,710	54,198	(2,710)	(5,420)
Forward contracts	(6,774)	(3,387)	(2,601)	3,387	6,774
Total	(1,354)	(677)	51,598	677	1,354

All amounts are in thousand ILS at 31 December 2010

Risk factor – Shekel / Dollar foreign exchange rate

	10% increase in foreign exchange rate	5% increase in foreign exchange rate	Fair value	5% decline in foreign exchange rate	10% decline in foreign exchange rate
Assets exposed to foreign currency	9,466	4,733	94,665	(4,733)	(94,665)
Forward contracts	(2,776)	(1,388)	1,076	1,388	2,776
Total	6,690	3,345	95,740	(3,345)	(91,888)

All amounts are in thousand ILS at 31 December 2011

Risk factor – Shekel / Euro foreign exchange rate

	10% increase in foreign exchange rate	5% increase in foreign exchange rate	Fair value	5% decline in foreign exchange rate	10% decline in foreign exchange rate
Assets exposed to foreign currency	11,966	5,983	119,661	(5,983)	(11,966)
Forward contracts	(11,583)	(5,792)	2,131	5,792	11,583
Total	383	192	121,793	(192)	(383)

All amounts are in thousand ILS at 31 December 2010

Risk factor – Shekel / Euro foreign exchange rate

	10% increase in foreign exchange rate	5% increase in foreign exchange rate	Fair value	5% decline in foreign exchange rate	10% decline in foreign exchange rate
Assets exposed to foreign currency	10,137	5,068	101,368	(5,068)	(10,137)
Forward contracts	(10,910)	(5,455)	340	5,455	10,910
Total	(773)	(387)	101,708	387	773

No changes of over 10% in the exchange rate were observed during the last 10 years.

5.6.3.Sensitivity tests of credit risk factor

All sums are in thousand ILS as of 31 December 2011

	Extreme scenario (rise)*	10% rise in share indexes	5% rise in share indexes	Fair value	10% fall in share indexes	10% fall in share indexes	Extreme scenario (drop)*
Negotiable shares	1,522	1,354	677	13,542	(677)	(1,354)	(1,522)
Funds and non- negotiable shares	9,012	7,019	3,510	70,195	(3,510)	(7,019)	(9,012)
	10,534	8,374	4,187	83,737	(4,187)	(8,374)	(10,534)

All sums are in thousand ILS as of 31 December 2011

	Extreme scenario (rise)*	10% rise in share indexes	5% rise in share indexes	Fair value	10% fall in share indexes	10% fall in share indexes	Extreme scenario (drop)*
Negotiable shares	2,577	2,103	1,051	21,027	(1,051)	(2,103)	2,577
Funds and non- negotiable shares	9,757	6,966	3,483	69,657	(3,483)	(6,966)	9,757
	12,334	9,068	4,534	90,684	(4,534)	(9,068)	12,334

* For shares abroad – extreme scenario chosen as 17%, based on a maximum change in stock indexes, on 12 October 2008: S&P 500 change of 15% and FTSE EUROTOP 100 change of 16%.

For shares in Israel – extreme single day change in Tel Aviv 100 stock index observed around 10%, therefore the extreme scenario is identical to the 10% scenario.

6. Corporate governance aspects

6.1. Report of directors with accounting and financial skills

The Company's Board of Directors prescribed that the Company should have at least three directors with financial and accounting skills – as this term is defined in the company regulations (terms and tests for a director possessing financial and accounting skills and a director with professional qualification) 5766-2005 (hereinafter: “**financial and accounting skills**” or “**expertise regulations**”, as the case may be) and in accordance with the provisions of article 92(a)(12) of the Companies Law, 5759-1999 (hereinafter: “**the Companies Law**”) – 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, including his participation in the Board of Directors meetings that discuss the financial statements or any other accounting issue.

Below are the details regarding the 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 such²:

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 – Menora 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 Menora 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.

² It should be mentioned that until 1 September 2011 Mr. Israel Tapuhi also served in the company as an external director, with financial and accounting skills. Mr. Tapuhi retired from the board of directors in October 2011. However, the number of directors with financial and accounting skills did not fall below the minimum number set by the company's board of directors which stands at least three directors.

4. **Orly Yarkoni** – has a BA in Math 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 Menora 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).

6.2. Disclosure regarding rate of independent directors in 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 directors, Mr. **Bar-Kochba Ben Gara** and Mr. Haim Aharon, are external directors and an additional director, Ms. **Orly Yarkoni**, who was declared an independent director in August 2011, hence the rate of independent directors stands at 50% of the Board of Directors.

6.3. Independent authorized signatory

At the reporting date, the Company has no independent authorized signatories as defined in article 37(d) of the Securities Law 5728-1967.

6.4. Donations

From time to time, the Group's companies make charitable donations to various social causes. In 2011, charitable donations were made in the amount of 684 thousand ILS. There is no official policy on this matter.

6.5. Disclosure regarding internal auditor of corporation

6.5.1. Details of internal auditor

During the Reporting Period, the Company's internal auditor was Shmuel Schwartz, CPA, (MBA), who was appointed to this position on 8 January 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 the provisions of Section 8 of said law, as well as the provisions of Section 146(B) of the Companies Law, 5759-1999 (hereinafter: "**the Companies Law**"). The internal auditor has recently announced his intent to retire from his role and position in the company and its subsidiaries (for this matter see article 9.5 below)

To the best of the Company's knowledge, the internal auditor does not hold any securities of the Company or any associated entity.

6.5.2. 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 with Menora Mivtachim Insurance in his previous position as deputy CEO and CFO for a period of 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.

6.5.3. The internal auditor's superior

The internal auditor's superior within the organization is the Chairman of the Board of Directors.

6.5.4. Work plan

The internal auditor's work plan is an annual plan. The work plan for 2011 at the Group level focuses mainly on the activity of the subsidiaries, and particularly on Menora Insurance and the Group's other insurers as well as the finance group. 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 Menora Mivtachim Insurance work plan for 2011 relied 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, for 2012 to 2015 an updated risk study was conducted at Menora Mivtachim Insurance by an accounting office specializing in internal auditing.

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 and approval of the authorized 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.

6.5.5. Overseas audit or audit of investee corporations

The Company's internal auditor is also the chief internal auditor of Menora Mivtachim Insurance (a subsidiary of the Company) which is the Company's principal holding. Consequently, the internal auditor's audit activity focused on Menora Mivtachim Insurance. The Group has 4 other financial institutions that are subject to an internal audit, as follows: Menora Mivtachim Pension Ltd. (a sub-sub-subsidiary of the Company) and Menora Mivtachim Provident Funds (a subsidiary of Menora Mivtachim Finance) both audited by a full-time designated auditor who also outsources some of his audit work; Shomera (a sub-sub-subsidiary of the Company) which is audited by a designated external auditor who conducts an internal audit himself together with his employees. The 2011 audit plans for Menora Mivtachim Pension, the provident funds, and 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 Menora Mivtachim Finance acquired the controlling interest in the Engineers Study Fund, the auditor was also appointed as the internal auditor of the fund and conducts the audit together with his employees and with the help of outsourcing services.

The investee company, Menora Mivtachim Real Estate, whose main activity takes place abroad, conducts an ongoing audit based on a plan defined and approved by the Board of Directors of Menora Real Estate.

6.5.6. 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 in accordance with 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	Audit Hours	Outsourced audit hours
Menora Mivtachim Holdings (incl. Menora Mivtachim Insurance – as the Company's principal holding)	17,004	583
Menora Mivtachim Finance, including the Engineers Study Fund (excluding Menora Mivtachim Gemel)	1,032	1,194
Menora Mivtachim Real Estate	160	---
Shomera	1,600	---
Menora Mivtachim Pension and Menora Mivtachim Gemel	9,703	2,650
Total	29,499	4,427

Of the 33,926 total hours of audit work for the Company in 2011, the chief auditor is

directly responsible for 19,973 hours.

The scope of the internal auditor's work, at the Group level, grew by 1.3% compared with the last reporting period.

6.5.7. 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.

6.5.8. 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 computerized database and to financial data. The information in this section also applies to the Group's subsidiaries that have an internal auditor.

6.5.9. 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: 30 January 2011, 22 March 2011, 20 July 2011, 21 July 2011, 25 August 2011, 21 November 2011 and two written decisions were made, on 9 September 2011 and 25 September 2011. It should also be noted that numerous other audit reports, ad-hoc reports and follow-up reports were submitted in the investee corporations that were discussed by the relevant audit committees.

6.5.10. 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 internal audit is operating according to the demands stipulated in the

various legislations and this, among others, based on various issues submitted to the approval of the board of directors and/or the audit commission, including the internal audit's letter of authority, the qualification and resources of the internal audit and ongoing maintenance and control of the audit's and the internal auditor's independence.

6.5.11. Remuneration

The internal auditor is employed on a personal employment agreement as a full time Company employee through the subsidiary Menora Mivtachim Insurance and receives a monthly salary and fixed bonus, the accepted social and fringe benefits, as well as "phantom" units, as part of the remuneration program for office holders approved by the board of directors. 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.

6.6. Disclosure regarding remuneration of external auditors

The external auditors of the company and its subsidiaries (including Menora Mivtachim Insurance, Menora Mivtachim Pensions, Menora Mivtachim Finance and Shomera) are Kost Forer Gabbay & Kasierer CPA, who have filled this position since 1999. The responsible partner is Yair Koppel CPA.

Salary in thousand ILS (not including VAT):

	For 2011			For 2010		
	Audit and tax services *	Other services	Total	Audit and tax services *	Other services	Total
The Company	220	-	220	220	-	220
Menora Mivtachim Insurance	3,099	1,523	4,622	2,705	411	3,116
Shomera	435	-	435	530	-	530
Menora Mivtachim Pensions	580	45	625	450	-	450
Other companies	458	60	518	518	63	581
Total	4,792	1,628	6,420	4,423	474	4,897

Work hours:

	For 2011			For 2010		
	Audit and tax services *	Other services	Total	Audit and tax services *	Other services	Total
The Company	915	-	915	920	-	920
Menora Mivtachim Insurance	14,247	5,413	19,660	11,969	1,471	13,440
Shomera	2,090	-	2,090	2,560	-	2,560
Menora Mivtachim Pensions	2,100	100	2,200	1,800	-	1,800
Other companies	2,149	240	2,389	2,456	252	2,708
Total	21,501	5,753	27,254	19,705	1,723	21,428

* Including performance of a SOX 404 audit.

** Fee for other services refers to actuarial advice, taxation services, 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, following 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.

6.7. Disclosure regarding process of approving the company's financial reports**6.7.1. Identity of organs in charge of control over the corporation**

The committee for the review of the Company's financial statements, as it is defined in the Companies Regulations (Provisions and Conditions Concerning the Process of Approving the Financial Statements), 5770-2010, is the Balance Committee appointed by the Company's Board of Directors, which 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 Committee is not the Company's Audit Committee.

Members of the committee

As of the date of this report the Balance Committee has three members who are all directors of the Company, as follows: Mr. Bar-Kochba Ben Gara (external director and Balance Committee chairman) and Ms. Orly Yarkoni (independent director), both have financial and

accounting skills as defined in the expertise regulations, as well as Mr. Haim Aharon (external director), who has professional expertise, as defined in the expertise regulations. All committee members are capable of reading and understanding financial statements. Details regarding 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 F of the Periodic Report (Report on Other Details). Prior to their appointment, all members of the Balance Committee signed statements in accordance with the Companies Regulations (Provisions and Conditions Concerning the Process of Approving the Financial Statements), 5770-2010. It should also be noted that Mr. Bar-Kochba Ben Gara and Ms. Orly Yarkoni were also appointed as members of the Balance Committee of Menora Mivtachim Insurance, on which they also serve as directors. The Company's external auditors also attend meetings of the Balance Committee.

The process of approving the financial statements

The Company's financial statements were discussed at two meetings of the Balance Committee that took place on 22 March 2012 and 26 March 2012. All the Balance Committee members attended these meetings. In addition, senior officers and directors of the Group also attended the meetings, as detailed below:

All members of the Balance Committee attended the meeting held on 22 March 2012. The meeting was also attended by Mr. A. Kalman, CEO; Mr. S. Kompel, CFO; Mr. M. Rosen, CEO of Menora Mivtachim Insurance; the external auditors; Mr. Avraham Levenshick, the Chief Actuary for Menora Mivtachim Insurance; and Mr. Shimon Irshai, the Legal counsel, and managers of the main business branches in Menora Mivtachim Insurance.

All members of the Balance Committee attended the meeting held on 26 March 2012. The meeting was also attended by Mr. A. Kalman, CEO; Mr. S. Kompel, CFO; Mr. M. Rosen, CEO of Menora Mivtachim Insurance; the external auditors; Mr. Avraham Levenshick, the Chief Actuary for Menora Mivtachim Insurance; Mr. Shmuel Schwartz, the internal auditor; and Mr. Shimon Irshai, the Legal counsel and managers of the main business branches in Menora Mivtachim Insurance.

The draft version of the Company's Periodic Report for 2011, including the Board of Directors' Report, Description of the Corporation's Businesses, and other details about the Corporation, were submitted to the members of the Balance 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 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 was presented, including information pertaining to the Company's financial and operational situation, and actuarial declarations regarding 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 the management's judgment as it applied 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 2011.

Taking into account that the Board of Directors received the draft report a few days before the date of the meeting, and considering the nature of the Company's activity as a holding company, principally consolidating the financial statements for the Group's institutional entities, the Board of Directors determined that the reasonable period for submitting the Balance Committee's recommendation is one business day before the Board of Directors' meeting.

The Board of directors meetings to approve the Periodic Report that took place on 29 March, 2012 reviewed the Company's ongoing activity and the effect of this activity on its performance, emphasizing material issues. The Board members discussed the Balance Committee's recommendations with the assistance of the Company's CFO and external auditors and then approved the reports.

6.8. Board of directors' considerations for payments to senior office holders

As a rule the communication with office holders in the group is done through personal agreement between the office holder and the relevant company in the group. The agreement includes details regarding the salary, social conditions, accompanying payments, retirement terms, and confidentiality and non-competition agreements at the end of the office holder's employment. The terms of employment are mainly derived from the scope of responsibility and complexity of the office holder's position.

In addition, and beyond the personal employment conditions, office holders subject to the overall remuneration program first approved by the board of directors in December 2010 as detailed below, are entitled to a bonus as it is approved every year or from time to time, by the audit committee and board of directors in accordance with the terms of the program.

In addition, some office holders are entitled to remuneration units (phantom) in accordance with the overall remuneration program above.

In December 2010, the boards of directors of the Company and of Menora Mivtachim Insurance held a joint meeting to discuss the remuneration policy for senior office holders, in an effort to review and evaluate both the existing and the new remuneration policies (effective from 2011 onwards), including a review of the individual remuneration conditions for the aforementioned office holders. During the board of directors' meeting to approve the 2011 financial reports, the company's board of directors discussed, among other issues, updating the overall remuneration policy for senior office holders for 2012. For more on the

remuneration program see article 9.3.9 in the chapter detailing the corporation's businesses.

The board of directors estimates that the employment terms of senior office holders, including the remuneration program components, are fair and reasonable and reflect the complexity of the senior office holders' positions as well as their contribution to the Group.

The connection between the remunerations given according to Regulation 21 of the of the securities regulations (periodic and immediate reports), 5730-1970, and the contribution of the receiver of the remunerations

In the board of directors' meeting to approve the financial reports the company's board of directors discussed, among other issues, the remuneration given to senior office holders listed under Regulation 21 of the chapter "Other Details about the Corporation" (hereinafter: "**Regulation 21**") and in the connection between the remuneration given to each one of the aforementioned position holders in 2011, for his contribution to the group. It should be mentioned that the examination of the fairness and reasonableness of remuneration for office holders serving in subsidiaries is performed by organs of those companies.

In order to examine the reasonableness and fairness of the office holders' remuneration terms above data and information was presented to the board of directors regarding the following investigation criteria: the education and experience of office holders, the main components of their positions including their complexity and responsibility, their actions during the year of the report, the specific remuneration terms of each office holder, a comparative study prepared by the Compvision company (with the assistance of Professor Zviran) concerning the scope of the overall compensation for each office holder, compared with accepted levels for senior office holders in comparable and/or similar positions in companies of a similar size, including companies that operate in the insurance and finance industries (hereinafter: "**the comparative study**").

The basic assumption is that as long as no essential change occurred in the position and/or functioning of the reported office holder, his terms of employment are fair and reasonable.

Based on this examination, and the individual reasons detailed below, the Board of Directors believes that the overall remuneration paid to office holders, considering the complexity of their work and the responsibility that it entails, is consistent with accepted levels for managers in similar positions, and is fair and reasonable relative to their contribution to the Group.

Mr. Menahem Gurevitch

Mr. Menahem Gurevitch serves as chairman of the Company's board of directors. For his employment conditions see details in regulation 21.

In estimating Mr. Gurevitch's overall terms of remuneration, the Board of Directors was presented with the main terms of his employment and comparative data for similar position holders in the market by a comparative study. In light of the review of the data and particularly the comparison with the compensation paid to chairs of the boards of directors of similar companies and considering his involvement in the supervision over the activities of the company and the subsidiaries in the group, the overall remuneration for Mr. Gurevitch is

fair and reasonable in relation to his contribution to the group during the period of the report.

Mr. Ari Kalman

Mr. Ari Kalman served as the Company's CEO and as the CEO of Menora Mivtachim Insurance during 2011. For details of Mr. Kalman's employment conditions see details in regulation 21.

In estimating Mr. Kalman's overall terms of remuneration, the Board of Directors was presented with a description of his position and its complexities, his main terms of employment including the value of the bonuses and the value of his share package that was approved for him in 2003; figures on bonuses in previous years, and as mentioned, data from a comparative study.

In light of the review of the aforementioned information, and particularly the comparison with the compensation paid to the CEOs and chairs of the boards of directors of similar companies, and taking into account his position as CEO and chairman of the board of directors of Menora Insurance (and additional corporations in the group) while initiating new activities and involvement in consolidating and formulating a new group policy and supervising its promotion and application, the overall remuneration for Mr. Kalman is fair and reasonable in relation to his contribution to the group within the framework of his position during the period of the report.

Mr. Motti Rozen

Mr. Motti Rozen served as the CEO of Menora Mivtachim Insurance (a subsidiary of the company) during 2011. For details of Mr. Rozen's employment conditions see details in regulation 21.

In estimating Mr. Rozen's overall terms of remuneration, the Board of Directors was presented with his education, experience, main occupation, and its complexities during the year of the report, the main terms of his remuneration as a provider of managerial services; and as stated, data from the comparative study.

In light of the review of the aforementioned information and data, and particularly the comparison with the compensation paid to CEOs of similar companies in the market, and taking into account his position as CEO of Menora Mivtachim Insurance which is the main activity of the group, including the complexity of its ongoing management under regulatory demands and reforms which influence all the fields of Menora Mivtachim Insurance's business activity and while promoting the group's and company's goals, particularly in the field of synergy between institutional entities in the group under his leadership with the responsibility accompanying this, the board of directors of Menora Mivtachim Insurance has determined that the overall remuneration for Mr. Rozen is fair and reasonable in relation to his contribution to the group within the framework of his position during the period of the report.

Mr. Menahem Harpaz

Mr. Harpaz serves as the Deputy CEO and director of elementary insurance at Menora Mivtachim Insurance, and Chairman of the Board of Directors of Shomera (a sub-subsiary of the Company). For details of Mr. Harpaz' employment, see the information in regulation 21.

In estimating Mr. Harpaz's overall terms of remuneration, the Board of Directors was presented with his education and experience, as well as his activities during the year of the report, and the terms of his remuneration; and as stated, data from the comparative study.

In light of the review of the aforementioned data, the process of reorganization and the structural change he has led in the elementary branch, the improvement in service to agents and a high level of management which he has maintained for a long time the board of directors of Menora Mivtachim Insurance has determined that the overall remuneration for Mr. Harpaz is fair and reasonable in relation to his contribution to the group within the framework of his position during the period of the report.

Mr. Yehuda Ben Assayag

Mr. Ben Assayag served as the CEO of Menora Mivtachim Pensions (a sub-subsiary of the Company) during 2011. For details of Mr. Ben Assayag's employment, see the information in regulation 21.

In estimating Mr. Ben Assayag's overall terms of remuneration, the Board of Directors was presented with his education and experience, as well as his activities during the year of the report, and the terms of his remuneration; and as stated, data from the comparative study.

In light of the review of the aforementioned data, the profitability of Menora Mivtachim Pensions and its accomplishments in 2011, particularly promoting synergy in the group, the significant improvement in the range of collection and the positive improvement in the incoming and outgoing mobility data, the board of directors of Menora Mivtachim Pensions has determined that the overall remuneration for Mr. Ben Assayag is fair and reasonable in relation to his contribution to the group within the framework of his position during the period of the report.

Mr. Yoni Tal

Mr. Tal serves as the group's Chief Investment Manager and as Deputy CEO and manager of the investment department at Menora Mivtachim Insurance. For details of Mr. Tal's terms of employment, see the information in regulation 21.

In estimating Mr. Tal's overall terms of remuneration, the Board of Directors was presented with his education and experience, as well as his activities during the year of the report, and the terms of his remuneration; and as stated, data from the comparative study.

In light of the review of the aforementioned data, and considering Mr. Tal's professional

management of the investment department and the expansion of investment activity in real estate abroad, the continuing improvement in the fields of control and reporting, and the importance of keeping him in the company, Mr. Tal's overall remuneration is fair and reasonable in relation to his contribution to the group within the framework of his position during the period of the report.

Mr. Eran Griffel

Mr. Griffel serves as the CEO of Menora Mivtachim Real Estate from 2005 as well as the chairman of Menora Mivtachim Pensions and director in additional companies in the group. For details of Mr. Griffel's terms of employment, see the information in regulation 22 in the chapter "Other Details about the Corporation" (hereinafter: "**Regulation 22**").

In estimating Mr. Griffel's overall terms of remuneration, the Board of Directors was presented with his education, experience, and activities, and the terms of his remuneration; and as stated, data from the comparative study.

In light of the review of the aforementioned data, and considering Mr. Griffel's professional management of Menora Real Estate and the expansion and development of its business and particularly recently in the field of solar energy to benefit the group, in light of his experience and knowledge of the field of real estate, Mr. Griffel's overall remuneration is fair and reasonable in relation to his contribution to the group within the framework of his position during the period of the report.

Mr. Gershon Gurevitch

Mr. Gurevitch serves as Deputy CEO and manager of the logistics department at Menora Mivtachim Insurance. For details of Mr. Gurevitch's terms of employment, see the information in regulation 22.

In estimating Mr. Gurevitch's overall terms of remuneration, the Board of Directors was presented with his experience and the main components of his position, and the terms of his remuneration; and as stated, data from the comparative study.

In light of the review of the aforementioned data, and considering Mr. Gurevitch's professional management of Menora Insurance's logistics department at all levels and throughout the company's sites while constantly handling the expansion in the number of employees and the implications of this for the field of logistics, and doing so in an optimal manner, the overall remuneration of Mr. Gurevitch is fair and reasonable in relation to his contribution to the group within the framework of his position during the period of the report.

6.9. Negligible transactions

In accordance with the securities regulations (periodic and immediate reports) 5730-1970 (hereinafter: "**the reporting regulations**") public companies are obligated to report

transactions with a share holder or transactions with another person where the person with the controlling interest has a personal interest (hereinafter: “**controlling shareholder’s transactions**”), including transactions that are not extraordinary transactions, as this term is defined in the Companies Law 5759-1999, 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 Regulations (Reporting Details) 5758-1998 are applicable, in respect of which the following test of negligibility is irrelevant.

On 30 November 2008, the Company's Board of Directors established rules and tests for defining the negligibility threshold for controlling shareholder's transactions that will apply to both the reporting obligations and the disclosure obligations in the financial statements (excluding, as noted, the issue of the disclosure obligation in the financial statements of the Group's insurance companies) Thus: a transaction between the Company and its consolidated and related companies with a controlling shareholder or with another person in which the controlling shareholder has a personal interest, shall be construed as a negligible transaction if all of 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 defined in the Companies Law, 5759-1999.
2. The impact of the transaction on the relevant ratio, as 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 3 million ILS:
 - 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, 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

7. Disclosure instructions regarding the corporation's financial reporting

7.1. Reporting of critical accounting estimates

The Company's principal holdings are Menora Mivtachim Insurance and Shomera which are insurers as defined in the Control of Financial Services LAW (Insurance), 5741-1981. Menora Mivtachim Insurance and Shomera calculate their insurance obligations pursuant to the accounting standards that apply to an insurer, inter alia, according to actuarial calculations and estimates (see clarification 2(B) of the Financial Statements). Regarding additional critical accounting estimates, see clarification 2(B) of the Financial Statements.

7.2. Disclosure regarding effectiveness of internal control over financial report and disclosure

In December 2009, Securities Regulations (Periodic and Immediate Reports) (Amendment no. 3), 5770-2009 (hereinafter: **"ISOX Amendment"**) were published, which established an obligation to file a report concerning the effectiveness of the internal control over the financial reporting and disclosure, effective from the financial statements at 31 December, 2010. The purpose of the ISOX amendment is to improve the quality of financial reporting and disclosure by reporting corporations.

The management, under the supervision of the board of directors, performed an examination and estimation of the internal control of financial reporting and disclosure in the corporation and its effectiveness. In this context the company adopted the COSO internal control module, which constitutes a defined and recognized frame for the estimation of internal control, estimating the effectiveness of said internal control as stated, including the following control components: entity level controls; controls over the process of conducting and closing reports; general controls of information systems (ITGC) and controls of processes essential to the financial reporting and disclosure, which are chiefly performed by the institutional entities in the group which concentrate its main business activity, as detailed below:

SOX procedures for financial institutions:

According to the directives of the commissioner of the capital market insurance and savings (hereinafter: “the commissioner”), the institutional entities in the group apply the instructions of articles 302 and 404 of the “Sarbanes-Oxley Law” passed in the United States. In November 2010 the commissioner published a circular (no. 2010-9-7) concerning “the internal control over financial reporting – statements, reports and disclosures”, which regulated the phrasing of statements and formats of disclosure as well as established the phrasing for the auditing accountant and the management and board of directors' report regarding internal control over financial reporting.

The directives of article 302 stipulate that the CEO and CFO each separately sign a statement for the issue of controls and procedures regarding disclosure. In order to perform the required process according to said instructions, the institutional entities in the group executed, among others, an examination of the controls and procedures regarding the disclosure and held discussions participated by the entities involved in the preparation of financial reports.

The directives of article 404 pursuant to the commissioner's circular (no. 10/9/2010) are concerned with the “Management's responsibility for internal control over financial reporting”. According to the circular institutional entities as defined by the Financial Services Supervision Law (Insurance) 5741-1981, including provident funds and pension funds, must include in the annual report, a declaration concerning the management's responsibility for the establishment and maintenance of an adequate system and procedures of internal control over financial reporting as well as an estimate regarding the efficiency of the institutional entity's system and procedures of internal control for financial reporting for the end of the fiscal year. In addition the institutional entity's external auditor must produce an opinion regarding the internal control over the financial reporting.

Within the framework of implementing the directives of article 404 the institutional entities in the group performed, among others, the following work processes: identification of the accounts, business processes and information systems essential to the financial report (scoping), documentation of processes and assessment of risks related to the financial reporting and full disclosure, establishing controls aimed at preventing or reducing said risks and analysis of control gaps and establishing a work plan for their closure. The institutional entities established work processes for the ongoing monitoring of controls established as stated in order to ascertain the continued effectiveness of the internal control over the financial reporting and disclosure.

Accordingly, no “material weaknesses”, as defined in the Circular, were found. Nevertheless, several deficiencies were found in Menora Mivtachim Insurance pertaining mainly to a number of processes in the field of general computer controls, some of the ledger’s controls and some of the work and mechanization processes in the field of actuary and life insurance. It should be noted that the company has acted and continues to act to repair them, including through the implementation of relevant compensatory controls, regulation of work processes and improvement of mechanized controls.

These deficiencies were reported to the Company's Balance 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.

Menroa Mivtachim Insurance is in a process of developing, upgrading and/or exchanging a number of central databases, including the assimilation of a new ERP system to manage the ledger and produce financial reports and a system to direct insurance fee and provident fee finances in the life insurance and long term savings branch directly to the relevant operational systems, and this, among others, from a movement to make the performance of the various processes better and more efficient, and particularly the internal control over the financial reporting.

Controls and processes regarding disclosure and changes to the internal control of financial reporting:

The management of the institutional entities in the group has estimated the effectiveness of the controls and procedures regarding disclosure for the end of the period covered by this report. Based on this estimate the CEO and CFO of each institutional entity concluded that the controls and procedures regarding disclosure for the end of this period are effective for the registration, processing, summary, and reporting of the information which is required for disclosure in the annual report in accordance with the provisions of law and the insurance commissioner’s reporting provisions and at the date determined by these provisions.

During the period of the report, which ends on 31 December 2011, no change occurred in the internal control of the aforementioned institutional entities over financial reporting which has significantly influenced, or which is likely to significantly influence, the internal control of those entities over financial reporting.

7.3. Disclosure regarding the progress made to implement solvency II directive

In July 2008 the insurance commissioner in Israel publicized circular no. 5-1-2008 regarding his intention to implement the provisions of the European Solvency II directive (hereinafter: “**The Directive**”) regarding insurance companies in Israel and instructed the insurance companies to prepare in a manner that would ensure their readiness for the implementation of the directive. The directive includes a comprehensive examination of risks which insurance companies are exposed to and setting standards for their management and measurement, while providing and expression through capital allocation to the risks inherent in their activity (course I). Aside from the quantitative aspects, the directive also focuses on internal monitoring and control activities (course II) as well as market discipline, disclosure and reporting (course III).

According to the estimates of various regulators in Europe the date of the directive's application is expected to be postponed by one year to the start of 2014. The insurance commissioner has announced in the past that the implementation of the directive in Israel will be based on its implementation in European Union member states, and thus the date of implementation in Israel is not expected to be before the start of 2014.

Menora Mivtachim Insurance and Shomera (subsidiaries of the company) continue to prepare for the implementation of the directive and during the course of the year have taken the following steps, among others, also in accordance with the provisions of the circular concerned with the instructions for the implementation of QIS5 (no. 7-1-2010):

1. The Board of Directors' committees appointed to supervise the process of implementing the directive meet periodically throughout the year to discuss the progress made on this project.
2. A quantitative influence survey was performed along with a qualitative influence survey according to the circular concerned with the instructions for the implementation of QIS5 (no. 7-1-2010). The results of the survey were discussed by the board of directors and submitted to the insurance commissioner according to the timetables defined by the commissioner (February – May 2011).
3. A gap analysis regarding the processes of calculating capital requirements as part of the QIS5, which included references to the mechanization and data reclamation requirements, manpower, required controls and work process difficulties. The results of the survey and the plan consolidated for reducing the gaps identified were discussed by the board of directors.
4. Internal control was conducted in relation to the process of calculating the quantitative evaluation report and the controls related to it. The findings of this report were discussed by the board of directors and submitted to the commissioner.
5. Adjustments were made to the mechanization program, some based on lessons produced by performing the calculation of quantitative influence surveys. In particular, the establishment of a designated database for use by the treasurer and risk management and the implementation of a mechanized system for the calculation of capital requirements according to the standard model. In the second half of the year a partial characterization of the data required for the database was performed. The population of the database with data started in 2012, wherein the population of data required for the directive which is not necessary for reporting according to the current regulations is chiefly planned for 2013. Parallel to this, the company rented a mechanized system which assists in the calculation of capital requirements according to the standard model and is in advanced implementation stages of the system.
6. An organizational structure for the field of risk management suited for the directive was consolidated. A head risk manager was appointed and three additional standards were recruited for the department.
7. A methodology of operational risk management was consolidated with a broad view of

the interfaces with factors in the organization that deal with financial reporting risks, obedience risks, and information technology risks.

8. Dedicated disclosure to bondholders

8.1. Details concerning the Corporation's liability certificates

Debentures (Series A)

On 15 July, 2007, the Company raised 550 million ILS by way of a private issue of debentures (Series A) to institutional investors, registered in name, each with a par value of 1 ILS (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 27 February, 2008 (hereinafter: “**the Company's prospectus**”).

The Debentures (Series A) bear an annual interest rate of 4.28%, payable once a year, on 14 July 14 in each of the years 2008 to 2019. The principal of the Debentures (Series A) will be repaid in nine, equal, annual installments on 14 July, in each of the years 2011 to 2019 (inclusive).

The Debentures (Series A) principal and interest are linked to the Consumer Price Index 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 interest, and the basic index is the index published in respect of May 2007, i.e. the index published on 15 June, 2007.

On 9 October 2011 the Company raised 100 million ILS by way of issuing 83,333,400 debentures, each with a par value of 1 ILS by expanding Series A. The debentures were issued in accordance with the terms detailed above. It should be clarified that all the debentures from the aforementioned series will stand equally amongst themselves (pari passu), without any preferential right for one over the other.

Series and date of issue	Debentures (Series A) issued on 15 July 2007 and listed for trade under a prospectus from 27 February 2008
Par value on issue date, in thousand ILS	633,333
Par value on 31 December, 2010, in thousand ILS	572,222

Par value on 31 December, 2010, estimated according to linkage conditions, in thousand ILS	667,621
Interest accrued up to 31 December, 2010, in thousand ILS	13,387
Fair value as registered in the financial statements, in thousand ILS	723,461
Registration for trade and stock exchange value, in thousand ILS	723,461
Class of interest and interest rate	Fixed; 4.28%
Dates of the principal payments	Nine equal installments, on 14 July in each of the years 2011-2019 (inclusive).
Dates of interest payments	Once a year, on 14 July in each of the years 2008-2019 (inclusive).
Linkage base and conditions	Debenture principal and interest on the principal shall be linked to the Consumer Price Index.
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 250 million ILS by way of a private issue of debentures (Series B) to institutional investors, registered in name, each with a par value of 1 ILS (hereinafter: “**Debentures (Series B)**”).

The Debentures (Series B) bear an annual interest rate of 4.5%, payable once a year, on 30 June in each of the years 2011 to 2022. The Debenture (Series B) principal will be repaid in five equal annual installments 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 principal and interest are linked to the Consumer Price Index 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 interest, and the basic index is the index published in respect of May 2010, i.e. the index published on 15 June, 2010.

Series and date of issue	Debentures (Series B) issued on July and September 2010
Par value on issue date, in thousand ILS	250,000
Par value on 31 December, 2010, in thousand ILS	250,000
Par value on 31 December, 2010, estimated according to linkage conditions, in thousand ILS	261,231
Interest accrued up to 31 December, 2010, in thousand ILS	5,958
Fair value as registered in the financial statements, in thousand ILS	283,300
Registration for trade and stock exchange value, in thousand ILS	-
Class of interest and interest rate	Fixed; 4.5%
Dates of the principal payments	Five equal installments, on 30 June in each of the years 2018-2022 (inclusive).
Dates of interest payments	Once a year, on 30 June in each of the years 2011-2022 (inclusive).
Linkage base and conditions	Debenture principal and interest on the principal shall be linked to the Consumer Price Index.
Corporation's right to perform early redemption or forced conversion	

8.2. The trustee and the 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 Daniel Vaphyash, 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@deloitte.co.il and dvaphyash@deloitte.co.il

The main points of the Deed of Trust signed by the Company and the Trustee for Series A on 15 July, 2007, appear in the Company's prospectus, and the full text of the Deed of Trust is available for perusal 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: **“The 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, 113 Hayarkon St., 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 30 June, 2010, is available for perusal 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).

8.3. Bond rating

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 30 November, 2008.

In May 2010, Midrug announced that it would lower the rating the Debentures (Series A) issued by the Company to Aa3 outlook stable. For details of Midrug's report from May 2010, see the Company's Immediate Report from 26 May, 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 1 July, 2010.

In August 2011, Midrug rated the Debentures (Series A and Series B) Aa3, outlook stable.

For details of Midrug's report from August 2011, see the Company's Immediate Report from 8 August, 2011 and from 10 August 2011.

In October 2011, Midrug announced that it would maintain the rating the Debentures (Series A and Series B) issued by the Company at Aa3 outlook stable. For details of Midrug's report from October 2011, see the Company's Immediate Report from 3 October, 2011.

9. Events after date of balance

9.1. Receipt of dividend

In February 2012 Menora Mivtachim Insurance transferred all of its shares (100%) in Menora Mivtachim Pensions to the company as dividend in kind. For additional details see clarification 41a of the financial reports.

9.2. Reduction of management fees

In February 2012 the regulations supervising financial services (provident funds) (management fees), 5772-2012 (hereinafter in this sub-article: “**the regulations**”), concerned with establishing upper limits for management fees which institutional entities are allowed to collect for provident funds and insurance funds they manage as follows:

In provident funds: starting from 2013 – the rate of management fees will not surpass 1.1% of the accumulation or 4% of the ongoing deposits; and starting from 2014 – the rate of management fees will not surpass 1.05% of the accumulation or 4% of the ongoing deposits. Management fees at a rate of no more than 0.6% of the accumulation may be collected from recipients of old age pensions and survivorship allowances.

In insurance funds (life insurance policies): in new policies produced from 1.1.2003 – the rates detailed above regarding provident funds will apply. For policies valid before the aforementioned date, no change in the management fee upper limit will take place.

At the date of this report it is impossible to estimate the realization of publications regarding the possibility that in addition to setting upper limits for management fees as detailed above, a minimum sum of management fees for the various products will also be established in legislation. In addition, and based on the new provisions in the regulations, a change may occur in the behavior of consumers and the group's customers, holders of valid policies, to whom the aforementioned regulation do not apply. Therefore, at this stage, the aggregate implications of the mix of final provisions that will apply cannot be estimated. Without detracting from what has been stated, it seems that the regulations that will be published, and the version in which they will be published, will have implications for the financial results of Menora Mivtachim Insurance as well as those of Menora Mivtachim Gemel, institutional entities in the group, and therefore also on the results of the group. The application of the legislation amendments above, if and when they apply, is also expected to have an influence on the inherent value of selling new life insurance policies in the future.

The company will continue to examine the influence of the regulations on the results of its

activities as well as means of coping with these influences.

9.3. Minimum equity regulations – management companies

In February 2012 the **Financial Services Supervisory Regulations (Provident Funds) (Minimum Equity Required of Provident Fund or Pension Fund Managing Company), 5772-2012** were published (hereinafter in this sub-article: “**the regulations**”), as well as a supervisor circular concerning capital requirements of managing companies, which includes provisions in addition to the regulations. The regulations define the equity required of managing companies. According to the regulations, initial equity required of a managing company will stand at a minimum sum of 10 million ILS (not including exceptions) (hereinafter: “**the initial equity sum**”). The minimum equity required of a managing company at the date of the report will not be lower than the higher of the two sums –the initial equity sum of an aggregate of: (a) 0.1% of the managed assets up to a 15 billion ILS upper limit of managed assets; (b) 0.05% of the managed assets above the upper limit stated in article (a); (c) 25% of the annual expenses as defined in the regulations. For companies holding controlled management companies an additional capital requirement has been established for the sum received from the multiplication of the minimum equity of each of the controlled companies by the managing company’s rate of holdings in them. The regulations also define the manner of investing the required equity, in the regulations a transitional provision was established, according to which a managing company that has received a license prior to the day of the regulations’ application will be obligated to gradually increase its equity until it reaches the sum required according to the regulations, and this until the date of publishing financial reports on 31 December 2014 (when at least 30% of the difference is paid until the date of publishing the financial reports for 31.03.12, at least 60% of the difference will be paid until the publishing of the financial reports for 31.12.12 and at least 80% of the difference will be paid until the date of publishing the financial reports for 31.12.13). For the implications of the regulations on the equity requirements of the group’s managing companies see article 2.2 above as well as clarification 15 of the financial reports.

9.4. Internal auditor – retirement

In March 2012 the internal auditor notified the CEO of the company and the chairman of the board of Menora Mivtachim Insurance of his intention to retire from his position as an internal auditor in the company and in all the subsidiaries in the group where he serves as an internal auditor, and this due to personal motives which are of no interest to the public. It was decided, in coordination with the managements of the company and Menora Insurance, that the end of his tenure will take place on 1 May 2012.

9.5. Industrial development bank

In March 2012 Menora Mivtachim Insurance completed the transaction to purchase the complete (100%) stocks included in the issued and outstanding capital stock of The Industrial Development Bank of Israel Ltd. (hereinafter: “**IDB**”), after all the postponing conditions were met, including the court’s approval for the merger of IDB with Menora Mivtachim Insurance and approval of the Tax Authority. As a result of completing the transaction, in light of a preliminary estimate, Menora Mivtachim Insurance estimates that it would register,

in the first quarter of 2012, a profit of approximately 52 million ILS. For details see article 1.3.3 above as well as clarification 40 B of the financial reports.

The board of directors wishes to express its appreciation of the company's management, its managers and its staff for their work and their contribution to the group's achievement

Menahem Gurevitch
Chairman of the board of directors

Ari Kalman
CEO

Tel Aviv, 29 March 2012

Menora Mivtachim
Holdings Ltd.

**Chapter C:
Report regarding effectiveness of
internal auditing on the financial
reporting and on disclosure**

**Annual Report regarding effectiveness of internal auditing on the financial
reporting and on disclosure according to regulation 9b(a)**

The management, under the supervision of the board of directors of Menora Mivtachim Holdings Ltd. (hereinafter – “**the corporation**”), is responsible for the establishment and existence of proper internal auditing of the financial reporting and disclosure in the corporation.

For this matter, the members of management are:

1. Ari Kalman, CEO;
2. Other members of management:
Shai Kompel, CFO
Yoni Tal, Chief Investments Manager

Internal auditing on the financial reporting and on disclosure includes controls and procedures existent within the corporation, which have been planned by the CEO and most senior office holder in the financial department, or under their supervision, or by someone who fills said positions in practice, under the supervision of the corporation’s board of directors, that are intended to supply a reasonable degree of assurance regarding the reliability of the financial report and the preparation of reports in accordance with the provisions of the law, and to ensure that the information which the corporation is required by law to disclose in the reports it publishes has been collected, processed, summarized, and reported according to the date and format established by law.

Internal auditing includes, among other aspects, controls and procedures designed in order to ensure that information which the corporation is required to disclose as stated, is accrued and transferred to the corporation’s management, including the CEO and CFO, or whomever fills said positions in practice, in order to allow decisions to be made in a timely fashion in relation to the disclosure requirement.

Due to its structural limitations, internal auditing of the financial reporting and disclosure is not intended to supply absolute assurance that a false presentation or the omission of information would be prevented or discovered.

The management, under the supervision of the board of directors, has performed an examination and evaluation of the internal auditing of financial reporting and on disclosure in the corporation and its effectiveness; the evaluation of effectiveness of the Internal auditing on the financial reporting and on disclosure performed by the management under the supervision of the board of directors included the following audit components: entity level controls; controls on the process of composing and closing reports; Information Technology general controls (ITGC) and controls of processes that are very substantial to the financial report and disclosure which are mainly performed by the institutional entities in the group and which concentrate its main business activity, as detailed below:

Menora Mivtachim Insurance Ltd., Menora Mivtachim Pensions Ltd. and Menora Mivtachim Gemel Ltd. subsidiaries of the corporation, are institutional entities, subject to the provisions of the capital market branch supervisor, insurance and savings at the Ministry of Finance, regarding the effectiveness of internal auditing on

financial reporting.

Regarding these subsidiaries, the management under the supervision of the board of directors performed an examination and evaluation of their internal auditing on financial reporting and their effectiveness, based on the institutional entity circular 10-9-2009 regarding “the management’s responsibility for the internal auditing on financial reporting”, including the amendment to the circular (institutional entity circular 6-9-2010) and institutional entity circular 7-9-2010 regarding “internal auditing on financial reporting – statements, reports and disclosures”.

Based on this evaluation the boards of directors and managements of the corporations have reached the conclusion that the internal auditing of financial reporting, regarding internal auditing in institutional entities as of 31 December 2011 is effective.

Based on the effectiveness evaluation performed by the management under the supervision of the board of directors as detailed above, the board of directors and the management of the corporation have reached the conclusion that the internal auditing of the financial reporting and disclosure in the corporation of 31 December 2011 is effective.

Manager's Statement
CEO's statement

I, Ari Kalman, certify that:

- (1) I have reviewed the periodic report of Menora Mivtachim Holdings Ltd. (hereinafter – **“the Corporation”**) for the year 2011 (hereinafter – **“the Reports”**);
- (2) To the best of my knowledge, 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) To the best of my knowledge, the financial statements and other financial information adequately reflect, 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) 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 auditing of the financial reporting and disclosure:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal auditing over financial reporting and disclosure, which are reasonably likely to adversely affect the ability of the Corporation to collect, process, summarize or report 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 CEO or anyone directly reporting to him or other employees with a significant position in the internal auditing of financial reporting and disclosure;
- (5) I, alone or together with others in the Corporation:
 - (a) Established 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 (Annual Financial Statements) 5770-2010, 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) Established 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 auditing of 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 auditing as stated as of the financial statements' date.

The above does not derogate from my responsibility or the responsibility of any other person, according to any law.

Tel-Aviv, 29 March, 2012

Ari Kalman, CEO

Manager's Statement
Statement of the most senior officeholder in the finance discipline

I, Shai Kompel, hereby certify that:

- (1) I have reviewed the financial statements and other financial information included in the financial statements of Menora Mivtachim Holdings Ltd. (hereinafter – **“the Corporation”**) for the year 2011 (hereinafter – **“the Reports”**);
- (2) To the best of 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) To the best of my knowledge, 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 auditing of the financial reporting and disclosure:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal auditing of 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 CEO or anyone directly reporting to him or other employees with a significant position in the internal auditing of financial reporting and disclosure;
- (5) I, alone or together with others in the Corporation:
 - (a). established 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 (Annual Financial Statements) 5770-2010, 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). Established 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;

- (d) Evaluated the effectiveness of the internal auditing of the financial reporting and disclosure, insofar as it relates to the financial statements and the other financial information included in the financial statements as stated as of the financial statements' date; my conclusions regarding my evaluation as stated were presented to the board of directors and management and are included in this report.

The above does not derogate from my responsibility or the responsibility of any other person, according to any law.

Tel-Aviv, 29 March, 2012

Shai Kompel, Financial Manager

**Translated
from the
Hebrew original**

MENORAH MIVTACHIM HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

MENORAH MIVTACHIM HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT**to the Shareholders of****MENORAH MIVTACHIM HOLDINGS LTD.****Regarding the Audit of 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 the Menorah Mivtachim Holdings Ltd. and its subsidiaries (collectively, "the Company") as of December 31, 2011. 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 the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls ("ITGCs"); (2) controls over processes that are highly critical to the financial reporting and disclosure of a subsidiary - Menorah Mivtachim Insurance Ltd. - and of other material subsidiaries (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, 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 of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. 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 and the reports of the other auditors provide 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.

In our opinion, the Company effectively fulfilled, in all material aspects, the audited control components as of December 31, 2011.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 and our report dated March 29, 2012 expresses an unqualified opinion thereon based on our audit and the reports of other auditors and draws attention to the matters discussed in Note 39 to the consolidated financial statements regarding the exposure to contingent liabilities.

Tel-Aviv, Israel
March 29, 2012

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

INDEPENDENT AUDITORS' REPORT**to the Shareholders of****MENORAH MIVTACHIM HOLDINGS LTD.**

We have audited the accompanying consolidated statements of financial position of Menorah Mivtachim Holdings Ltd. ("the Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009. The Company's board of directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain yield-guaranteeing provident funds, whose revenues included in consolidation constitute approximately 0.47% of total consolidated revenues for the year ended December 31, 2009. Furthermore, we did not audit the financial statements of certain subsidiaries whose assets included in consolidation are immaterial to the total consolidated assets as of December 31, 2011 and 2010, and whose revenues included in consolidation for each of the years ended December 31, 2011, 2010 and 2009 are immaterial. In addition, we did not audit the financial statements of companies accounted for at equity, the investment in which less excess losses over investments, net amounted to NIS 96,092 thousand and in which the excess of losses over investments amounted to NIS 3,974 thousand as of December 31, 2010, and the Company's share of their earnings (losses) amounted to NIS 13,298 thousand, NIS (3,701) thousand and NIS (5,439) thousand for the years ended December 31, 2011, 2010 and 2009, 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, 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 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, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of 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 of December 31, 2011 and 2010, and the consolidated results of operations, changes in equity and consolidated cash flows for each of the years ended December 31, 2011, 2010 and 2009, in conformity with International Financial Reporting Standards ("IFRS") and in accordance with the disclosure requirements as prescribed by the Commissioner 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 39 to the consolidated financial statements regarding exposure to contingent liabilities.

We have also audited, pursuant to 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, 2011, and our report dated March 29, 2012 includes an unqualified opinion as to the effective maintenance of those components.

Tel-Aviv,
March 29, 2012

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2011	2010
		NIS in thousands	
ASSETS			
Intangible assets	5	1,159,440	1,097,067
Deferred tax assets	22	8,274	556
Deferred acquisition costs	6	939,712	883,497
Fixed assets	7	365,207	198,968
Investments in associates	8	121,381	25,221
Investment property	9	187,610	173,409
Reinsurance assets	16	1,371,510	1,337,341
Current tax assets	22	108,611	98,769
Debtors and receivables	10	151,214	108,358
Outstanding premiums	11	547,602	525,075
Financial investments for yield-dependent contracts	12	11,466,241	11,805,612
Other financial investments:	13		
Quoted debt assets		4,154,821	4,455,757
Unquoted debt assets		9,758,210	9,166,145
Shares		281,092	293,436
Others		524,418	498,223
Total other financial investments		14,718,541	14,413,561
Cash and cash equivalents for yield-dependent contracts	14a	535,315	67,575
Other cash and cash equivalents	14b	301,594	435,991
Total assets		31,982,252	31,171,000
Total assets for yield-dependent contracts	12	12,124,752	11,974,019

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2011	2010
		NIS in thousands	
EQUITY AND LIABILITIES			
EQUITY:			
	15		
Share capital		99,429	99,429
Share premium		332,985	332,985
Capital reserves		102,342	192,506
Retained earnings		1,665,535	1,627,719
Total equity attributable to equity holders of the Company		2,200,291	2,252,639
Non-controlling interests		8,351	7,867
Total equity		2,208,642	2,260,506
LIABILITIES:			
Liabilities in respect of non-yield-dependent investment contracts and insurance contracts	16,18-21	14,401,448	13,805,715
Liabilities in respect of yield-dependent investment contracts and insurance contracts	17,19-21	11,790,264	11,908,196
Liabilities in respect of deferred taxes	22	117,788	169,092
Liability in respect of employee benefits	23	130,909	118,622
Liabilities in respect of current taxes	22	6,821	32,988
Excess losses over investments in associates	8	5,167	3,974
Creditors and payables	24	1,258,093	1,111,411
Financial liabilities	25	2,063,120	1,760,496
Total liabilities		29,773,610	28,910,494
Total equity and liabilities		31,982,252	31,171,000

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

March 29, 2012			
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 INCOME

	Note	Year ended December 31,		
		2011	2010	2009
		NIS in thousands (except per share data)		
Gross premiums earned		4,318,694	4,270,262	4,070,478
Premiums earned by reinsurers		878,433	904,818	731,721
Premiums earned on retention	26	3,440,261	3,365,444	3,338,757
Investment gains, net and financial income	27	266,093	2,309,385	4,112,174
Income from management fees	28	584,214	635,871	455,327
Income from commissions	29	206,392	230,131	178,421
Other income	30	1,435	427	195
Total income		4,498,395	6,541,258	8,084,874
Payments and change in liabilities in respect of gross insurance contracts and investment contracts		3,239,827	5,157,368	6,458,617
Reinsurers' share of payments and change in liabilities in respect of insurance contracts		(570,700)	(679,749)	(499,509)
Payments and change in liabilities respect of insurance contracts and in investment contracts on retention	31	2,669,127	4,477,619	5,959,108
Commissions, marketing and other acquisition expenses	32	929,334	914,837	868,805
General and administrative expenses	33	650,419	560,878	488,810
Amortization of intangible assets	5	31,158	31,456	32,504
Financial expenses	35	143,905	121,874	140,076
Total expenses		4,423,943	6,106,664	7,489,303
Share of earnings (losses) of associates	8	16,533	121	(1,808)
Income before taxes on income		90,985	434,715	593,763
Taxes on income	22	52,685	152,768	190,793
Net income		38,300	281,947	402,970
Attributable to:				
Equity holders of the Company		37,816	281,616	402,798
Non-controlling interests		484	331	172
Net income		38,300	281,947	402,970
Net earnings per share attributed to equity holders of the Company (in NIS)	36	0.60	4.45	6.37

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Net income	<u>38,300</u>	<u>281,947</u>	<u>402,970</u>
Other comprehensive income (loss):			
Adjustments arising from translation of financial statements of foreign operations	7,764	(2,032)	594
Net change in the fair value of financial assets classified as available for sale carried to capital reserves	(198,664)	147,405	473,704
Net gains and losses from the realization of financial assets classified as available for sale transferred to the statement of income	7,935	(130,749)	(82,727)
Loss from impairment of financial assets classified as available for sale transferred to the statement of income	<u>47,185</u>	<u>11,922</u>	<u>21,770</u>
Other comprehensive income (loss) before taxes on income (tax benefit)	(135,780)	26,546	413,341
Tax benefit (taxes on income) relating to components of other comprehensive income (loss)	<u>44,288</u>	<u>(7,437)</u>	<u>(143,764)</u>
Other comprehensive income (loss), net	<u>(91,492)</u>	<u>19,109</u>	<u>269,577</u>
Total comprehensive income (loss)	<u><u>(53,192)</u></u>	<u><u>301,056</u></u>	<u><u>672,547</u></u>
Attributable to:			
Equity holders of the Company	(53,676)	300,725	672,375
Non-controlling interests	<u>484</u>	<u>331</u>	<u>172</u>
	<u><u>(53,192)</u></u>	<u><u>301,056</u></u>	<u><u>672,547</u></u>

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							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve from share-based payment transaction	Capital reserve from available-for-sale financial assets	Adjustments arising from translation of financial statements of foreign operations	Other capital reserves	Retained earnings			
	NIS in thousands									
Balance as of January 1, 2011	99,429	332,985	37,758	141,627	(572)	13,693	1,627,719	2,252,639	7,867	2,260,506
Net income	-	-	-	-	-	-	37,816	37,816	484	38,300
Adjustments arising from translation of financial statements of foreign operations	-	-	-	-	7,764	-	-	7,764	-	7,764
Net change in the fair value of financial assets classified as available for sale carried to capital reserves	-	-	-	(198,664)	-	-	-	(198,664)	-	(198,664)
Net gains and losses from the realization of financial assets classified as available for sale transferred to the statement of income	-	-	-	7,935	-	-	-	7,935	-	7,935
Loss from impairment of financial assets classified as available for sale transferred to the statement of income	-	-	-	47,185	-	-	-	47,185	-	47,185
Tax benefit (taxes on income) relating to components of other comprehensive income (loss)	-	-	-	47,450	(3,162)	-	-	44,288	-	44,288
Total other comprehensive income (loss)	-	-	-	(96,094)	4,602	-	-	(91,492)	-	(91,492)
Total comprehensive income (loss)	-	-	-	(96,094)	4,602	-	37,816	(53,676)	484	(53,192)
Cost of share-based payment	-	-	1,328	-	-	-	-	1,328	-	1,328
Balance as of December 31, 2011	99,429	332,985	39,086	45,533	4,030	13,693	1,665,535	2,200,291	8,351	2,208,642

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 from share-based payment transaction	Capital reserve from available-for-sale financial assets	Adjustments arising from translation of financial statements of foreign operations	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands									
Balance as of January 1, 2010	99,429	332,985	35,812	121,090	856	13,693	1,346,103	1,949,968	7,456	1,957,424
Net income	-	-	-	-	-	-	281,616	281,616	331	281,947
Adjustments arising from translation of financial statements of foreign operations	-	-	-	-	(2,032)	-	-	(2,032)	-	(2,032)
Net change in the fair value of financial assets classified as available for sale carried to capital reserves	-	-	-	147,405	-	-	-	147,405	-	147,405
Net gains and losses from the realization of financial assets classified as available for sale transferred to the statement of income	-	-	-	(130,749)	-	-	-	(130,749)	-	(130,749)
Loss from impairment of financial assets classified as available for sale transferred to the statement of income	-	-	-	11,922	-	-	-	11,922	-	11,922
Tax benefit (taxes on income) relating to components of other comprehensive income (loss)	-	-	-	(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 interests	-	-	-	-	-	-	-	-	80	80
Cost of share-based payment	-	-	1,946	-	-	-	-	1,946	-	1,946
Balance as of December 31, 2010	99,429	332,985	37,758	141,627	(572)	13,693	1,627,719	2,252,639	7,867	2,260,506

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							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve from share-based payment transaction	Capital reserve from available-for-sale financial assets	Adjustments arising from translation of financial statements of foreign operations	Other capital reserves	Retained earnings			
	NIS in thousands									
Balance as of January 1, 2009	99,429	332,985	29,724	(147,893)	262	13,693	943,305	1,271,505	7,284	1,278,789
Net income	-	-	-	-	-	-	402,798	402,798	172	402,970
Adjustments arising from translation of financial statements of foreign operations	-	-	-	-	594	-	-	594	-	594
Net change in the fair value of financial assets classified as available for sale carried to capital reserves	-	-	-	473,704	-	-	-	473,704	-	473,704
Net gains and losses from the realization of financial assets classified as available for sale transferred to the statement of income	-	-	-	(82,727)	-	-	-	(82,727)	-	(82,727)
Loss from impairment of financial assets classified as available for sale transferred to the statement of income	-	-	-	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 of December 31, 2009	99,429	332,985	35,812	121,090	856	13,693	1,346,103	1,949,968	7,456	1,957,424

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Schedule	Year ended December 31,		
		2011	2010	2009
		NIS in thousands		
Cash flows from operating activities	(a)	679,386	8,335	(114,946)
<u>Cash flows from investing activities:</u>				
Return of investments (investments) in associates		(73,692)	794	(20,582)
Investment in fixed assets		(151,849)	(51,474)	(24,983)
Investment in intangible assets		(128,201)	(115,660)	(62,935)
Investment (sale of investment) in financial investments by non-insurance Group companies, net		(124,373)	(87,417)	13,876
Repayment (grant) of loans to investees		2,361	(62,441)	(1,156)
Dividend received from associates		3,049	2,412	-
Proceeds from sale of fixed assets		4,219	5,033	2,753
Acquisition of operations (see Note 4 below)		(30,475)	-	-
Net cash used in investing activities		(498,961)	(308,753)	(93,027)
<u>Cash flows from financing activities:</u>				
Receipt of financial liabilities		301,048	254,782	-
Settlement of financial liabilities		(152,078)	(84,994)	(155,621)
Issue of capital to non-controlling interest holders		-	80	-
Net cash provided by (used in) financing activities		148,970	169,868	(155,621)
Effect of exchange rate fluctuations on the balances of cash and cash equivalents		3,948	(1,619)	2,344
Increase (decrease) in cash and cash equivalents		333,343	(132,169)	(361,250)
Balance of cash and cash equivalents at the beginning of the year	(b)	503,566	635,735	996,985
Balance of cash and cash equivalents at the end of the year	(c)	836,909	503,566	635,735

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
(a) <u>Cash flows from operating activities:</u>			
Net income	38,300	281,947	402,970
Adjustments to the profit and loss items:			
Company's share of losses (earnings) of associates	(16,533)	(121)	1,808
Net losses (gains) from financial investments for yield-dependent investment contracts and insurance contracts	658,562	(1,185,969)	(2,941,116)
Net losses (gains) from other financial investments:			
Quoted debt assets	(543,470)	(346,031)	(322,207)
Unquoted debt assets	(711,349)	(622,471)	(695,222)
Shares	(5,703)	(43,228)	(56,127)
Others	98,939	(47,446)	(55,743)
	(1,161,583)	(1,059,176)	(1,129,299)
Financial expenses in respect of financial liabilities	122,824	107,128	126,653
Loss (gain) from sale of fixed assets	106	(427)	(195)
Increase in value of investment property	(16,806)	(20,548)	(16,091)
Depreciation and amortization of:			
Fixed assets	30,207	28,848	27,458
Intangible assets	102,277	84,182	70,227
Change in liabilities in respect of yield-dependent investment contracts and insurance contracts	(117,932)	1,670,002	3,130,668
Change in liabilities in respect of non-yield-dependent investment contracts and insurance contracts	595,733	880,668	900,009

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
B/forward			
(a) <u>Cash flows from operating activities:</u>			
Share-based payment transactions	3,179	1,926	2,630
Change in reinsurance assets	(34,169)	(291,609)	(218,979)
Change in deferred acquisition costs	(56,215)	(70,961)	(10,713)
Taxes on income	52,685	152,768	190,793
Changes in other statement of financial position items:			
Financial investments for yield-dependent insurance contracts and investment contracts:			
Net acquisitions of financial investments	(796,857)	(1,145,082)	(325,621)
Financial investments and investment property:			
Acquisition of investment property	(20)	(22,545)	(3,845)
Proceeds from sale of investment property	2,625	-	-
Net acquisitions of financial investments	210,422	(577,964)	(1,339,798)
Outstanding premiums	(22,527)	2,623	12,489
Debtors and receivables	(44,669)	4,498	(17,338)
Creditors and payables	102,204	167,011	140,144
Liabilities due to employee benefits, net	12,287	15,548	16,463
Total adjustments to reconcile net income to net cash provided by (used in) operating activities	<u>(374,200)</u>	<u>(1,259,200)</u>	<u>(1,383,653)</u>
Cash paid and received during the year for:			
Interest paid	(92,999)	(79,974)	(84,761)
Interest received	1,054,140	1,011,562	964,144
Taxes paid	(165,405)	(140,980)	(177,850)
Taxes received	66,855	67,010	65,242
Dividend received	152,695	127,970	98,962
	<u>1,015,286</u>	<u>985,588</u>	<u>865,737</u>
Total cash flows from operating activities	<u><u>679,386</u></u>	<u><u>8,335</u></u>	<u><u>(114,946)</u></u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
(b) <u>Balance of cash and cash equivalents at the beginning of the year:</u>			
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 at the beginning of the year	<u>503,566</u>	<u>635,735</u>	<u>996,985</u>
(c) <u>Balance of cash and cash equivalents at the end of the year:</u>			
Cash and cash equivalents for yield-dependent contracts	535,315	67,575	105,295
Other cash and cash equivalents	301,594	435,991	530,440
Balance of cash and cash equivalents at the end of the year	<u>836,909</u>	<u>503,566</u>	<u>635,735</u>
(d) <u>Significant non-cash activities:</u>			
Exchange of quoted debt assets into shares in the framework of settlement of debts	-	28,812	-
Purchase of fixed assets on credit	48,722	-	-
Acquisition of operation for a contingent consideration	6,694	-	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. General description of the Group and its activities:

Menorah Mivtachim Holdings Ltd. ("the Company") is a public company whose shares are listed for trade on the Tel-Aviv Stock Exchange ("TASE"). The Company's principal shareholders are Najaden Establishment and Palamas Establishment (foreign corporations) held in trust for Mr. Menahem Gurevitch, which hold about 61.86% of the Company's shares. The Company operates through companies under its control in all the principal insurance branches, including life assurance and long-term savings (life assurance, pension and provident), health insurance 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.

After the end of the reporting date, on February 15, 2012, a subsidiary, Menorah Mivtachim Insurance Ltd., distributed its entire holdings in Menorah Mivtachim Pension Ltd. as a dividend in kind to the Company, see Note 40a below.

After the end of the reporting date, on March 4, 2012, Menorah Mivtachim Insurance Ltd. consummated a transaction for acquiring 100% of the shares of the Industrial Development Bank of Israel Ltd., see Note 40b below.

b. Definitions:

In these financial statements:

The Company	- Menorah Mivtachim Holdings Ltd.
Subsidiaries	- companies that are controlled by the Company (as defined in IAS 27 (2008)) and whose accounts are consolidated with those of the Company.
Jointly controlled company	- company held by the Company and an additional entity under a contractual agreement for joint control and whose financial statements are proportionately consolidated in the consolidated financial statements.
Associates	- companies over which the Company has significant influence and that are not subsidiaries. The Company's investment therein is included in the consolidated financial statements of the Company at equity.
Investees	- subsidiaries, jointly controlled company and associates.
The Group	- the Company and its investees.
Related parties	- as defined in IAS 24.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: - GENERAL (Cont.)

Interested parties and controlling shareholder	- as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
The Commissioner	- The Commissioner 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.
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, long-term savings and health insurance in respect of which the liabilities are linked to the return on the investment portfolio (investment profit sharing policies).
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, long-term savings health insurance and general insurance.
Reinsurance assets	- the reinsurers' share of the liabilities in respect of insurance contracts.
Premiums	- Premiums including fees.
Earned premiums	- Premiums relating to the reporting period.
Israeli CPI	- The Consumer Price Index published by the Central Bureau of Statistics in Israel.
Dollar	- U.S. Dollar

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the consolidated 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 their fair value and excluding insurance liabilities, financial liabilities measured at fair value, assets and liabilities in respect of deferred taxes, liabilities for employee benefits and investments in associates, which are treated according to the equity value method.

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 disclosure requirements as prescribed pursuant to the Supervision Law and the regulations prescribed pursuant thereto and the Commissioner's directives and in accordance with the Securities Regulations (Annual Financial Statements), 2010, as well as disclosure requirements as prescribed by the Supervision Law, the regulations enacted thereunder and the Commissioner'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 except for those mentioned in paragraph 4 below.

4. Changes in accounting policies in view of the adoption of new standards:

IFRS 3 (Revised) - Business Combinations

The amendments to IFRS 3 (Revised) address the following issues:

a) 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. The amendment has been applied retrospectively from the date of original adoption of IFRS 3 (Revised).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. 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. The amendment has been applied retrospectively from the date of original adoption of IFRS 3 (Revised).

c. 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). Such contingent consideration will continue to be accounted for under the provisions of IFRS 3 prior to its amendment. The amendment has been applied retrospectively from January 1, 2011.

The above mentioned amendments did not have a material effect on the Company's consolidated financial statements.

IAS 24 - Related Party Disclosures

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.

The said amendment did not have a material effect on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)IFRS 7 - Financial Instruments: Disclosure

The amendment to IFRS 7 clarifies 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. In addition, the Standard also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The amendment is applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011. The said amendment did not have a material effect on the Company's consolidated financial statements.

- 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 considering 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, or alternatively as an investment contract.

2. Classification and designation of financial investments:

The Group's management 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 management has exercised judgments in classifying and designating the financial liabilities according to the amortized cost method or at fair value, see g (7) below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)Estimates and assumptions

The preparation of the financial statements requires the Group's 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 consolidated 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.

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 to which the goodwill will be allocated. In addition, the management is required to choose a suitable discount rate for those cash flows. See additional information 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. The fair value of the options and complex instruments is determined according to the quotation.

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 classified as available-for-sale financial assets, the loss is carried to the statement of income, see n(1) below.

The Group's management should determine if there is such objective evidence that the value of the asset is impaired and there is an impairment in its respect.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 income. 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. If possible, the fair value is measured according to recent real estate transactions with similar characteristics and location to the valued asset. Further details are given in i below.

In measuring the fair value of investment property, the appraisers and the Group management are required to use certain assumptions regarding rates of return required for the Group's assets, future rental prices, occupancy rates, contract renewals, probability for rental of vacant spaces, operating costs of assets, financial strength of tenants and the implications arising from investments it would take for future development, in order to evaluate the future cash flows that will be generated from the real estate. Change in assumptions used in measuring investment properties may lead to a change in the fair value.

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, pension and health (LTC and dread disease) and 6 years in health insurance (disease and hospitalization). 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 instead of these assumptions there will be no recoverability, 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 37(4)(b) below, regarding life assurance and health insurance and in Note 37(4)(c) below, regarding general insurance.

The liabilities adequacy test in respect of life assurance contracts is examined annually. If it turns out from the examination that the premiums received are not sufficient to cover the expected claims, a special provision for the deficiency is recorded.

The assumptions used for the above tests, include assumptions in respect of cancellations, operating expenses, yield on assets, mortality and morbidity, and are determined by the actuary each year, based on tests, past experience and other relevant researches.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 37(4)(b)(4) 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 paragraph r and in Note 39(a) below.

In addition to these demands, the Group is exposed to claims/lawsuits that have not yet been argued/submitted, and that, among other things, if any doubt in interpreting the agreement and/or provision of law and/or how to implement them. This exposure was brought to the attention of the Group in a number of ways, among others, through customer inquiries to Group factors in particular to the Commissioner of Public Inquiries in the Group, through customer complaints at the Public Complaints Commissioner, and through non-class action lawsuits that are filed in court. These issues are brought to the attention of the Group's management, if and as far as the handling factors identify that the allegations are likely to have vast implications. When evaluating the risk associated with allegations/lawsuits that have not yet been filed, the Group relies on internal assessments of those handling these matters and the management, which weigh the chances for filing a claim and the chances of a successful prosecution, if and as the lawsuit is filed. The evaluation is based on experience gained in relation to filing and analysis of the claims on their merits. Naturally, given the initial stage it is investigating the legal argument, the actual outcome may be different from the estimate made at the stage before the lawsuit was filed.

8. Post-employment benefits:

The liability in respect of defined benefit plans after the completion of employment is determined using actuarial valuations. The liability calculation is bound in the determining of assumptions between the assumptions about discount rates, expected rates of return on assets, future salary increases and employee turnover 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 23 below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. Management's 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 22 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. Further information is provided in paragraph q below.

11. Acquisition of subsidiaries that are not business combinations:

Upon the acquisition of subsidiaries and activities, the Company estimates if the acquisition constitutes a business combination in accordance with IFRS 3. This estimation is based on the following circumstances pointing to a business combination: a large number of assets acquired, accompanying services in a wide volume related to the operation of the asset and the complexity of managing the asset.

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 associates and this currency is used to measure its financial position and operating results.

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 income (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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- 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) at the time of realization, 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.

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment and the exchange differences arising on these loans (net of their tax effect) are recognized in the same component of equity as discussed above.

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.

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 income.

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".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Consolidated financial statements:

Effective from January 1, 2010, the date of adoption of IFRS 3 (Revised) and IAS 27 (Revised), the Group applies the accounting policy required by these Standards for business combinations and transactions with non-controlling interests.

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.

Non-controlling interests in respect of subsidiaries represent the share of the non-controlling interests in the comprehensive income (loss) and in the net identified assets of the subsidiaries. The non-controlling interests are reported separately under the Company's equity.

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).

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.

Transaction costs for transactions with non-controlling interests are also allocated to equity. Cash flows in respect of transactions with non-controlling interests are classified in the statement of cash flows as cash flows from financing activities

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (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.

In the realization of the holding of a subsidiary that results in loss of control, the Company fully deducts the assets (including goodwill) and liabilities of the subsidiary and recognizes the fair value of any remaining investment.

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 Group's financial statements are prepared for identical dates and periods. The accounting policies in the Company's financial statements are identical to those applied in the Company's financial statements.

f. Insurance contracts and asset management contracts:

IFRS 4 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- b) Liabilities in respect of life assurance contracts:

Liabilities in respect of life assurance contracts are computed according to the Commissioner's directives (regulations and circulars), accounting principles and standard 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 life assurance contracts are determined on the basis of actuarial assessments, carried out by Menorah Insurance's Life Assurance appointed actuary (Ms. Regina Chaikin F.I.L.AA) (the actuary appointed last year in life assurance Dr. Avraham Lowenglik - F.I.L.AA is an officeholder in Menorah Insurance). The reinsurers' share in liabilities for life assurance 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 Commissioner's directives regarding liabilities for payment of annuities:

In circulars published by the Commissioner 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.

- e) Deferred acquisition costs:
- (1) Deferred acquisition costs of life assurance policies ("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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred acquisition costs in respect of asset management contracts for pension business include commissions to agents and acquisition supervisors regarding the creation of new contractual rights. The DAC in respect of pension business is amortized in equal annual rates over the contract period but not longer than 15 years. The DAC in respect of pension business which relates to cancelled policies, is eliminated at the time of cancellation.

- (2) Pursuant to the Commissioner's instructions, Menorah Insurance's appointed actuary examines the recoverability of the DAC in life and health insurance (Long-term Care and dread diseases), 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.

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.

- (3) As for the recoverability of the pension business related DAC, an examination is performed in order to make sure that the asset management contracts are expected to generate future income that will cover the DAC amortization and the operating expenses, as well as the commissions in respect of those contracts.

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (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 indirect expenses for settling these claims were calculated by the appointed actuary.

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 income, 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 income, 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 income.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (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 ("reserve calculation regulations"), the Commissioner'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.I.L.AA) who is an officeholder of Menorah Insurance and in respect of the insurance liabilities (except 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.

3.2 In the insurance branches which constitute 2% 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 and the addition of the IBNER when necessary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 sea craft 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 ("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 Commissioner'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 ("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 income.

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 policies, 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, the lower of the two.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- f) Business received from the Israeli pool for motor vehicle property insurance of the Association of Insurance Companies in Israel ("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.

3. Health insurance:

- a) Revenue recognition – see s below.
- b) Liabilities in respect of health insurance contracts:

The liabilities for health insurance contracts are computed according to the Commissioner's directives (Regulations and Circulars), generally accepted accounting principles and 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 and amount of insurance etc.

Liabilities for health insurance contracts and the reinsurers' share therein are determined on the basis of an actuarial assessment carried out by the appointed actuary of Menorah Insurance (Dr. Avraham Lowenglik (F.I.L.A.A) who is an officeholder of Menorah Insurance), except for dread disease and LTC insurance, for which the actuarial valuation is performed by the appointed actuary of life assurance at Menorah Insurance.

The liabilities include, if necessary, a provision in respect of expected loss on retention (insufficient premium), calculated on the basis of the actuarial valuation based on the estimate of the cash flows in respect of the contract.

- c) Deferred acquisition costs:

Deferred acquisition in health insurance include commissions to agents and acquisition supervisors as well as administrative and general expenses related to acquisition of new policies. The deferred acquisition costs in health insurance (disease and hospitalization) is calculated on policies sold beginning from the year 2005 and are amortized at equal annual rates over the policy's term, but not more than 6 years. Deferred acquisition costs relating to cancelled policies are written off on the cancellation date.

Each year the appointed actuary examines the recoverability of the DAC. The examination is performed in order to make sure that liabilities in respect of insurance contracts, less the DAC in respect of sold policies are sufficient and that the policies are expected to create future revenues which will cover the amortization of the DAC and the insurance liabilities, operational expenses and commissions in respect of those policies. The examination is performed on the level of each product (type of insurance) separately.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The assumptions used for this examination, include assumptions in respect of cancellations, operating expenses, yield on assets, mortality and morbidity, are determined by the Company's actuary each year, based on past experience and other relevant researches.

d) Liability Adequacy Test in respect of health insurance contracts:

The chief actuary verifies each year that the amount of the reserve net of deferred acquisition costs is sufficient to cover the future expected cash flows in respect of claims, commissions and expenses net of premiums and investment income. The cash flows are examined after offsetting expected cancellations 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 assumptions used in the abovementioned examinations include assumptions regarding cancellations, operating expenses, rate of return on assets, mortality and morbidity rates, and they are determined by the appointed actuary of Menorah Insurance, 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.

e) Outstanding claims:

The provisions for ongoing claims in payment for LTC, the direct and indirect expenses deriving from them, as well as the provisions for incurred but not yet reported claims (IBNR) were included under liabilities for insurance contracts.

f) Provision in respect of profit participation of insured in collective insurance:

The provision was included under the item "creditors and payables". In addition, the change in provision is allocated to the item earned premiums in the statement of income.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (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 that can be immediately withdrawn. Cash equivalents include highly liquid short-term investments which the amount of time from the date of the original deposit to the date of redemption is up to 3 months, at a high liquidity level, which are readily convertible to known amounts of cash and which are exposed to an insignificant risk of changes in value and are not bound by any pledge.

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 one of the three 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 gains (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 income.

Interest income on investments in debt instruments is recognized in the statement of income using the effective interest method. Dividends earned on investments are recognized in the statement of income 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables 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 income when the loans and receivables 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 income.

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.

4. Designation of financial assets:

The Group has made decisions to designate the financial assets as follows:

a) The insurance company subsidiary 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 Commissioner.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Investment portfolios of policies participating in investment income include investments in a partnerships which hold real estate property abroad, in which the insurance subsidiary has significant influence as defined by IAS 28. These investments are measured at their fair value and are reported as financial investments.

- b) The insurance company subsidiary 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.

- 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.

- 4) Financial assets transferred to an insurance subsidiary from a subsidiary which is not an insurance company:

Financial assets as mentioned in paragraphs 1) and 2) above, which were transferred to an insurance subsidiary from a subsidiary which is not an insurance company, are classified in the insurance subsidiary under the fair value group through profit and loss, according to their original classification in the transferring company, as mentioned in paragraph c) below.

- 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, except for securities transferred from an insurance subsidiary to the Company and classified in the consolidated financial statements as financial instruments available for sale, according to their original classifications in the transferring company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

6. Offsetting financial instruments:

Financial asset and liability are offset and reported in their net value in the statement of financial position when an existing group currently has the legal enforceable right to offset the recognized amounts and intend to remove the asset and liabilities on a net basis or realize the asset and to remove the obligation simultaneously.

7. Financial liabilities:

a) 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 income when the financial liability is derecognized as well as through the systematic amortization process.

b) Financial assets measured at fair value through profit and loss:

Financial assets classified as measured at fair value through profit and loss relate to derivatives that upon initial recognition are intended to be reported at fair value through profit or loss.

8. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

9. Regarding impairment of financial assets, see paragraph n(1) below.

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 profit and loss when incurred.

3. Depreciation:

Depreciation is allocated to the statement of income 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%
Office 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Depreciation of assets ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. 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 income when the asset is derecognized.

4. Change in designation:

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 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 capital reserve, whereas the loss is allocated to the statement of income.

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 handled 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 income.

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. See Note 9 b below.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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 income on a straight-line basis over the lease term.

k. Investments in associates:

Associates are companies in which the Group has significant influence over the financial and operating policies without having obtained control.

Investment in associates is presented on the equity basis. According to the equity method, investments in associates 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 associates.

Investments in partnerships in which the Group has significant influence and were performed in the investment portfolios of profit participating policies, were treated as financial investments and measured at their fair value (also see paragraph g(4)(a) above).

Profits and losses resulting from transactions between the group and the associates are eliminated to the extent of the holding in the associate.

The equity method is applied up to the date of loss of significant influence, and from that date the investment is treated as a financial asset in accordance with IAS 39. At the time of loss of significant influence, the Group measures the remaining investment at fair value, and the difference between the fair value of the remaining investment with the addition of the consideration received from the sale of part of the investment and the book value of the investment at the date of sale, is allocated to the statement of income. In addition, at this time the Group reclassifies the accumulated amounts recognized previously in other comprehensive income, in the same manner it would be required if the associate had directly realized the related assets or liabilities.

In the event of acquisition of an associate 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The financial statements of the Company and of associates are prepared as of the same dates and periods. The accounting policies applied in the preparation of the financial statements of associates conform with the policies applied in the preparation of the financial statements of the Group.

1. Business combinations and goodwill:

Business combinations are treated using the acquisition method in accordance with the provisions of 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 income. 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 at cost which is the surplus of the proceeds of the acquisition and the non-controlling interests over the net amount of the acquired identifiable assets and the liabilities that were assumed as measured at the time of acquisition. 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(4) 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.

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(4) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 income.

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, direct salaries 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 income as incurred.

4. Amortization:

Amortization is allocated to the statement of income 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 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 – 20 years and excess of cost attributed to trade name is amortized over a period of 6 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- c) Excess of cost 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 allowance for doubtful accounts:

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.

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 income 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 income.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 that the financial asset is held 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 income. 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 income. 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.

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 allowance for doubtful accounts 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Outstanding premiums:

The allowance for doubtful accounts in respect of outstanding premiums is calculated according to the age of the debt and in addition it is determined specifically for the debts that management is doubtful as to their collection.

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 income under general and administration expenses.

The following unique criteria are applied in assessing impairment of the following specific assets:

a) 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 determined in respect of 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Associates:

After adoption 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 associates. The Group determines at each reporting date whether there is any objective evidence that the investment in an associate 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 associate 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 associate generates. The amount of the loss is recognized in the statement of income in the Group's share of profits of associates, 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, recreation, vacation and social security contributions that are measured on an undiscounted basis and 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.

2. Post-employment benefits:

The Group has several post-employment benefit plans. The plans are typically funded by deposits in insurance companies and pension funds ("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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 income 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 income in the period in which they occur.

q. Share-based payment transactions:

1) Equity-settled 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 ("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 income represents the movement in cumulative expense recognized at the beginning and end of that reported period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2) 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 34 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 income.

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.

s. Revenue recognition:

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 insurance contracts and yield-dependent investment contracts:

Management fees are calculated in accordance with the Commissioner'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.

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 collected from the beginning of the year. Negative yields in respect of which reductions in management fees have not been made in the current year, will be deducted for the purpose of calculating variable management fees from positive yields in subsequent periods, see Note 40 d.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Commissions:

Revenues from insurance commissions in consolidated insurance agencies are recognized when incurred.

Revenues from reinsurers commission are allocated at the time of entitlement to receive them, in accordance with the agreements with the reinsurers.

Income from underwriting and management commissions, that are subject to an actual issue, is credited to the statement of income 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. Net investment gains (losses) and financial income and expenses:

Net investment gains (losses) and financial income include interest income and linkage differences in respect of amounts invested (including financial assets available for sale), income from dividends, gains (losses) from the sale of financial assets available for sale and the losses transferred to profit and loss in respect of permanent impairment, changes in the fair value of financial assets presented at fair value through profit and loss, changes in fair value of derivatives recorded as financial liabilities, losses from permanent impairment in unquoted debt assets, gains (losses) from foreign currency, changes in the fair value of investment property and income from leasing fees of investment property.

Gains (losses) from the sale of investments are calculated as the difference between net realization consideration and the original cost or amortized cost and are recognized at the time of the sale. Interest income is recognized when accrued, using the effective interest method. The income from dividends is recognized on the date in which the Company is granted the right to receive payment.

Profits and losses from exchange rate differences and changes in the fair value of investments are reported on a net basis.

Finance expenses include interest expenses and linkage difference in respect of financial liabilities and interest and exchange rate differences on deposits and reinsurers' balances.

u. General and administrative expenses

General and administrative 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Taxes on income:

Taxes on income comprise current and deferred taxes. The income tax expense is allocated to the statement of income 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 is the amount of tax expected to be paid on the taxable income for the year, when it is calculated according to the tax rates and based on the enacted tax laws, or which have been completely legislated up to the reporting period. In addition, the current tax includes changes in the tax payments attributed to the 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 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.

Deferred tax assets are recognized in the books when future taxable income can be expected against which the 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.

In cases where a sub-subsidiary is expected to distribute a dividend from the profits involving an additional tax to the subsidiary, the receiving company will create a tax reserve in respect of the tax addition that the company might be liable to in respect of the dividend distribution.

Deferred tax in respect of intercompany transactions in the consolidated statement is recorded at the tax rate applicable to the purchasing company.

x. 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. The Company's share in the profits of investees is calculated based on its share in the earnings per share of those investees, multiplied by the number of shares held by the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. 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.

z. Presentation of statement of comprehensive income:

The Company has elected to present comprehensive income using two statements: a statement of income 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 income, all the details recognized in other comprehensive income.

aa. Presentation of the movement in the other comprehensive income item:

The Company presents the movement between the opening balance and closing balance in respect of each component for other comprehensive income in the statement of changes in equity.

bb. Borrowing costs in respect of qualifying assets:

The Group capitalized borrowing costs related to acquisition, construction or production of qualifying assets. A qualifying asset is an asset that requires significant period of time to prepare it for its intended use or sale, and includes fixed assets and computer software. Capitalization of borrowing costs begins at the date the costs were issued for the property itself, the operations for preparing the asset began and borrowing costs were accumulated, and ends when all of the actions to prepare the qualifying asset for its intended use or sale are essentially completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- cc. Disclosure of the new IFRSs in the period prior to their adoption:

IAS 1 - Presentation of Financial Statements

In June 2011, the IASB issued an amendment to IAS 1, which deals with the presentation of other comprehensive income.

According to the Amendment, items which may be carried to profit or loss at a later stage (such as upon derecognition or recovery) should be presented separately from items that can never be carried to profit or loss.

The Amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2013, or thereafter. Earlier application is permitted.

The Group estimates that the Amendment is not expected to have a material effect on the financial statements.

IAS 12 - Income Taxes

The amendment to IAS 12 applies to investment property measured according to the fair value model. 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. 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.

IAS 19 (Revised) - Employee Benefits

In June 2011, the IASB issued IAS 19 (Revised) ("the Standard"). The principal amendments included in the Standard are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not allocated to profit or loss.
- The "corridor" approach which allowed the deferral of actuarial gains or losses has been eliminated.
- The return on the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.
- Past service cost arising from changes in the plan will be recognized immediately.

The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Group is examining the possible impact of the Standard.

IFRS 7 - Financial Instruments - Disclosure

The amendment to IFRS 7 provides new and expansive disclosure requirements regarding the derecognition of financial assets and regarding unusual transfer activity close to the end of a reporting period. The objective of the Amendment is to assist users of financial statements to assess the risks from transfers of financial assets and the effect of these risks on the Group's financial position. The Amendment is designed to enhance the reporting transparency of transactions involving asset transfers, specifically securitization of financial assets. The Amendment is to 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 Company's financial statements.

IFRS 9 - Financial Instruments

1. In November 2009, the first part of Phase 1 of IFRS 9, "Financial Instruments", was published, as part of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("the Standard") 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 (loss), in accordance with the election of 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, 2015. Earlier application is permitted. Initial application should be retrospectively while providing the necessary disclosure or restatement of the comparative figures, subject to the reliefs stated in the Standard.

2. In October 2010, amendments to the Standard 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.

The amendments are effective commencing from January 1, 2015. Earlier application is permitted provided that the Company also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the assets stage). Initial application of the amendments should be prospectively while providing the necessary disclosure or restatement of the comparative figures, 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.

IFRS 10, IFRS 11, IFRS 12, IFRS 13 - Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities, Fair Value Measurement

In May 2011, the IASB issued four new Standards: IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities ("the new Standards") and IFRS 13, Fair Value Measurement, and amended two existing Standards, IAS 27R (Revised 2011), Separate Financial Statements, and IAS 28R (Revised 2011), Investments in Associates and Joint Ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. However, if the Company chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

The main provisions of the Standards and their expected effects on the Group are as follows:

IFRS 10 - Consolidated Financial Statements

IFRS 10 ("Standard 10") supersedes IAS 27 regarding the accounting treatment of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, "Consolidation - Special Purpose Entities".

Standard 10 does not include changes to the consolidation procedures but rather modifies the definition of control for the purpose of consolidation and introduces a single consolidation model. According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return.

Standard 10 prescribes that when assessing the existence of control, potential voting rights should be considered only if they are substantive, as opposed to the provisions of IAS 27 prior to its amendment which required consideration of potential voting rights only if they could be exercised immediately while disregarding management's intentions and financial ability to exercise such rights.

Standard 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permits a choice between two consolidation models - control model and the legal control model.

Standard 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Group is examining the possible impact of Standard 10, but at this stage it is unable to estimate its affect, if any, on the financial statements.

IAS 27R - Separate Financial Statements

IAS 27R ("Standard 27 revised") supersedes IAS 27 and only addresses separate financial statements. The existing guidance for separate financial statements has remained unchanged in Standard 27 revised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)IFRS 11 - Joint Arrangements

IFRS 11 ("Standard 11") supersedes IAS 31 regarding the accounting treatment of interests in joint ventures and SIC 13 regarding the interpretation of the accounting treatment of non-monetary investments by joint venture entities.

Standard 11 defines joint arrangements as contractual arrangements over which two or more parties have joint control.

Standard 11 distinguishes between two types of joint arrangements:

- Joint ventures in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires joint ventures to be accounted for solely by using the equity method, as opposed to the provisions of IAS 31 which allowed the Company to make an accounting policy choice whether to apply proportionate consolidation or the equity method for entities under joint control.
- Joint operations in which the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. IFRS 11 requires the joint operator to recognize a joint operation's assets, liabilities, revenues and expenses in proportion to its relative share of the joint operation as determined in the joint arrangement, similar to the current accounting treatment for proportionate consolidation.

Standard 11 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013.

The Group believes that the adoption of Standard 11 is not expected to have a material effect on the financial statements.

IAS 28R - Investments in Associates and Joint Ventures

IAS 28R ("Standard 28 revised") supersedes IAS 28. The principal changes in IAS 28R compared to IAS 28 relate to the application of the equity method of accounting for investments in joint ventures, as a result of the issuance of IFRS 11, and the guidance for transition from proportionate consolidation to the equity method of accounting for these investments. IAS 28R also prescribes that in the event of disposal of an investment in an associate or joint venture, including a portion thereof, the portion that meets the criteria to be classified as held for sale is accounted for in accordance with IFRS 5. Any remaining portion is accounted for using the equity method until the time of actual disposal. In addition, an investment in an associate that becomes an investment in a joint venture, or vice versa, will continue to be accounted for at equity and the remaining investment will not be remeasured.

Standard 28 revised is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted; however, if the Company elects earlier application of IAS 28R, it must also apply IFRS 10, IFRS 11, IFRS 12 and IFRS 27R (Revised 2011) collectively.

The Group estimates that Standard 28 revised is not expected to have a material impact on its financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 ("Standard 12") prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. Standard 12 expands the disclosure requirements to include the judgments and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. Standard 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Group's financial statements upon initial adoption of Standard 12.

IFRS 13 - Fair Value Measurement

IFRS 13 ("Standard 13") establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. Standard 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Standard 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to Standard 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

Standard 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Standard 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to Standard 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Group's financial statements upon initial adoption of the Standard.

The Group is evaluating the possible impact of the adoption of Standard 13 but is presently unable to assess the effects, if any, on its financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- dd. Hereunder the changes in the Israeli CPI and the representative exchange rates of the U.S. dollar:

	Consumer Price Index		Exchange rate of U.S. \$
	Index in respect of	Known index	
	%	%	
Year ended December 31, 2011	2.2	2.6	7.7
Year ended December 31, 2010	2.7	2.3	(6.0)
Year ended December 31, 2009	3.9	3.8	(0.7)

- ee. Reclassification:

The Company has made reclassifications in insignificant amounts, in the statement of financial position under the items intangible assets, non-controlling interests, liabilities in respect of deferred taxes, creditors and payables and financial liabilities and in the statement of income under the items net income from investments and finance income, income from management fees, other income, change in insurance liabilities and payments in respect of insurance contracts, general and administrative expenses and amortization of intangible assets. These classifications had no effect on the capital attributed to the Company's shareholders, the net income and the comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS

Following a restructuring in Menorah Insurance, effective from January 1, 2011, the health insurance branch is presented as a separate segment, which consolidates various types of health insurance policies as detailed in paragraph 2 below. In order to allow comparison to previous periods, the comparative data were restated in these consolidated financial statements.

The Group operates in the following segments of activity:

1. The life assurance and long-term savings segment

The life assurance and long-term savings segment includes the life assurance, pension and provident fund branches and focuses mainly on long-term savings (in the framework of various types of insurance policies, pension and provident funds including educational funds), as well as insurance coverage for various risks such as: death, disability, disability income insurance, etc.

In accordance with the Commissioner's directives, life assurance, pension and provident funds are reported under the life assurance and long-term savings segment.

2. The health insurance segment

The health insurance segment consists of long-term care (LTC), medical expenses, chronic illnesses, surgeries and transplants, dental care etc.

3. The general insurance segment

The general insurance segment includes the liability and property branches. Pursuant to the Commissioner's directives, the general insurance segment is detailed according to motor act, motor casco, property and liability branches.

- Motor act insurance

The motor act insurance branch provides coverage whose acquisition by the owner or the driver of the vehicle is compulsory by law and consists of bodily injuries (to the driver of the vehicle, the passengers in the vehicle or to pedestrians), as a result of the use of the motor vehicle.

- Motor casco insurance

The motor casco business branch focuses on coverage of property damage caused to the insured vehicle and property damages caused by the insured vehicle to a third party.

- Property and other branches

Any other property branch that is not motor act or liability related and other insurance branches such as health insurance branches that provide short-term coverage (personal accidents, foreign travel and foreign workers).

- Other liability branches

The liability branches cover the policyholders' liabilities for any damage caused by them to a third party and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2011					Total
	Life assurance and long-term savings	Health insurance	General insurance	Not attributed to operating segments	Adjustments and offsets	
	NIS in thousands					
Gross premiums earned	1,680,902	331,545	2,306,247	-	-	4,318,694
Premiums earned by reinsurers	118,579	101,410	658,444	-	-	878,433
Premiums earned on retention	1,562,323	230,135	1,647,803	-	-	3,440,261
Net investment gains and financial income	1,218	27,135	187,298	66,031	(15,589)	266,093
Income from management fees	502,341	-	-	84,431	(2,558)	584,214
Income from commissions	29,056	9,534	153,666	36,759	(22,623)	206,392
Other income	-	-	-	1,435	-	1,435
Total income	2,094,938	266,804	1,988,767	188,656	(40,770)	4,498,395
Payments and change in liabilities in respect of gross insurance and investment contracts	1,396,809	213,113	1,629,905	-	-	3,239,827
Reinsurers' share of payments and change in liabilities in respect of insurance contracts	(70,871)	(99,324)	(400,505)	-	-	(570,700)
Payments and change in liabilities in respect of insurance and investment contracts on retention	1,325,938	113,789	1,229,400	-	-	2,669,127
Commissions, marketing expenses and other acquisition expenses	338,098	72,325	492,731	48,803	(22,623)	929,334
General and administrative expenses	441,007	28,323	128,456	70,717	(18,084)	650,419
Amortization of intangible assets	21,032	-	4,486	5,640	-	31,158
Financial expenses	11,008	1,077	9,142	122,741	(63)	143,905
Total expenses	2,137,083	215,514	1,864,215	247,901	(40,770)	4,423,943
Share of earnings (losses) of associates	14,482	-	-	2,051	-	16,533
Income (loss) before taxes on income	(27,663)	51,290	124,552	(57,194)	-	90,985
Other comprehensive loss before taxes on income	(12,753)	(4,244)	(79,195)	(39,588)	-	(135,780)
Total comprehensive income (loss) before taxes on income	(40,416)	47,046	45,357	(96,782)	-	(44,795)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2010					Total
	Life assurance and long-term savings	Health insurance	General insurance	Not attributed to operating segments	Adjustments and offsets	
	NIS in thousands					
Gross premiums earned	1,700,745	302,013	2,267,504	-	-	4,270,262
Premiums earned by reinsurers	113,191	95,114	696,513	-	-	904,818
Premiums earned on retention	1,587,554	206,899	1,570,991	-	-	3,365,444
Net investment gains and financial income	1,868,215	38,761	236,342	179,622	(13,555)	2,309,385
Income from management fees	549,031	-	-	89,543	(2,703)	635,871
Income from commissions	31,068	13,485	166,970	33,905	(15,297)	230,131
Other income	-	-	-	427	-	427
Total income	4,035,868	259,145	1,974,303	303,497	(31,555)	6,541,258
Payments and change in liabilities in respect of gross insurance and investment contracts	3,179,739	246,663	1,730,966	-	-	5,157,368
Reinsurers' share of payments and change in liabilities in respect of insurance contracts	(74,436)	(95,691)	(509,622)	-	-	(679,749)
Payments and change in liabilities in respect of insurance and investment contracts on retention	3,105,303	150,972	1,221,344	-	-	4,477,619
Commissions, marketing expenses and other acquisition expenses	322,981	67,526	494,049	45,578	(15,297)	914,837
General and administrative expenses	375,983	28,821	92,538	77,894	(14,358)	560,878
Amortization of intangible assets	17,831	-	4,486	9,139	-	31,456
Financial expenses	6,840	-	5,346	111,588	(1,900)	121,874
Total expenses	3,828,938	247,319	1,817,763	244,199	(31,555)	6,106,664
Share of earnings (losses) of associates, net	5,160	-	-	(5,039)	-	121
Income before taxes on income	212,090	11,826	156,540	54,259	-	434,715
Other comprehensive income (loss) before taxes on income	18,665	1,817	7,785	(1,721)	-	26,546
Total comprehensive income before taxes on income	230,755	13,643	164,325	52,538	-	461,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2009					Total
	Life assurance and long-term savings	Health insurance	General insurance	Not attributed to operating segments	Adjustments and offsets	
	NIS in thousands					
Gross premiums earned	1,537,349	289,931	2,243,198	-	-	4,070,478
Premiums earned by reinsurers	<u>112,321</u>	<u>90,928</u>	<u>528,472</u>	<u>-</u>	<u>-</u>	<u>731,721</u>
Premiums earned on retention	1,425,028	199,003	1,714,726	-	-	3,338,757
Net investment gains and financial income	3,572,104	98,041	290,980	163,084	(12,035)	4,112,174
Income from management fees	389,573	-	-	71,467	(5,713)	455,327
Income from commissions	25,578	15,957	119,505	30,720	(13,339)	178,421
Other income	<u>-</u>	<u>-</u>	<u>-</u>	<u>195</u>	<u>-</u>	<u>195</u>
Total income	<u>5,412,283</u>	<u>313,001</u>	<u>2,125,211</u>	<u>265,466</u>	<u>(31,087)</u>	<u>8,084,874</u>
Payments and change in liabilities in respect of gross insurance and investment contracts	4,592,110	201,572	1,664,935	-	-	6,458,617
Reinsurers' share of payments and change in liabilities in respect of insurance contracts	<u>(74,874)</u>	<u>(77,867)</u>	<u>(346,768)</u>	<u>-</u>	<u>-</u>	<u>(499,509)</u>
Payments and change in liabilities in respect of insurance and investment contracts on retention	4,517,236	123,705	1,318,167	-	-	5,959,108
Commissions, marketing expenses and other acquisition expenses	299,995	61,475	487,397	33,277	(13,339)	868,805
General and administrative expenses	330,303	28,587	94,489	52,207	(16,776)	488,810
Amortization of intangible assets	16,545	-	4,546	11,413	-	32,504
Financial expenses	<u>6,995</u>	<u>-</u>	<u>5,439</u>	<u>128,614</u>	<u>(972)</u>	<u>140,076</u>
Total expenses	<u>5,171,074</u>	<u>213,767</u>	<u>1,910,038</u>	<u>225,511</u>	<u>(31,087)</u>	<u>7,489,303</u>
Share of losses of associates	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,808)</u>	<u>-</u>	<u>(1,808)</u>
Income before taxes on income	241,209	99,234	215,173	38,147	-	593,763
Other comprehensive income before taxes on income	<u>71,025</u>	<u>3,125</u>	<u>176,702</u>	<u>162,489</u>	<u>-</u>	<u>413,341</u>
Total comprehensive income before taxes on income	<u>312,234</u>	<u>102,359</u>	<u>391,875</u>	<u>200,636</u>	<u>-</u>	<u>1,007,104</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	December 31, 2011					Total
	Life assurance and long-term savings	Health insurance	General insurance	Not attributed to operating segments	Adjustments and offsets	
	NIS in thousands					
Assets:						
Intangible assets	822,201	11,509	132,225	193,505	-	1,159,440
Deferred acquisition costs	629,468	111,108	199,136	-	-	939,712
Investments in associates	116,438	-	-	4,943	-	121,381
Investment property	56,237	-	12,531	118,842	-	187,610
Financial investments for yield-dependent contracts	11,423,033	43,208	-	-	-	11,466,241
Other financial investments:						
Quoted debt assets	690,385	104,597	2,580,965	778,874	-	4,154,821
Unquoted debt assets	8,165,235	243,789	1,083,457	265,729	-	9,758,210
Shares	12,911	985	31,490	235,706	-	281,092
Other	127,519	8,281	59,512	329,106	-	524,418
Total other financial investments	8,996,050	357,652	3,755,424	1,609,415	-	14,718,541
Cash and cash equivalents for yield-dependant contracts	533,043	2,272	-	-	-	535,315
Other cash and cash equivalents	92,843	4,793	56,682	147,276	-	301,594
Reinsurance assets	118,434	286,560	966,516	-	-	1,371,510
Outstanding premiums	77,170	16,622	453,810	-	-	547,602
Other assets	240,617	9,199	181,403	252,580	(50,943)	633,306
Total assets	<u>23,105,534</u>	<u>842,923</u>	<u>5,757,727</u>	<u>2,326,561</u>	<u>(50,493)</u>	<u>31,982,252</u>
Total assets for yield-dependent contracts	<u>12,077,649</u>	<u>47,103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,124,752</u>
Liabilities:						
Liabilities for non-yield-dependent investment contracts and insurance contracts	9,286,761	588,811	4,525,876	-	-	14,401,448
Liabilities for yield-dependent investment contracts and insurance contracts	11,744,453	45,811	-	-	-	11,790,264
Excess losses over investments in associates	-	-	-	5,167	-	5,167
Financial liabilities	97,680	-	2,261	1,963,179	-	2,063,120
Other liabilities	474,686	157,377	771,295	160,746	(50,493)	1,513,611
Total liabilities	<u>21,603,580</u>	<u>791,999</u>	<u>5,299,432</u>	<u>2,129,092</u>	<u>(50,493)</u>	<u>29,773,610</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	December 31, 2010					Total
	Life assurance and long-term savings	Health insurance	General insurance	Not attributed to operating segments	Adjustments and offsets	
	NIS in thousands					
Assets:						
Intangible assets	784,139	19,022	92,531	201,375	-	1,097,067
Deferred acquisition costs	595,002	94,905	193,590	-	-	883,497
Investments in associates	21,935	-	-	3,286	-	25,221
Investment property	58,242	-	12,311	102,856	-	173,409
Financial investments for yield-dependent contracts	11,760,887	44,725	-	-	-	11,805,612
Other financial investments:						
Quoted debt assets	938,911	143,221	2,486,352	887,273	-	4,455,757
Unquoted debt assets	7,799,947	237,703	902,286	226,209	-	9,166,145
Shares	31,033	706	25,677	236,020	-	293,436
Other	141,727	6,858	50,454	299,184	-	498,223
Total other financial investments	8,911,618	388,488	3,464,769	1,648,686	-	14,413,561
Cash and cash equivalents for yield-dependant contracts	67,291	284	-	-	-	67,575
Other cash and cash equivalents	109,391	4,712	88,694	233,194	-	435,991
Reinsurance assets	105,044	259,965	972,332	-	-	1,337,341
Outstanding premiums	87,008	20,740	417,327	-	-	525,075
Other assets	78,851	4,449	114,041	246,308	(36,998)	406,651
Total assets	<u>22,579,408</u>	<u>837,290</u>	<u>5,355,595</u>	<u>2,435,705</u>	<u>(36,998)</u>	<u>31,171,000</u>
Total assets for yield-dependent contracts	<u>11,928,350</u>	<u>45,669</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,974,019</u>
Liabilities:						
Liabilities for non-yield-dependent investment contracts and insurance contracts	8,932,234	540,775	4,332,706	-	-	13,805,715
Liabilities for yield-dependent investment contracts and insurance contracts	11,862,772	45,424	-	-	-	11,908,196
Excess losses over investments in associates	-	-	-	3,974	-	3,974
Financial liabilities	-	-	-	1,760,496	-	1,760,496
Other liabilities	387,627	197,488	681,579	202,417	(36,998)	1,432,113
Total liabilities	<u>21,182,633</u>	<u>783,687</u>	<u>5,014,285</u>	<u>1,966,887</u>	<u>(36,998)</u>	<u>28,910,494</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. Additional information regarding the general insurance segment:

	Year ended December 31, 2011				
	Motor act	Motor casco	Property and other branches *)	Other liability branches **)	Total
	NIS in thousands				
Gross premiums	634,780	904,352	583,562	232,198	2,354,892
Reinsurance premiums	14,407	163,683	315,652	97,660	591,402
Premiums on retention	620,373	740,669	267,910	134,538	1,763,490
Change in unearned premium balance, on retention	(59,683)	(36,617)	(13,873)	(5,514)	(115,687)
Earned premiums on retention	560,690	704,052	254,037	129,024	1,647,803
Net investment gains and financial income	121,182	18,407	7,236	40,473	187,298
Income from commissions	3,771	49,053	85,355	15,487	153,666
Total income	685,643	771,512	346,628	184,984	1,988,767
Payments and change in liabilities for gross insurance contracts	491,199	705,041	282,196	151,469	1,629,905
Reinsurers' share of payments and change in liabilities for insurance contracts	(38,771)	(155,189)	(158,133)	(48,412)	(400,505)
Payments and change in liabilities for insurance contracts on retention	452,428	549,852	124,063	103,057	1,229,400
Commissions, marketing expenses and other acquisition expenses	63,539	221,045	155,545	52,602	492,731
General and administrative expenses	37,611	42,947	35,739	12,159	128,456
Amortization of intangible assets	2,243	2,243	-	-	4,486
Financial expenses	3,447	2,508	2,279	908	9,142
Total expenses	559,268	818,595	317,626	168,726	1,864,215
Income (loss) before taxes on income	126,375	(47,083)	29,002	16,258	124,552
Other comprehensive loss before taxes on income	(52,503)	(8,214)	(2,870)	(15,608)	(79,195)
Total comprehensive income (loss) before taxes on income	73,872	(55,297)	26,132	650	45,357
Liabilities in respect of gross insurance contracts as of December 31, 2011	2,460,992	634,749	429,070	1,001,065	4,525,876

*) Property and other branches mainly include the results of loss of property, business premises and residential insurance branches, whose activities constitute 74% 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 82% of the total premiums in these branches.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	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 premiums on retention	538,676	662,657	237,687	131,971	1,570,991
Net investment gains and financial income	152,771	24,706	9,405	49,460	236,342
Income from commissions	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 of payments and 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
Commissions, marketing expenses and other acquisition expenses	57,064	227,107	154,965	54,913	494,049
General and administrative expenses	29,312	30,912	24,184	8,130	92,538
Amortization of intangible assets	2,243	2,243	-	-	4,486
Financial expenses	1,524	1,467	2,029	326	5,346
Total expenses	624,935	739,106	290,577	163,145	1,817,763
Income before taxes on income	78,570	6,367	35,928	35,675	156,540
Other comprehensive income before taxes on income	5,245	881	275	1,384	7,785
Total comprehensive income before taxes on income	83,815	7,248	36,203	37,059	164,325
Liabilities in respect of gross insurance contracts as of 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 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 83% of the total premiums in these branches.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (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 premiums on retention	580,865	722,742	253,154	157,965	1,714,726
Net investment gains and financial income	177,447	37,196	14,492	61,845	290,980
Income from commissions	-	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 of payments and 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
Commissions, marketing expenses and other acquisition expenses	60,652	220,022	151,340	55,383	487,397
General and administrative expenses	29,871	35,484	22,273	6,861	94,489
Amortization of intangible assets	2,273	2,273	-	-	4,546
Financial expenses	1,125	1,699	2,243	372	5,439
Total expenses	683,366	748,468	293,273	184,931	1,910,038
Income before taxes on income	74,946	40,129	51,517	48,581	215,173
Other comprehensive income before taxes on income	112,975	24,812	7,833	31,082	176,702
Total comprehensive income before taxes on income	187,921	64,941	59,350	79,663	391,875
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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Additional information regarding the life assurance and long-term savings segment:

	Year ended December 31, 2011			
	Provident	Pension	Life assurance	Total
	NIS in thousands			
Gross premium earned	-	-	1,680,902	1,680,902
Premiums earned by reinsurers	-	-	118,579	118,579
Premiums earned on retention	-	-	1,562,323	1,562,323
Net investment gains (losses) and financial income	303,815	1,490	(304,087)	1,218
Income from management fees	84,796	323,313	94,232	502,341
Income from commissions	-	422	28,634	29,056
Total income	388,611	325,225	1,381,102	2,094,938
Payments and change in liabilities for gross insurance and investment contracts	316,401	-	1,080,408	1,396,809
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	(70,871)	(70,871)
Payments and change in liabilities for insurance and investment contracts on retention	316,401	-	1,009,537	1,325,938
Commissions, marketing expenses and other acquisition expenses	17,217	68,163	252,718	338,098
General and administrative expenses	47,983	156,276	236,748	441,007
Amortization of intangible assets	11,232	9,800	-	21,032
Financial expenses	687	-	10,321	11,008
Total expenses	393,520	234,239	1,509,324	2,137,083
Share of earnings of associates	-	-	14,482	14,482
Income (loss) before taxes on income	(4,909)	90,986	(113,740)	(27,663)
Other comprehensive loss before taxes on income	-	-	(12,753)	(12,753)
Total comprehensive income (loss) before taxes on income	(4,909)	90,986	(126,493)	(40,416)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2010			Total
	Provident	Pension	Life assurance	
	NIS in thousands			
Gross premium earned	-	-	1,700,745	1,700,745
Premiums earned by reinsurers	-	-	113,191	113,191
Premiums earned on retention	-	-	1,587,554	1,587,554
Net investment gains and financial income	332,794	10,712	1,524,709	1,868,215
Income from management fees	76,259	279,447	193,325	549,031
Income from commissions	-	330	30,738	31,068
Total income	409,053	290,489	3,336,326	4,035,868
Payments and change in liabilities for gross insurance and investment contracts	292,537	-	2,887,202	3,179,739
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	(74,436)	(74,436)
Payments and change in liabilities for insurance and investment contracts on retention	292,537	-	2,812,766	3,105,303
Commissions, marketing expenses and other acquisition expenses	9,986	55,596	257,399	322,981
General and administrative expenses	43,227	129,078	203,678	375,983
Amortization of intangible assets	8,031	9,800	-	17,831
Financial expenses	2,529	-	4,311	6,840
Total expenses	356,310	194,474	3,278,154	3,828,938
Share of earnings of associate	-	-	5,160	5,160
Income before taxes on income	52,743	96,015	63,332	212,090
Other comprehensive income before taxes on income	-	-	18,665	18,665
Total comprehensive income before taxes on income	52,743	96,015	81,997	230,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2009			Total
	Provident	Pension	Life assurance	
	NIS in thousands			
Gross premium earned	-	-	1,537,349	1,537,349
Premiums earned by reinsurers	-	-	112,321	112,321
Premiums earned on retention	-	-	1,425,028	1,425,028
Net investment gains and financial income	389,611	18,046	3,164,447	3,572,104
Income from management fees	63,302	246,964	79,307	389,573
Income from commissions	-	236	25,342	25,578
Total income	452,913	265,246	4,694,124	5,412,283
Payments and change in liabilities for gross insurance and investment contracts	347,296	-	4,244,814	4,592,110
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	(74,874)	(74,874)
Payments and change in liabilities for insurance and investment contracts on retention	347,296	-	4,169,940	4,517,236
Commissions, marketing expenses and other acquisition expenses	7,591	48,661	243,743	299,995
General and administrative expenses	38,997	114,913	176,393	330,303
Amortization of intangible assets	6,745	9,800	-	16,545
Financial expenses	1,710	-	5,285	6,995
Total expenses	402,339	173,374	4,595,361	5,171,074
Income before taxes on income	50,574	91,872	98,763	241,209
Other comprehensive income before taxes on income	-	-	71,025	71,025
Total comprehensive income before taxes on income	50,574	91,872	169,788	312,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- BUSINESS COMBINATIONS

- a. On July 27, 2010, a sub-subsidiary, Menorah Mivtachim Provident Ltd. - a managing company ("Mivtachim Provident") signed an agreement with Lehava Educational Fund Management Ltd. and Lahav Self-Employed and Business Bureau in Israel ("the sellers"), for the acquisition of the management rights in the educational fund "Lehava Educational Fund for Self-Employed and Employees" ("Lehava"). On January 1, 2011, after all the legally required approvals had been obtained, Lehava's managed assets were transferred to Mivtachim Provident. Lehava's total managed assets as of January 1, 2011 amount to approximately NIS 420 million and about 12,000 members.

In the reporting period, the purchase price was allocated based on an outside independent appraiser in relation to the fair value of the identifiable assets as follows:

	<u>Fair value</u> <u>NIS in</u> <u>thousands</u>
Intangible assets - portfolios	17,278
Liabilities in respect of deferred tax reserve	(555)
Goodwill arising from the acquisition	<u>1,471</u>
Total purchase price	<u><u>18,194</u></u>

The overall acquisition cost was estimated at NIS 18,194 thousand and included a cash payment of approximately NIS 11,500 thousand made on the date of completing the transfer of the management rights and a contingent consideration of approximately NIS 6,694 thousand as follows:

1. An amount contingent on the scope of Lehava's assets - starting from the sixth year from the date of transfer of the management rights until the tenth year, Mivtachim Provident will pay a quarterly fee in the amount of 0.075% of Lehava's total managed assets on the date of payment.

If the distribution and/or operation commission for the management of Lehava during said period increases, the abovementioned fee will be reduced by half of the increase in the distribution and/or operation commission, effective from the date of such change and vice versa. However, between the sixth and the tenth years, the fee will not be lower than NIS 1.3 million a year.

It was agreed that in the event of a material change in the provisions of the legislative arrangement regarding distribution and/or operation commissions, the parties will discuss modifying the fee in proportion to the change.

2. At the end of the tenth year from the date of transfer of the management rights, Mivtachim Provident will pay the seller a lump sum in the amount of 0.3% of Lehava's total assets on the date of payment, discounted at an annual interest rate of 7% for a period of six and a half years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- BUSINESS COMBINATIONS (Cont.)

- b. On January 4, 2011, a subsidiary, Sinai Insurance Underwriting Agency (1989) Ltd. ("Underwriting Agency"), signed an agreement for the acquisition of an insurance agency's activities, known by the commercial name "Arnon and Weinstock Insurance Planning and Management". In addition, Underwriting Agency acquired the activity of Arnon and Weinstock Insurance Planning and Management Ltd. which is owned by the agents. Following the acquisition, Underwriting Agency changed its name to Arnon and Weinstock Insurance Agencies (1989) Ltd. ("Arnon and Weinstock").

The cost of acquisition totaled NIS 18,975 thousand and was allocated based on a valuation by an outside independent appraiser to the following identifiable assets:

	<u>Fair value</u> <u>NIS in</u> <u>thousands</u>
Commission receivable from insurances portfolios	1,000
Fixed assets	200
Engagements with agents	14,068
Non-competition agreement	1,051
Goodwill arising from the acquisition	<u>2,581</u>
	<u>18,900</u>

The cost of acquisition includes an amount of NIS 75 thousand in respect of linkage differences accrued from the date of signing the agreement through the date of payment. These costs were carried as an expense and included in financial expenses.

The goodwill arising from the acquisition is allocated to the expected benefits from the synergy of Arnon and Weinstock's operations with those of Shomera Insurance, Arnon and Weinstock's parent company.

The consolidated financial statements include the operating results of Arnon and Weinstock from the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INTANGIBLE ASSETS

a. Composition and movement:

	<u>Goodwill</u>	<u>Insurance portfolios</u>	<u>Customer portfolios and agent relations</u>	<u>Brand names and commercial names</u>	<u>Computer software</u>	<u>Other</u>	<u>Total</u>
	<u>NIS in thousands</u>						
Cost:							
Balance as of January 1, 2010	652,246	19,267	359,500	11,849	361,429	677	1,404,968
Additions	-	-	-	-	115,660	-	115,660
Balance as of December 31, 2010	652,246	19,267	359,500	11,849	477,089	677	1,520,628
Additions	-	1,000	-	-	127,201	-	128,201
Business combinations	4,052	-	31,346	-	-	1,051	36,449
Balance as of December 31, 2011	656,298	20,267	390,846	11,849	604,290	1,728	1,685,278
Accumulated amortization and impairment losses:							
Balance as of January 1, 2010	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 of December 31, 2010	52,826	12,227	130,403	6,011	221,738	356	423,561
Amortization recognized during the year	-	3,268	25,104	1,916	71,989	-	102,277
Balance as of December 31, 2011	52,826	15,495	155,507	7,927	293,727	356	525,838
Net book value:							
As of December 31, 2011	<u>603,472</u>	<u>4,772</u>	<u>235,339</u>	<u>3,922</u>	<u>310,563</u>	<u>1,372</u>	<u>1,159,440</u>
As of December 31, 2010	<u>599,420</u>	<u>7,040</u>	<u>229,097</u>	<u>5,838</u>	<u>255,351</u>	<u>321</u>	<u>1,097,067</u>

*) Additions in respect of computer software include additions for in-house development: in 2011, an amount of NIS 99,819 thousand and in 2010, an amount of NIS 94,889 thousand.

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 branch is included in the life assurance and long-term savings segment.
2. General insurance.
3. Mutual funds are not attributed to any operating segment.
4. Provident is included in the life assurance and long-term savings segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INTANGIBLE ASSETS (Cont.)

Hereunder is the balance in the financial statements of the goodwill that was allocated to each of the following segments:

		December 31,	
		2011	2010
		NIS in thousands	
Cash-generating unit:			
Pension	(1)	384,929	384,929
General insurance	(2)	29,130	26,549
Mutual funds	(3)	155,501	155,501
Provident fund management	(4)	<u>24,241</u>	<u>22,770</u>
Total goodwill recognized in business combinations		593,801	589,749
Other	(5)	<u>9,671</u>	<u>9,671</u>
		<u><u>603,472</u></u>	<u><u>599,420</u></u>

In order to examine the impairment of goodwill, the carrying amount 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 carrying amount, the unit and the goodwill allocated to it will be considered unimpaired. If the carrying amount of the unit exceeds its recoverable amount, the Company recognizes an impairment loss.

- 1) The recoverable amount of the pension branch 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 Insurance 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 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%.

Since the expected estimated cash flows are significantly higher than the asset's carrying amount and given the underlying conservative assumptions, the Company estimates that any reasonable change in the key assumptions used to calculate the value in use will not cause the carrying amount to be lower than the recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INTANGIBLE ASSETS (Cont.)

- 3) The recoverable amount of the mutual fund activity of Menorah Mivtachim Mutual Funds Ltd. as a cash-generating unit is determined on the basis of the value in use which is calculated according to the estimated future cash flows. The examination of the recoverable amount was performed by an external appraiser. Based on the examination of the recoverable amount, no amortization was required in 2009-2011.

The main assumptions used for examining the value in use:

The capitalization interest rate after tax - 12%.

The anticipated annual long-term growth rate - 3.5%.

- 4) The recoverable amount of the provident fund activity of Mivtachim Provident 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 estimated future cash flows. The examination of the recoverability was performed by an external appraiser.

Since the expected estimated cash flows are significantly higher than the asset's carrying amount, 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 - 12%.

The anticipated annual growth rate - 1%.

- 5) The recoverable amount of other goodwill arising from the increase in the Company's holding rate in Menorah Insurance is attributed to Menorah Insurance's cash-generating units, including the general insurance segment, the pension branch and the life assurance segment.

NOTE 6:- DEFERRED ACQUISITION COSTS

- a. Composition:

	December 31,	
	2011	2010
	NIS in thousands	
Life assurance and long-term savings	629,468	*) 595,002
Health insurance	111,108	94,905
General insurance	199,136	193,590
	<u>939,712</u>	<u>883,497</u>

- *) Including deferred acquisition costs relating to pension funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- DEFERRED ACQUISITION COSTS (Cont.)

- b. The movement in deferred acquisition costs in life assurance and long-term savings and health insurance:

	Life assurance and long- term savings	Health insurance	Total
	NIS in thousands		
Balance as of January 1, 2010	545,461	86,795	632,256
Additions:			
Acquisition commissions	109,969	25,982	135,951
Other acquisition expenses	67,783	10,476	78,259
Total additions	177,752	36,458	214,210
Amortizations:			
Current amortization	(58,701)	(13,419)	(72,120)
Amortization due to cancelations	(69,510)	(14,929)	(84,439)
	(128,211)	(28,348)	(156,559)
Balance as of December 31, 2010	595,002	94,905	689,907
Additions:			
Acquisition commissions	102,494	33,431	135,925
Other acquisition expenses	77,387	13,492	90,879
Total additions	179,881	46,923	226,804
Amortizations:			
Current amortization	(61,415)	(17,657)	(79,072)
Amortization due to cancelations	(84,000)	(13,063)	(97,063)
	(145,415)	(30,720)	(176,135)
Balance as of December 31, 2011	629,468	111,108	740,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- FIXED ASSETS

Composition and movement:

2011

	Land and office buildings*)	Computers and peripheral equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost:						
Balance as of January 1, 2011	157,479	190,611	38,649	49,282	25,258	461,279
Additions during the year	167,621	15,942	10,999	2,681	3,328	200,571
Business combinations	-	91	-	95	14	200
Disposals during the year	-	(147)	(8,872)	(175)	(37)	(9,231)
Balance as of December 31, 2011	325,100	206,497	40,776	51,883	28,563	652,819
Accumulated depreciation:						
Balance as of January 1, 2011	48,600	162,775	11,558	31,031	8,347	262,311
Additions during the year	4,641	15,029	5,960	2,531	2,046	30,207
Disposals during the year	-	(147)	(4,611)	(124)	(24)	(4,906)
Balance as of December 31, 2011	53,241	177,657	12,907	33,438	10,369	287,612
Depreciated cost as of December 31, 2011	271,859	28,840	27,869	18,445	18,194	365,207

2010

	Land and office buildings*)	Computers and peripheral equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost:						
Balance as of 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 of December 31, 2010	157,479	190,611	38,649	49,282	25,258	461,279
Accumulated depreciation:						
Balance as of 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 of December 31, 2010	48,600	162,775	11,558	31,031	8,347	262,311
Depreciated cost as of December 31, 2010	108,879	27,836	27,091	18,251	16,911	198,968

*) The land and office buildings are wholly owned by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- FIXED ASSETS (Cont.)

Office building under construction:

In August 2011, Menorah Insurance signed an agreement for the acquisition of a real estate property in Ramat-Gan, Israel, including building rights covering some 35,000 sq. m. The cost of acquisition totaled approximately NIS 158,733 thousand, with the addition of related costs totaling approximately NIS 7,684 thousand. Menorah Insurance intends to construct an office building on the property, mainly for its own use and for the use of other corporations in the Group. According to an initial estimate, the cost of construction of the office building approximates another NIS 285 million.

NOTE 8:- INVESTMENTS IN INVESTEES

Associates

a. Composition of investment in associates accounted for at equity:

	December 31,	
	2011	2010
	NIS in thousands	
Shares	18,490	23
Long-term loans	75,013	19,788
Company's share of earnings accumulated since the date of acquisition, net	16,102	2,619
Adjustments resulting from the translation of financial statements of foreign operations	6,609	(1,183)
	<u>116,214</u>	<u>21,247</u>

The investments (excess losses over investments) in associates presented in the statement of financial position are as follows:

	December 31,	
	2011	2010
	NIS in thousands	
Asset	121,381	25,221
Liability	(5,167)	(3,974)
	<u>116,214</u>	<u>21,247</u>

The Group extended loans to associates amounting to NIS 251,352 thousand as of the reporting date (as of December 31, 2010 - NIS 230,908), reported under "other financial investments" as unquoted debt assets. For additional details see Note 38a below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEEES (Cont.)

- b. A summary of the financial data from the financial statements of associates accounted for at equity, in accordance with the Group's holding rates therein:

	December 31,	
	2011	2010
NIS in thousands		
The Group's share of the net assets of associates in accordance with the holding rate therein:		
Assets	664,181	285,443
Liabilities	(547,967)	(264,196)
Net assets	<u>116,214</u>	<u>21,247</u>

	Year ended December 31,		
	2011	2010	2009
NIS in thousands			
The Group's share of the operating results of associates in accordance with the holding rate therein:			
Revenues	<u>56,997</u>	<u>14,825</u>	<u>8,044</u>
Net income (loss)	<u>16,533</u>	<u>121</u>	<u>(1,808)</u>

- c. Details of holding rates and additional information:

Associates of Menorah Real Estate:

	See	Share of issued share capital, profits and voting rights	
		December 31,	
		2011	2010
		Percentage	
Belltrend Menora Enterprises Ltd.	1)	50.0	50.0
Yatelsis Development Ltd.	2)	60.0	60.0
Yatelsis River Development Ltd.	3)	60.0	60.0
Mxr Development Ltd.	4)	50.0	50.0
Solangia Ltd.	5)	42.0	42.0
Bruseco Holding Ltd.	5)	42.0	42.0
Pellariway Holdings Ltd.	5)	42.0	42.0

The other shareholders in Yatelsis River, Yatelsis Development, Belltrend and MXR have controlling interests in significant decisions regarding the companies' activities such as: veto rights in entering into new projects, appointing executives and determining their employment terms, approving the current budget, etc. In light of the circumstances described above, Menorah Real Estate was unable to exercise control in Yatelsis River, Yatelsis Development, Belltrend and MXR. Therefore, the investment in the abovementioned companies was reported in the financial statements of Menorah Real Estate at equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

- 1) Belltrend Menora Enterprises Ltd. ("Belltrend") was incorporated in Cyprus in 2005. Belltrend, together with other investors, own yielding real estate in Bonn and Cologne, Germany.

During 2009, a lessee of the asset in Bonn entered into receivership proceedings, and consequently evacuated the property. As of the reporting date, there was no alternative lessee for the property. Belltrend's investment in said asset was fully amortized in 2009.

In 2010, a trustee on behalf of the lender which had extended non-recourse loans to Belltrend to finance the acquisition of the property in Cologne commissioned a valuation of the acquired property according to which the value of the property is significantly lower than its carrying amount and represents a violation of a financial covenant. Belltrend is holding negotiations with the trustee for resolving the financial covenant violation. The Group's maximum exposure in respect of this investment approximates NIS 9.7 million.

- 2) Yatelsis Development Ltd. ("Yatelsis") was incorporated in Cyprus in 2007. In October 2007, Yatelsis and other investors acquired real estate in St. Petersburg, Russia, in an area of some 35,500 sq. m. for industrial, storage and office purposes. In the reporting year, Yatelsis planned a residential construction project covering some 100,000 sq. m.
- 3) In June 2008, Yatelsis River Development Ltd. ("Yatelsis River") purchased shares in a Russian company that owns land in an area of about 43,000 sq. m. in St. Petersburg, Russia in equal parts with a company incorporated and traded in Poland. The transaction amounted to approximately €48 million. The scope of Menorah Real Estate's direct investment is approximately €11.5 million. The parties are planning to develop the acquired land located in central St. Petersburg and establish office buildings in an area of some 100,000 sq. m. The construction project is expected to be financed through construction loans from foreign banks.
- 4) MXR Development Ltd. ("MXR") was incorporated in Cyprus in 2007. MXR provides management services for the properties acquired by Yatelsis and Yatelsis River as discussed in 2) and 3) above and is also engaged in development activities.
- 5) In May 2010, Menorah Real Estate signed an agreement for the acquisition of 42% of the shares of Solangia Ltd. ("Solangia"), Brusco Holding Ltd. and Pellariway Holdings Ltd., Cypriot companies which establish solar projects in Europe. According to the investment agreement, an initial shareholders' loan facility will be provided for the purpose of expanding Solangia's activity, which coordinates the majority of the activity, at a scope of approximately €20 million, of which €11 million provided by Menorah Real Estate. As of the date of these financial statements, Menorah Real Estate provided Solangia shareholders' loans totaling approximately €12.9 million (of which €2.6 million as a short-term loan). In the reporting period, Solangia completed the acquisition of additional solar fields at a scope of about 19.7 megawatts. The expected average annual turnover from the entire projects approximates €11.5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEES (Cont.)

Associates of Menorah Insurance:

	See	Share of issued share capital, profits and voting rights	
		December 31	
		2011	2010
		Percentage	
Surrey Street Limited Partnership	1)	28.1	28.1
Sienna Bay Finance LP	2)	39.0	-
Treybrooke Equity LP	3)	39.0	-
Landmark at Maple Glen LP	4)	39.0	-
Gaia Jurnal Square LLC	5)	38.3	-
Sunshen Properties LP	6)	34.1	-
Boulder Texas Holdings LLC	7)	30.1	-
Baltimore Portfolio Finance LP	8)	23.2	-

The holding rates detailed in the table above relate to Menorah Insurance's holdings both through nostro portfolios and through yield-dependent policy portfolios. The investments made through yield-dependent policy portfolios were accounted for as financial investments and measured at fair value.

- 1) In December 2009, Menorah Insurance and Mivtachim Hahadasha the pension fund, which is managed by the subsidiary Menorah Mivtachim pension Ltd., through foreign special purpose companies, acquired 48% of the rights to a partnership which owns an office building in England, which is leased for a period of 20 years to Aviva Central Services UK Ltd. Menorah Insurance's holding rate in the partnership, through the nostro portfolio, is 7.95%.
- 2) In June 2011, Menorah Insurance and Mivtachim Hahadasha the pension fund acquired 48.9% of the rights to a partnership that owns a residential complex in Florida, USA. Menorah Insurance's holding rate in the partnership, through the nostro portfolio, is 19%.
- 3) In May 2011, Menorah Insurance and Mivtachim Hahadasha the pension fund acquired 48.9% of the rights to a partnership that owns a residential complex in North Carolina, USA. Menorah Insurance's holding rate in the partnership, through the nostro portfolio, is 19%.
- 4) In May 2011, Menorah Insurance and Mivtachim Hahadasha the pension fund acquired 48.9% of the rights to a partnership that owns a residential complex in Florida, USA. Menorah Insurance's holding rate in the partnership, through the nostro portfolio, is 19%.
- 5) In August 2011, Menorah Insurance and Mivtachim Hahadasha the pension fund acquired 48.2% of the rights to a partnership that owns an office building in New Jersey, USA. Menorah Insurance's holding rate in the partnership, through the nostro portfolio, is 18.3%.
- 6) In August 2011, Menorah Insurance and Mivtachim Hahadasha the pension fund acquired 44% of the rights to a partnership that owns a commercial building in Florida, USA. Menorah Insurance's holding rate in the partnership, through the nostro portfolio, is 14.1%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- INVESTMENTS IN INVESTEEES (Cont.)

- 7) In September 2011, Menorah Insurance and Mivtachim Hahadasha the pension fund acquired 40% of the rights to a partnership that owns a residential complex in Texas, USA. Menorah Insurance's holding rate in the partnership, through the nostro portfolio, is 10.1%.
- 8) In July 2011, Menorah Insurance and Mivtachim Hahadasha the pension fund acquired 33.1% of the rights to a partnership that owns six residential complexes in Maryland, USA. Menorah Insurance's holding rate in the partnership, through the nostro portfolio, is 10%.
- d. The dividend received from associates in the reporting year totaled NIS 3,049 thousand (2010 - NIS 2,412 thousand). The dividend received from subsidiaries in the reporting year totaled NIS 100,027 thousand

Subsidiaries

- e. Details regarding subsidiaries:

Companies consolidated by the Company	December 31, 2011					
	Shares that confer voting rights	Shares that confer profit rights	Country of incorporation	Scope of investment		
				In shares	In loans	In capital notes
Holding rate	NIS in thousands					
Menorah Mivtachim Insurance Ltd.	100.00%	100.00%	Israel	1,925,964	-	263,379
Menorah Mivtachim Finance Ltd.	100.00%	100.00%	Israel	35,881	182,604	10,470
Menorah Mivtachim Real Estate Ltd.	100.00%	100.00%	Israel	8,453	224,506	-
Menorah Mivtachim Mushlemet Ltd.	100.00%	100.00%	Israel	(1,250)	1,299	-
Dorot Customer Relations Management Ltd. *)	100.00%	100.00%	Israel	1,237	-	-
December 31, 2010						
Companies consolidated by the Company	Shares that confer voting rights	Shares that confer profit rights	Country of incorporation	Scope of investment		
				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	-	-

*) Inactive companies.

***) Voluntarily liquidated in 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- INVESTMENT PROPERTY

- a. Composition and movement:

	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Balance as of January 1,	173,409	127,196
Additions during the year:		
Acquisitions and additions to existing assets	20	22,545
Transfer from fixed assets	-	3,120
Total additions	20	25,665
Disposals during the year	2,625	-
Fair value adjustment	16,806	20,548
Balance as of December 31,	<u>187,610</u>	<u>173,409</u>

- b. Investment property is recorded on the basis of the fair value as determined in valuations performed by external independent appraisers who have expertise in valuation of real estate and the necessary knowledge and experience. The fair value is determined based on recent transactions in the market regarding similar real estate and similar to 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 appraisers used capitalization rates of 8.5% - 9%.

The investment property includes vacant land, real estate leased to businesses and apartments leased for residence.

- c. Regarding engagements relating to lease of investment property, see Note 39d.
- d. Details regarding rights in real estate serving the Group as investment property:

	Date of termination of the lease period (in years)	December 31,	
		<u>2011</u>	<u>2010</u>
		<u>NIS in thousands</u>	
Freehold	-	187,266	172,260
Capitalized lease	55	344	1,149
		<u>187,610</u>	<u>173,409</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- DEBTORS AND RECEIVABLES

a. Composition:

	December 31,	
	2011	2010
	NIS in thousands	
Income receivable	1,338	4,833
Prepaid expenses	31,141	32,416
Advances to suppliers	8,141	3,473
Insurance companies and insurance brokers	28,661	32,103
Insurance agents	55,788	70,403
Other	61,286	12,100
Less - allowance for doubtful accounts	<u>(35,141)</u>	<u>(46,970)</u>
Total debtors and receivables	<u><u>151,214</u></u>	<u><u>108,358</u></u>

b. The movement in the allowance for doubtful accounts:

	2011	2010
	NIS in thousands	
Balance as of January 1,	46,970	44,886
Change in allowance	<u>(11,829)</u>	<u>2,084</u>
Balance as of December 31,	<u><u>35,141</u></u>	<u><u>46,970</u></u>

NOTE 11:- OUTSTANDING PREMIUMS

a. Composition:

	December 31,	
	2011	2010
	NIS in thousands	
Outstanding premiums *)	558,923	534,508
Less - allowance for doubtful accounts	<u>(11,321)</u>	<u>(9,433)</u>
Total outstanding premiums	<u><u>547,602</u></u>	<u><u>525,075</u></u>
*) Including checks receivable and standing orders	<u><u>402,683</u></u>	<u><u>378,553</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- OUTSTANDING PREMIUMS (Cont.)

b. Aging:

	December 31,	
	2011	2010
	NIS in thousands	
Outstanding premium whose value did not deteriorate not including arrears	398,649	369,943
In arrears:		
Less than 90 days	57,886	69,440
Between 90 - 180 days	46,057	42,038
Over 180 days	23,541	22,633
 Total outstanding premiums whose value did not deteriorate	 526,133	 504,054
 Outstanding premium whose value deteriorated	 21,469	 21,021
 Total outstanding premium	 <u>547,602</u>	 <u>525,075</u>

c. The movement in the allowance for doubtful accounts in respect of outstanding premiums:

	2011	2010
	NIS in thousands	
Balance as of January 1,	9,433	5,953
 Change in allowance	 <u>1,888</u>	 <u>3,480</u>
 Balance as of December 31,	 <u>11,321</u>	 <u>9,433</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- FINANCIAL INVESTMENTS FOR YIELD-DEPENDENT CONTRACTS

- a. Details of the assets:

	December 31,	
	2011	2010
	NIS in thousands	
Financial investments:		
Quoted debt assets	4,001,963	3,978,995
Unquoted debt assets *)	3,082,928	3,113,895
Shares	2,682,486	3,226,378
Other financial investments	1,698,864	1,486,344
Total financial investments	<u>11,466,241</u>	<u>11,805,612</u>
Cash and cash equivalents	<u>535,315</u>	<u>67,575</u>
Other	<u>123,196</u>	<u>100,832</u>
Total assets for yield-dependent contracts	<u>12,124,752</u>	<u>11,974,019</u>
*) Includes unquoted debt assets measured according to amortized cost (see Note 2g(4)(a))	<u>482,473</u>	<u>467,923</u>

Concerning the exposure in respect of assets for yield-dependant contracts, see Note 37(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 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- FINANCIAL INVESTMENTS FOR YIELD-DEPENDENT CONTRACTS (Cont.)

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
	NIS in thousands			
Financial investments:				
Quoted debt assets	4,001,963	-	-	4,001,963
Unquoted debt assets	-	2,574,111	26,344	2,600,455
Shares	2,553,690	-	128,796	2,682,486
Other financial investments	873,552	19,325	805,987	1,698,864
Total	7,429,205	2,593,436	961,127	10,983,768

	December 31, 2010			Total
	Level 1	Level 2	Level 3	
	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

- c. The movement in financial assets measured at fair value and classified to level 3:

	Fair value measurement during the reporting period			Total
	Financial assets at fair value through profit and loss			
	NIS in thousands			
	Unquoted debt assets	Shares	Other financial investments	
Balance as of January 1, 2011	88,247	124,854	554,266	767,367
Total gains (losses) recognized in profit and loss	(19,574)	25,395	31,467	37,288
Acquisitions	-	716	328,960	329,676
Sales	-	(22,169)	(40,523)	(62,692)
Surrenders	(56,652)	-	(68,183)	(124,835)
Transfers to Level 3	38,071	-	-	38,071
Transfers from Level 3	(23,748)	-	-	(23,748)
Balance as of December 31, 2011	26,344	128,796	805,987	961,127
Total gains (losses) for the period included in profit and loss in respect of assets held as of December 31, 2011	(11,907)	39,940	71,533	99,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- FINANCIAL INVESTMENTS FOR YIELD-DEPENDENT CONTRACTS (Cont.)

	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 of January 1, 2010	67,280	82,999	412,373	562,652
Total gains 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 of December 31, 2010	88,247	124,854	554,266	767,367
Total gains (losses) for the period included in profit and loss in respect of assets held as of December 31, 2010	(495)	9,897	33,306	42,708

NOTE 13:- OTHER FINANCIAL INVESTMENTS

a. Composition:

	Detailed in paragraph	December 31, 2011			
		Measured at fair value through profit and loss	Available for sale	Loans and receivables	Total
		NIS in thousands			
Quoted debt assets	b	959,998	3,194,823	-	4,154,821
Unquoted debt assets	c	-	-	9,758,210	9,758,210
Shares	e	41,384	239,708	-	281,092
Others	f	337,377	187,041	-	524,418
Total		1,338,759	3,621,572	9,758,210	14,718,541
	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

b. Quoted debt assets:

	December 31,	
	2011	2010
	NIS in thousands	
Government bonds:		
Measured at fair value through profit and loss designated at the time of initial recognition	594,953	325,698
Available for sale	<u>1,523,517</u>	<u>1,773,136</u>
Total government bonds	<u>2,118,470</u>	<u>2,098,834</u>
Other debt assets:		
Unconvertible		
Measured at fair value through profit and loss designated at the time of initial recognition	357,991	399,627
Available for sale	<u>1,671,306</u>	<u>1,948,932</u>
Total other unconvertible debt assets	<u>2,029,297</u>	<u>2,348,559</u>
Other convertible debt assets:		
Measured at fair value through profit and loss designated at the time of initial recognition	<u>7,054</u>	<u>8,364</u>
Total quoted debt assets	<u><u>4,154,821</u></u>	<u><u>4,455,757</u></u>
Fixed impairments allocated to profit and loss (accumulated)	<u>83,509</u>	<u>38,670</u>

c. Unquoted debt assets:

	December 31, 2011	
	Carrying amount	Fair value
	NIS in thousands	
Government bonds:		
Reported as loans and receivables:		
Hetz (life linked) bonds and deposits with the Accountant General	<u>6,300,858</u>	<u>7,571,166</u>
Other debt assets:		
Unconvertible:		
Reported as loans and receivables, including deposits with banks	<u>3,457,352</u>	<u>3,461,702</u>
Total unquoted debt assets	<u><u>9,758,210</u></u>	<u><u>11,032,868</u></u>
Fixed impairment allocated to profit and loss (accumulated)	<u>102,997</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

	December 31, 2010	
	Carrying	Fair
	amount	value
	NIS in thousands	
Government bonds: Reported as loans and receivables: Hetz (life linked) bonds and deposits with the Accountant General	6,108,845	7,506,553
Other debt assets: Unconvertible: Reported as loans and receivables, including deposits with banks	3,057,300	3,249,742
Total unquoted debt assets	<u>9,166,145</u>	<u>10,756,295</u>
Fixed impairment allocated to profit and loss (accumulated)	<u>100,866</u>	
d. Details regarding interest and linkage in respect of debt assets:		
	December 31,	
	2011	2010
	Percentage	
Quoted debt assets: Linkage basis: Linked to the CPI	4.15	3.05
In NIS	4.52	3.71
Linked to foreign currency	8.45	5.79
Unquoted debt assets Linkage basis: Linked to the CPI	4.85	5.39
In NIS	6.19	4.66
Linked to foreign currency	5.33	5.32

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

e. Shares:

	December 31,	
	2011	2010
	NIS in thousands	
Quoted:		
Measured at fair value through profit and loss designated at the time of initial recognition	40,840	42,068
Available for sale	229,629	240,096
Total quoted shares	270,469	282,164
Unquoted:		
Measured at fair value through profit and loss designated at the time of initial recognition	544	866
Available for sale	10,079	10,406
Total unquoted shares	10,623	11,272
Total shares	281,092	293,436
Fixed impairment allocated to profit and loss (accumulated)	72,331	43,209

f. Others:

	December 31,	
	2011	2010
	NIS in thousands	
Quoted:		
Measured at fair value through profit and loss designated at the time of initial recognition	216,404	224,714
Available for sale	69,315	77,443
Derivative instruments *)	443	3,482
Total other quoted financial investments	286,162	305,639
Unquoted:		
Measured at fair value through profit and loss designated at the time of initial recognition	110,516	109,279
Available for sale	117,726	64,827
Derivative instruments *)	10,014	18,478
Total other unquoted financial investments	238,256	192,584
Total other financial investments	524,418	498,223
Fixed impairment allocated to profit and loss (accumulated)	27,615	16,294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

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 39c below.

*) 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,	
	2011	2010
	NIS in thousands	
Shares	31	2,274
Foreign currency	(57,223)	(509,296)

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 on 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.

On February 24, 2011, the Ministry of Finance issued a press release according to which the Fair Spread 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 ("the transition date"), the Fair Spread group provides price quotations and discounted interest rates to institutional entities for revaluation of unquoted debt assets ("the new model"). From that date, Shaarey Ribit no longer supplies 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 Commissioner and accounting regulations regarding measurement of fair value of financial assets. The transition to the new model is applied as a change in estimate. There is no significant effect on the financial statements as a result of the application of the new model on the transition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

On September 14, 2011, the Ministry of Finance issued a notice following a verdict rendered by the Supreme Court on September 6, 2011, which ordered the cancellation of said tender. According to the notice, the Ministry of Finance's tender committee decided that Fair Spread Ltd. will continue to provide individual price quotations and interest rates to institutional entities, this until the earlier of June 1, 2012 or until the winner of a new tender that will be announced commences providing these services. On January 30, 2012, the new tender was published (reissued on March 7, 2012 with updated schedules) according to which the winner will commence providing the individual price quotations and interest rates to institutional entities on February 20, 2013.

Hereunder are the interest rates for the unquoted debt assets:

	December 31,	
	2011	2010
	%	
For unquoted debt assets according to local rating *):		
AA and above	2.0	1.6
BBB to A+	6.4	4.1
Lower than BBB	13.5	13.1
Not rated	32.7	36.1

*) The sources for the level of rating in Israel are the rating companies Ma'alot, Midroog and Internal Rating. The data from Midroog was transferred to the rating categories according to the generally accepted conversion coefficients. Each rating includes all the ranges: for example, rate A includes A- up to A+.

h. Classification of financial assets by fair value hierarchy:

The table below represents an analysis of financial instruments measured 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

The carrying amount of cash, outstanding premiums, customers, debtors and receivables and current tax assets approximates their fair value.

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
	NIS in thousands			
Quoted debt assets	4,154,821	-	-	4,154,821
Shares	268,263	-	12,829	281,092
Others	286,161	10,014	228,243	524,418
Total	4,709,245	10,014	241,072	4,960,331

	December 31, 2010			Total
	Level 1	Level 2	Level 3	
	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

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 of January 1, 2011	11,272	174,106	185,378
Total losses recognized in profit and loss	(240)	(16,859)	(17,099)
Total gains recognized in other comprehensive income	2,178	11,320	13,498
Acquisitions	-	75,926	75,926
Sales	(381)	(2,977)	(3,358)
Surrenders	-	(13,273)	(13,273)
Balance as of December 31, 2011	12,829	228,243	241,072
Total gains (losses) for the period included in profit and loss in respect of assets held as of December 31, 2011	2,294	(16,469)	(14,175)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- OTHER FINANCIAL INVESTMENTS (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 of January 1, 2010	5,319	122,666	127,985
Total gains (losses) recognized in profit and loss	(1,641)	7,616	5,975
Total gains recognized 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 of December 31, 2010	<u>11,272</u>	<u>174,106</u>	<u>185,378</u>
Total gains (losses) for the period included in profit and loss in respect of assets held as of December 31, 2011	<u>(1,641)</u>	<u>10,462</u>	<u>8,821</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- OTHER FINANCIAL INVESTMENTS (Cont.)

i. Analysis of the anticipated realization dates:

December 31, 2011

	<u>Up to one year</u>	<u>One to two years</u>	<u>Two to three years</u>	<u>Three to four years</u>	<u>Four to five years</u>	<u>Over five years</u>	<u>Insurance subsidiary</u>	<u>Total</u>
	NIS in thousands							
Financial assets measured at fair value through profit and loss:								
Quoted debt assets	111,005	46,357	49,108	51,722	27,627	144,125	530,054	959,998
Shares	6,307	12,615	-	-	-	-	22,462	41,384
Others	33,861	25,919	836	525	28,845	42,379	205,012	337,377
Available-for-sale financial assets:								
Quoted debt assets	12,708	8,445	8,445	6,863	4,070	4,833	3,149,459	3,194,823
Shares	-	-	-	-	-	-	239,708	239,708
Others	-	-	-	-	-	-	187,041	187,041
Loans and receivables:								
Unquoted debt assets	407,092	378,716	423,133	408,233	399,848	2,492,436	5,248,752	9,758,210
	<u>570,973</u>	<u>472,052</u>	<u>481,522</u>	<u>467,343</u>	<u>460,390</u>	<u>2,683,773</u>	<u>9,582,488</u>	<u>14,718,541</u>

December 31, 2010

	<u>Up to one year</u>	<u>One to two years</u>	<u>Two to three years</u>	<u>Three to four years</u>	<u>Four to five years</u>	<u>Over five years</u>	<u>Insurance subsidiary</u>	<u>Total</u>
	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
Available-for-sale financial assets:								
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 receivables:								
Unquoted debt assets	31,736	44,200	30,405	117,499	97,806	3,926,221	4,918,278	9,166,145
	<u>65,392</u>	<u>114,679</u>	<u>195,533</u>	<u>180,164</u>	<u>142,873</u>	<u>4,133,830</u>	<u>9,581,090</u>	<u>14,413,561</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- CASH AND CASH EQUIVALENTS

- a. For yield-dependent contracts:

	December 31,	
	2011	2010
	NIS in thousands	
Cash and deposits for immediate withdrawal	120,138	67,575
Short-term deposits	415,177	-
Cash and cash equivalents	<u>535,315</u>	<u>67,575</u>

Cash in banks as of the reporting date bears current interest based on the interest rates in respect of daily bank deposits ranging between 2.29% and 2.54%.

Short-term deposits in banks are for periods ranging between one week and three months and bear an average interest rate of 2.91% (2010 - 2.08%).

Regarding the linkage terms of cash and short-term deposits, see Note 37(2)(g).

- b. Others:

	December 31,	
	2011	2010
	NIS in thousands	
Cash and deposits for immediate withdrawal:		
In NIS	121,748	278,084
In US dollars	41,924	45,842
In other foreign currency	7,634	14,885
	<u>171,306</u>	<u>338,811</u>
Short-term deposits - in NIS	<u>130,288</u>	<u>97,180</u>
Cash and cash equivalents	<u>301,594</u>	<u>435,991</u>

Cash in banks as of the reporting date bears current interest based on the interest rates in respect of daily bank deposits ranging between 2.29% and 2.54%.

Short-term deposits in banks are for periods ranging between one week and three months and bear an average interest rate of 2.91%.

Regarding the linkage terms of cash and short-term deposits, see Note 37(2)(g).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS

- a. Composition of share capital:

	December 31, 2011 and 2010	
	Authorized	Issued and paid up
	Number of shares (in thousands)	
Ordinary shares of NIS par value each	88,000	63,272

- b. Rights attached to the shares:

1. Voting rights in the general meeting, a right to receive dividends, rights upon the Company's liquidation and a right to appoint the Company's directors.
2. Traded on the TASE.

- c. Dividends:

In 2009, 2010 and 2011, no dividends were distributed.

- d. Other capital reserves:

Composition - relating to the Company's shareholders:

	December 31, 2010 and 2011
	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
	<u>13,693</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

- e. Non-controlling interests:

Composition of non-controlling interests in the consolidated statements of financial position:

	December 31,	
	2011	2010
	NIS in thousands	
Share in equity	<u>8,351</u>	<u>7,867</u>

- g. Capital management and requirements:

1. Management's policy is to maintain a strong capital base in order to preserve the Group's ability to continue its operations in order to generate yields for its shareholders and in order to support future business activities. Menorah Insurance and Shomera Insurance are subject to capital requirements prescribed by the Commissioner.

As part of the process of adopting the Solvency II Directive, Menorah Insurance is required to perform a process of self assessment of the risks to which it is exposed and determine the capital which it believes will provide it a safety cushion regarding these risks (see also 5 below). In the reporting period, Menorah Insurance defined the Capital Requirements in the Directive (based on the rules established in the first filing to the Commissioner in February 2011) as the required minimum shareholders' equity ("the target capital"), provided that this minimum shareholders' equity is not lower than the amount prescribed in the minimum solvency regulations. It is hereby clarified that this capital is not compulsory but rather represents the target capital which Menorah Insurance aspires to maintain and there is no certainty that Menorah Insurance will comply with this target capital at each given point in time.

Menorah Mivtachim Pension Ltd. ("Menorah Pension"), Menorah Mivtachim Provident Ltd. and Menorah Mivtachim and the Association of Engineers Management of Provident Funds Ltd. are all required to meet the minimum shareholders' equity requirements pursuant to the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964. In February 2012, new regulations were issued regarding the capital required by provident and pension funds, see 7(b) below.

Menorah Mivtachim Mutual Funds Ltd. is required to meet the Joint Investments in Trust Regulations (Shareholders' Equity and Insurance of Fund and Trust Managers and Compliance of Directors and Members of Investment Committees), 1995.

Menorah Mivtachim Portfolio Management Ltd. is required to meet the Regulations for Settling the Occupation of Investment Consulting, Investment Marketing and Portfolio Management (Shareholders' Equity and Insurance) (Revised), 2000.

As for compliance with the capital requirements, see paragraph 7 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

2. The data regarding the required and existing capital of Menorah Insurance and Shomera Insurance in accordance with Capital Regulations and the Commissioner's directives:

	Menorah Insurance	
	December 31,	
	2011	2010
	NIS in thousands	
Minimum shareholders' equity:		
Amount required as per regulations and the Commissioner's directives (a1)	2,637,959	2,244,703
Amount calculated according to the Capital Regulations:		
First tier capital - basic	1,916,293	2,048,846
First tier capital - compound (c)	263,379	263,951
Total first tier capital	2,179,672	2,312,797
Second tier capital - compound (d)	199,065	-
Second tier capital - subordinate (e)	509,358	609,668
Total existing capital calculated as per the Capital Regulations	2,888,095	2,922,465
Surplus *)	250,136	677,762
Amount of investments required against capital surplus based on the Commissioner's directives which represent non-distributable earnings	19,388	-
(a1) The required amount including capital requirements in respect of:		
Activities in general insurance	280,670	282,681
Activities in LTC insurance	7,036	6,731
Extraordinary risks in life assurance	141,358	141,358
Deferred acquisition costs in life assurance and in illness and hospitalization insurance	608,661	650,863
Requirements in respect of yield-guaranteeing programs	3,537	3,477
Inadmissible assets as defined in the Capital Regulations	43,950	48,768
Investment in consolidated insurance company and managing company	855,873	759,975
Investment assets and other assets	392,125	347,772
Catastrophe risks in general insurance	130,040	126,347
Operational risks	138,082	127,137
Guarantees	36,627	31,807
Total amount required as per the amended Capital Regulations	2,637,959	2,526,916
Less - difference for supplementation by December 31, 2011 (b)	-	282,213
	2,637,959	2,244,703

- *) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

	Shomera Insurance	
	December 31,	
	2011	2010
	NIS in thousands	
Minimum shareholders' equity:		
Amount required as per regulations and the Commissioner's directives (a2)	204,933	159,625
Amount calculated according to the Capital Regulations:		
First tier capital - basic (f)	203,667	179,005
Less - first tier capital beyond the basic capital multiplication limit	-	(36,383)
Second tier capital - subordinate (e)	36,726	34,907
Total existing amount calculated as per the Capital Regulations	240,393	177,529
Surplus *)	35,460	17,904
Amount of investments required against capital surplus based on the Commissioner's directives which represent non-distributable earnings	12,576	8,697
(a2) The required amount including capital requirements in respect of:		
Activities in general insurance	126,837	114,617
Inadmissible assets as defined in the Capital Regulations	1,463	1,526
Investment assets and other assets	38,893	43,231
Catastrophe risks in general insurance	15,087	9,404
Operational risks	22,653	19,835
Total amount required according to the amended Capital Regulations	204,933	188,613
Less - difference for supplementation by December 31, 2011 (b)	-	28,988
	204,933	159,625

*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

- (b) In November 2009, an amendment to the Supervision of Financial Services Regulations (Minimum Solvency Margin Required from an Insurer) (Amendment), 2009 ("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 ("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 compound first tier capital which Menorah Insurance issued to the Company, see Note 25d(2) below.
- (d) For details of the issuance of subordinated deeds representing compound second tier capital in Menorah Insurance, see Note 25e(5) below.
- (e) Includes capital notes in Shomera Insurance 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.
- (f) On June 26, 2011, Shomera Insurance issued to Menorah Insurance 9 million bonus shares of NIS 1 par value each.
3. In the framework of the amendment to the Capital Regulations, certain capital requirements were added to the existing capital requirements in respect of the following categories:
- a) Operating risks.
 - b) Market and credit risks at a percentage of the assets, according to the risk level characterizes the various assets.
 - c) Risks of catastrophe in general insurance.
 - d) Capital requirements in respect of guarantees.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

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 Commissioner's approval.
- deduction of tax reserve created in respect of inadmissible assets held against investment regulations or against the Commissioner's directives.
- it was determined that the Commissioner 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 Commissioner will define. On this matter, the Commissioner has issued a temporary provision, whereby in the period beginning on the effective date of the amendment, and ending on a date to be announced by the Commissioner, no change will be made to the definitions, structure and calculation of the existing capital of insurance companies. This temporary provision was revoked in an insurance circular published in August 2011, as elaborated below. Furthermore and in accordance with the Commissioner's intent to adopt, in the future, the EU Solvency II Directive intended to ensure the solvency of insurers, in August 2011, a circular was published regarding the composition of an insurer's admissible shareholders' equity ("the circular"), whose provisions apply beginning with financial statements for the period ended September 30, 2011.

The circular 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), perpetual capital notes or non-cumulative Preferred shares and compound first tier capital instruments. The first tier compound capital includes financial instruments which are available to absorb the insurer's losses by cancellation of interest payments and deferral of the payment of the principal and their settlement is deferred until all the insurer's liabilities are settled. Under certain circumstances (existing admissible shareholders' equity that is lower than the required capital), the instrument's principal will be written off or converted into ordinary shares. 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. Early repayment is permitted after a period of ten years from the date of issuance, with the Commissioner's approval.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

- 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 (although it is possible to establish that the settlement will not be subordinate to other second tier capital or third tier capital as well). 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. Early repayment is permitted at the end of 8 years from the date of issuance.
- 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 (although it is possible to establish that the settlement will not be subordinate to other second tier capital or third tier capital as well). The first repayment date of the third tier capital instruments is not before the end of 5 years from the date of issuance.

In this respect, insurance liabilities include non-yield-dependent liabilities, excluding the liabilities which are fully backed by Hetz bonds and net of the reinsurers' share.

An insurer's admissible shareholders' equity is the sum of the components and instruments included in the various tiers at the following rates:

- a) The total basic first tier capital components and instruments will not be less than 60% of the total shareholders' equity of the insurer.
- b) The total compound first tier capital components and instruments will not be less than 70% of the total first tier capital.
- c) The total rate of compound first tier capital instruments will not exceed 20% of the total first tier capital.
- d) The total third tier capital components and instruments will not exceed 15% of the total shareholders' equity of the insurer.

The circular includes a temporary provision regarding the composition of an insurer's shareholders' equity during the period from September 30, 2011 until the Directive is applied in Israel, on a date to be announced by the Commissioner, according to which the circular's provisions will be gradually adopted.

In addition, it was determined in the temporary provision 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. "Subordinate secondary tier capital" is defined as the sum of the following components:

- 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

- (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.

In addition to the temporary provision, the circular also includes the following transitional provisions:

- a) Subordinate second tier capital issued by December 31, 2009 will be recognized until its final repayment date, under the conditions in which it was recognized until publication of the circular.
 - b) Subordinate second tier capital issued beginning on January 1, 2010 and thereafter will not be recognized upon the application of the Directive in Israel, or beginning on January 31, 2013, whichever is earlier.
 - c) Compound first tier capital instruments, compound second tier capital instruments and compound third tier capital instruments issued on January 1, 2010 or thereafter, which were approved by the Commissioner, will be recognized to their final maturity date, in accordance with the conditions under which they were issued, and in accordance with the rate restrictions applicable to the various tiers.
 - d) Compound first tier capital instruments, compound second tier capital instruments and compound third tier capital instruments which will be issued beginning on the date the circular comes into force, according to the conditions specified therein, will be fully recognized upon the application of the Directive in Israel, until their repayment dates.
4. In March 2010, a letter of clarification was published with respect to the criteria for approval of distribution of dividends by an insurer ("the clarification").

According to the clarification, an insurance company will be entitled to submit a request for obtaining the Commissioner's approval for distributing dividends, commencing from the date of publication of the periodic financial statements for 2009, subject to compliance with the shareholders' equity as detailed in the clarification, as well as submitting an annual profit forecast for 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 operative work 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 Commissioner, on condition that it notified the Commissioner about the dividend distribution and provided him with the necessary documents before the distribution of the dividends.

In the reporting period, Menorah Insurance distributed a dividend of NIS 100 million after notifying the Commissioner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

In December 2011, the Commissioner published a letter ("the second clarification") which contains the criteria mentioned in the clarification with an additional requirement whereby the debt service plan will also be approved by the insurance company's board of directors and a requirement whereby, following the Commissioner's approval, the minimum ratio of the existing shareholders' equity after the dividend distribution to the amount required will be 105%. As for the distribution of dividends which does not require the Commissioner's advance approval, the ratio of the total shareholders' equity after the dividend distribution to the amount required in the second clarification will be 115%.

5. On July 10, 2007, the European Union adopted the proposed version of the Solvency II Directive ("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 Commissioner, 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 pillars: 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. a) In February 2009, the Commissioner of the Ministry of Finance's Capital Market, Insurance and Savings Division informed the executives of management companies of pension funds that according to his approach, deferred acquisition costs represent an inadmissible asset in the calculation of the minimum shareholders' equity required from managing companies ("the Commissioner's approach"). The Commissioner also announced that he intends to amend the provisions of the regulations pertaining to the capital requirements to reflect the Commissioner's approach and until such amendment is introduced, the Commissioner's announcement must be followed.

As of December 31, 2011, Mivtachim Pension recognized deferred acquisition costs of approximately NIS 94 million in its financial statements. According to the Commissioner's approach, as of December 31, 2011, the minimum shareholders' equity required from Mivtachim Pension is approximately NIS 103 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

- b) In February 2012, the Control of Financial Services Regulations (Provident Funds) (Minimum Equity Required of a Managing Company of a Provident Fund or Pension Fund), 2012 and the Income Tax Regulations (Rules for Approval and Management of Provident Funds) (Amendment No. 2), 2012 (collectively, "the New Regulations") were published.

The New Regulations expanded the capital requirements from the managing companies regarding the scope of managed assets and annual expenses with a minimum starting shareholders' equity of NIS 10 million.

The Commissioner of the Capital Market, Insurance and Savings Division is entitled to expand or minimize the capital requirements given, among others, the risks underlying the managing company's activities, provided that an expansion of the capital requirements is for a predetermined period.

As per his authority, in February 2012, the Commissioner of the Capital Market, Insurance and Savings Division issued a circular aimed at providing capital requirement exemptions to certain managing companies.

A managing company is required to provide additional capital in respect of controlled managing companies and in respect of the amount of the assets that are held in contrast to the provisions regarding the investment of the required shareholders' equity in associates as per the New Regulations.

The New Regulations also include a requirement of holding liquid assets at a rate of at least 50% of the required minimum shareholders' equity.

A managing company will be entitled to distribute a dividend only if its shareholders' equity is at least in the amount of the required minimum shareholders' equity as per the New Regulations.

The New Regulations include a transitional provision whereby a managing company will be required to increase its shareholders' equity, as defined in the regulations, for the difference between the required shareholders' equity before and after the amendment ("the difference"). The difference will be calculated for each financial statement reporting date.

Until the date of issuing the financial statements for March 31, 2012 - 30% of the difference;

Until the date of issuing the financial statements for December 31, 2012 - 60% of the difference;

Until the date of issuing the financial statements for December 31, 2013 - 80% of the difference;

Until December 31, 2014 - the remaining balance of the difference.

The implication of the New Regulations on the shareholders' equity required from subsidiaries, had they been fully applied regardless of the milestones, is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

The capital requirements in Mivtachim Pension will decrease by NIS 23 million compared to the required shareholders' equity prior to the amendment and will reach approximately NIS 80 million. Given Mivtachim Pension's existing shareholders' equity as of December 31, 2011, it has a capital surplus of NIS 26 million.

The capital requirements in Mivtachim Provident will increase by NIS 23 million compared to the required shareholders' equity prior to the amendment and will reach approximately NIS 24 million. Given Mivtachim Provident's existing shareholders' equity as of December 31, 2011, it has a capital surplus of NIS 37 million.

The capital requirements in Menorah Engineers will increase by NIS 9 million compared to the required shareholders' equity prior to the amendment and will reach approximately NIS 10 million. Given Menorah Engineers' existing shareholders' equity as of December 31, 2011, it will be required to increase its shareholders' equity by NIS 9 million.

8. In October 2010, the Commissioner 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 sent by the Commissioner 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. In keeping with this letter, the Commissioner sent another letter according to which said period was extended by six more months starting from August 4, 2011. After the end of the reporting date, on February 14, 2012, the Commissioner extended the period by another three months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CAPITAL AND CAPITAL REQUIREMENTS (Cont.)

As at the end of the reporting date, Menorah Insurance has passive irregularities in the amount of approximately NIS 24 million in assets held against yield-dependent liabilities and approximately NIS 1.2 million in nostro.

9. On February 15, 2012, Menorah Insurance's board of directors decided to distribute Mivtachim Pension as a dividend in kind to the Company. The carrying amount of the investment in Mivtachim Pension in Menorah Insurance's books as of December 31, 2011 approximates NIS 615 million. The abovementioned distribution has no material effect on the Company's retained earnings.

NOTE 16:- LIABILITIES IN RESPECT OF NON-YIELD-DEPENDENT INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

			December 31,			
	2011	2010	2011	2010	2011	2010
	Gross		Reinsurance		On retention	
			NIS in thousands			
Life assurance and long-term savings:						
Insurance contracts	4,786,657	4,581,184	118,434	105,044	4,668,223	4,476,140
Investment contracts	4,517,522	4,368,179	-	-	4,517,522	4,368,179
	9,304,179	8,949,363	118,434	105,044	9,185,745	8,844,319
Less amounts deposited in the Company under the defined benefit plan for the Group's employees	(17,418)	(17,129)	-	-	(17,418)	(17,129)
Total life assurance and long-term savings	9,286,761	8,932,234	118,434	105,044	9,168,327	8,827,190
	588,811	540,775	286,560	259,965	302,251	280,810
Insurance contracts included in the general insurance segment	4,525,876	4,332,706	966,516	972,332	3,559,360	3,360,374
Total liabilities in respect of non-yield-dependent insurance and investment contracts	14,401,448	13,805,715	1,371,510	1,337,341	13,029,938	12,468,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES IN RESPECT OF YIELD-DEPENDENT INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

			December 31,			
	2011	2010	2011	2010	2011	2010
	Gross		Reinsurance		On retention	
			NIS in thousands			
Life assurance and long-term savings:						
Insurance contracts	10,631,622	10,817,331	-	-	10,631,622	10,817,331
Investment contracts	1,177,355	1,108,792	-	-	1,177,355	1,108,792
	<u>11,808,977</u>	<u>11,926,123</u>	<u>-</u>	<u>-</u>	<u>11,808,977</u>	<u>11,926,123</u>
Less amounts deposited in the Company under the defined benefit plan for the Group's employees	<u>(64,524)</u>	<u>(63,351)</u>	<u>-</u>	<u>-</u>	<u>(64,524)</u>	<u>(63,351)</u>
Total life assurance and long-term savings	<u>11,744,453</u>	<u>11,862,772</u>	<u>-</u>	<u>-</u>	<u>11,744,453</u>	<u>11,862,772</u>
Insurance contracts included in the health insurance branch	<u>45,811</u>	<u>45,424</u>	<u>-</u>	<u>-</u>	<u>45,811</u>	<u>45,424</u>
Total liabilities in respect of yield-dependent insurance and investment contracts	<u><u>11,790,264</u></u>	<u><u>11,908,196</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>11,790,264</u></u>	<u><u>11,908,196</u></u>

In yield-dependent insurance contracts, the insurance benefits which the beneficiary is entitled to receive are contingent upon or linked to the yields on certain investments of Menorah Insurance, less management fees. These contracts include, inter alia, insurance plans which entitle / charge the policyholder to / for a bonus / malus, according to the investment results achieved by Menorah Insurance's investment profit sharing policies. In non-yield-dependent insurance contracts, the insurance benefits to which a policyholder is entitled are not dependent on the gain or loss resulting from investments made by Menorah Insurance.

The distinction between yield-dependent contracts and non-yield-dependent contracts is made at the level of the individual coverage, given that there are insurance policies which include several types of coverage, part of which are yield-dependent, while others are non-yield-dependent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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,					
	2011	2010	2011		2010	
	Gross		Reinsurance		On retention	
	NIS in thousands					
<u>Motor act branch</u>						
Provision for unearned premium	280,670	262,020	-	41,033	280,670	220,987
Excess of income over expenses (accruals)	199,971	161,660	10,113	7,383	189,858	154,277
Outstanding claims	1,980,351	1,941,574	182,537	165,276	1,797,814	1,776,298
Total motor act branch (see c3 and 4 below)	2,460,992	2,365,254	192,650	213,692	2,268,342	2,151,562
<u>Liability branches</u>						
Provision for unearned premium	94,552	99,521	44,826	55,308	49,726	44,213
Excess of income over expenses (accruals)	269,505	273,420	144,571	139,818	124,934	133,602
Provision for premium deficiency	1,688	1,310	-	-	1,688	1,310
Outstanding claims	639,467	615,236	156,360	133,499	483,107	481,737
Total liability branches	1,005,212	989,487	345,757	328,625	659,455	660,862
Total motor act and liability branches (see c1 and 2 below)	3,466,204	3,354,741	538,407	542,317	2,927,797	2,812,424
<u>Property and other branches</u>						
Provision for unearned premium	610,803	575,839	190,213	205,739	420,590	370,100
Provision for premium deficiency	28,241	4,544	5,412	-	22,829	4,544
Outstanding claims	424,775	402,595	232,484	224,276	192,291	178,319
Total property and others branches(see b below)	1,063,819	982,978	428,109	430,015	635,710	552,963
<u>Balance in respect of business combinations</u>						
Liability branches	(4,147)	(5,013)	-	-	(4,147)	(5,013)
Total liabilities in respect of insurance contracts included in the general insurance segment	4,525,876	4,332,706	966,516	972,332	3,559,360	3,360,374
<u>Deferred acquisition costs</u>						
Motor act branches	26,060	25,454	-	3,915	26,060	21,539
Liability branches	20,961	22,357	9,732	11,672	11,229	10,685
Property and other branches	153,061	146,725	47,261	52,933	105,800	93,792
	200,082	194,536	56,993	68,520	143,089	126,016
<u>Balance in respect of business combinations</u>						
Liability branches	(946)	(946)	-	-	(946)	(946)
Total deferred acquisition costs	199,136	193,590	56,993	68,520	142,143	125,070
<u>Liabilities in respect of general insurance contracts net of deferred acquisition costs</u>						
Motor act branches	2,434,932	2,339,800	192,650	209,777	2,242,282	2,130,023
Liability branches	981,050	963,063	336,025	316,953	645,025	646,110
Property and other branches	910,758	836,253	380,848	377,082	529,910	459,171
	4,326,740	4,139,116	909,523	903,812	3,417,217	3,235,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

- a2. Insurance liabilities in respect of insurance contracts included in the general insurance segment according to method of calculation:

			December 31,			
	2011	2010	2011	2010	2011	2010
	Gross		Reinsurance		On retention	
	NIS in thousands					
<u>Actuarial valuations</u>						
Mr. Avraham Levenslick	2,873,985	2,765,282	508,759	453,832	2,365,226	2,311,450
Mr. Nir Haramati	97,877	85,725	16,050	14,936	81,827	70,789
Total actuarial valuations	2,971,862	2,851,007	524,809	468,768	2,447,053	2,382,239
<u>Provisions on the basis of other valuations</u>						
Claims department valuation in respect of known outstanding claims	94,641	105,408	46,904	50,274	47,737	55,134
Addition to outstanding claims due to claims incurred but not yet reported (IBNR)	6,093	5,963	3,940	2,905	2,153	3,058
Provision for unearned premium	986,025	937,380	235,039	302,080	750,986	635,300
Other valuations	1,926	2,881	1,140	1,104	786	1,777
Excess of income over expenses (accruals)	469,476	435,080	154,684	147,201	314,792	287,879
	4,530,023	4,337,719	966,516	972,332	3,563,507	3,365,387
Balance due to business combination	(4,147)	(5,013)	-	-	(4,147)	(5,013)
Total liabilities in respect of insurance contracts included in the general insurance segment	4,525,876	4,332,706	966,516	972,332	3,559,360	3,360,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	2011		2010		December 31,	
	Gross		Reinsurance		On retention	
			NIS in thousands			
	2011	2010	2011	2010	2011	2010
Balance at the beginning of the year	3,302,862	3,036,740	526,730	359,397	2,776,132	2,677,343
Accumulated claims cost in respect of the current underwriting year	675,090	664,382	69,785	155,235	605,305	509,147
Change in balances at the beginning of the year as a result of linkage to the CPI	78,030	70,001	12,296	8,257	65,734	61,744
Change in accumulated claims cost estimate in respect of previous underwriting years	(131,242)	(108,578)	(48,041)	(6,594)	(83,201)	(101,984)
Total change in accumulated claims cost	621,878	625,805	34,040	156,898	587,838	468,907
Payments for settlement of claims during the year:						
In respect of current underwriting year	9,541	9,762	2,848	3,654	6,693	6,108
In respect of previous underwriting years	534,479	504,443	36,730	34,758	497,749	469,685
Total payments for the period	544,020	514,205	39,578	38,412	504,442	475,793
Accruals in respect of current underwriting year	88,873	67,357	22,294	30,707	66,579	36,650
Accruals allocated to profit in respect of the released underwriting year	(171,186)	(75,100)	(55,845)	(13,536)	(115,341)	(61,564)
Balance of change in accruals	116,709	153,577	41,034	31,676	75,675	121,901
Total change in the accruals for the period	34,396	145,834	7,483	48,847	26,913	96,987
Change due to business combinations	866	8,688	-	-	866	8,688
Balance at the end of the year	3,415,982	3,302,862	528,675	526,730	2,887,307	2,776,132

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

2. Property and other branches:

	2011		2010		December 31,	
	Gross		Reinsurance		On retention	
			NIS in thousands			
Balance at the beginning of the year	836,253	758,100	377,082	299,402	459,171	458,698
Accumulated claims cost in respect of events during the current year	957,501	937,843	312,653	342,227	644,848	595,616
Change in accumulated claims cost in respect of events prior to the reporting year	6,045	(7,679)	(4,743)	3,036	10,788	(10,715)
	963,546	930,164	307,910	345,263	655,636	584,901
Payments for settlement of claims during the year:						
In respect of events in the reporting year	677,435	641,735	183,445	185,111	493,990	456,624
In respect events prior to the reporting year	263,931	229,223	116,257	92,289	147,674	136,934
Total payments	941,366	870,958	299,702	277,400	641,664	593,558
Change in provision for unearned premium, net of deferred acquisition costs	28,628	14,403	(9,854)	9,817	38,482	4,586
Change in provision for premium deficiency	23,697	4,544	5,412	-	18,285	4,544
Balance at the end of the year	910,758	836,253	380,848	377,082	529,910	459,171

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 reporting 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 reporting year.
4. The payments include indirect expenses for the settlement of claims (general and administrative expenses that are recorded under claims) relating to the respective underwriting years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 of December 31, 2011:

Underwriting year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
	<u>NIS in thousands adjusted to the CPI of November 2011 *)</u>										
Claims paid (accumulated) as at the end of the year:											
After the first year	6,930	8,940	11,175	14,824	16,063	16,408	16,235	14,880	10,012	9,542	
After two years	47,045	58,496	78,299	95,853	105,432	190,563	98,499	79,277	62,108		
After three years	85,886	115,830	165,891	187,868	195,809	286,564	196,870	176,408			
After four years	116,693	174,874	235,958	276,657	279,663	376,955	278,162				
After five years	153,578	226,800	294,991	357,119	372,260	462,844					
After six years	176,341	280,180	350,808	424,851	435,073						
After seven years	199,918	308,988	387,178	487,206							
After eight years	219,334	331,635	421,826								
After nine years	234,827	356,507									
After ten years	245,966										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	342,132	491,186	648,001	692,387	685,237	703,348	696,478	695,642	656,077	763,963	
After two years	370,392	539,676	705,670	769,842	764,186	802,473	792,278	810,066	759,651		
After three years	401,159	569,655	736,075	790,233	771,047	841,311	809,978	825,333			
After four years	278,720	407,531	505,207	633,303	674,839	787,183	644,736				
After five years	277,349	413,219	522,840	630,469	689,779	790,625					
After six years	284,589	416,403	520,333	639,165	668,026						
After seven years	288,068	412,937	518,699	630,780							
After eight years	292,048	420,840	513,372								
After nine years	283,663	417,757									
After ten years	281,770										
Surplus (deficiency) after release of fund **)	<u>(3,050)</u>	<u>(10,226)</u>	<u>(8,165)</u>	<u>2,523</u>	<u>6,813</u>	<u>(3,442)</u>					<u>(15,547)</u>
Deviation rate after release of fund in percentage	<u>(1.09%)</u>	<u>(2.51%)</u>	<u>(1.62%)</u>	<u>0.40%</u>	<u>1.01%</u>	<u>(0.44%)</u>					<u>(0.47%)</u>
Accumulated claims cost as at December 31, 2011	281,770	417,757	513,372	630,780	668,026	790,625	644,736	825,333	759,651	763,963	6,296,013
Accumulated payments up to December 31, 2011	<u>245,966</u>	<u>356,507</u>	<u>421,826</u>	<u>487,206</u>	<u>435,073</u>	<u>462,844</u>	<u>278,162</u>	<u>176,408</u>	<u>62,108</u>	<u>9,542</u>	<u>2,935,642</u>
Total insurance liabilities	<u>35,804</u>	<u>61,250</u>	<u>91,546</u>	<u>143,574</u>	<u>232,953</u>	<u>327,781</u>	<u>366,574</u>	<u>648,925</u>	<u>697,543</u>	<u>754,421</u>	3,360,371
Outstanding claims in respect of the years up to and including 2001 and balance in respect of business combination											<u>55,611</u>
Total insurance liabilities as at December 31, 2011											<u>3,415,982</u>

*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2011:

Underwriting year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
	NIS in thousands adjusted to the CPI of November 2011 *)										
Claims paid (accumulated) as at the end of the year:											
After the first year	6,610	8,346	9,996	13,243	15,159	15,779	15,533	13,285	6,266	6,694	
After two years	42,439	55,024	74,404	91,499	102,609	112,261	94,468	74,636	47,352		
After three years	79,103	106,122	159,385	182,738	192,231	206,913	188,919	163,358			
After four years	107,323	158,888	229,087	269,594	275,506	295,958	269,635				
After five years	137,763	208,013	285,485	348,111	367,852	379,302					
After six years	159,094	258,900	335,846	413,991	429,051						
After seven years	180,547	286,184	371,137	474,696							
After eight years	194,272	308,467	405,694								
After nine years	205,656	332,963									
After ten years	216,803										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	279,681	406,275	599,456	630,278	611,505	619,376	620,068	594,369	465,574	671,884	
After two years	292,883	469,565	649,737	693,723	685,493	679,629	697,090	698,364	559,232		
After three years	323,190	490,884	679,275	713,307	694,436	703,715	714,412	713,275			
After four years	252,112	369,006	483,855	614,245	637,764	654,058	610,582				
After five years	246,864	382,148	500,732	608,708	643,336	662,149					
After six years	251,935	386,940	497,424	618,608	625,160						
After seven years	255,482	384,694	495,856	609,379							
After eight years	258,016	381,857	492,359								
After nine years	250,545	380,953									
After ten years	249,510										
Surplus (deficiency) after release of fund **)	<u>2,602</u>	<u>(11,947)</u>	<u>(8,504)</u>	<u>4,866</u>	<u>12,604</u>	<u>(8,091)</u>					<u>(8,470)</u>
Deviation rate after release of fund in percentage	<u>1.03%</u>	<u>(3.24%)</u>	<u>(1.76%)</u>	<u>0.79%</u>	<u>1.98%</u>	<u>(1.24%)</u>					<u>(0.28%)</u>
Accumulated claims cost as at December 31, 2011	249,510	380,953	492,359	609,379	625,160	662,149	610,582	713,275	559,232	671,884	5,574,483
Accumulated payments up to December 31, 2011	<u>216,803</u>	<u>332,963</u>	<u>405,694</u>	<u>474,696</u>	<u>429,051</u>	<u>379,302</u>	<u>269,635</u>	<u>163,358</u>	<u>47,352</u>	<u>6,694</u>	<u>2,725,548</u>
Total insurance liabilities	<u>32,707</u>	<u>47,990</u>	<u>86,665</u>	<u>134,683</u>	<u>196,109</u>	<u>282,847</u>	<u>340,947</u>	<u>549,917</u>	<u>511,880</u>	<u>665,190</u>	2,848,935
Outstanding claims in respect of the years up to and including 2001 and balance in respect of business combination											<u>38,372</u>
Total insurance liabilities as at December 31, 2011											<u>2,887,307</u>

*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2011:

Underwriting year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	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	6,145	6,665	8,773	11,938	12,109	13,513	13,022	11,451	4,880	4,226	
After two years	38,417	48,968	68,955	85,694	88,622	89,192	82,326	65,714	48,316		
After three years	69,198	100,007	145,697	167,985	168,917	173,138	160,598	145,545			
After four years	92,181	151,868	206,179	246,990	236,853	246,327	225,947				
After five years	117,842	196,317	254,990	315,813	317,083	310,756					
After six years	134,280	240,048	297,188	370,018	366,060						
After seven years	148,434	263,635	327,496	416,043							
After eight years	162,786	281,362	355,031								
After nine years	171,661	301,403									
After ten years	178,280										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	220,213	325,831	470,943	493,182	466,641	474,244	474,137	492,915	458,170	565,861	
After two years	235,165	383,655	524,999	558,298	538,499	555,661	562,635	606,083	556,895		
After three years	263,253	409,858	547,774	568,495	533,957	570,588	574,052	618,811			
After four years	206,191	336,496	420,271	522,371	512,096	543,051	492,218				
After five years	203,085	335,501	429,731	515,515	525,974	537,483					
After six years	203,979	341,431	431,741	530,110	509,369						
After seven years	208,803	341,471	431,539	515,204							
After eight years	209,966	339,894	425,616								
After nine years	202,171	337,080									
After ten years	202,367										
Surplus (deficiency) after release of fund **)	<u>3,824</u>	<u>(584)</u>	<u>(5,345)</u>	<u>7,167</u>	<u>2,727</u>	<u>5,568</u>					<u>13,357</u>
Deviation rate after release of fund in percentage	<u>1.85%</u>	<u>(0.17%)</u>	<u>(1.27%)</u>	<u>1.37%</u>	<u>0.53%</u>	<u>1.03%</u>					<u>0.52%</u>
Accumulated claims cost as at December 31, 2011	202,367	337,080	425,616	515,204	509,369	537,483	492,218	618,811	556,895	565,861	4,760,904
Accumulated payments up to December 31, 2011	<u>178,280</u>	<u>301,403</u>	<u>355,031</u>	<u>416,043</u>	<u>366,060</u>	<u>310,756</u>	<u>225,947</u>	<u>145,545</u>	<u>48,316</u>	<u>4,226</u>	<u>2,351,607</u>
Total insurance liabilities	<u>24,087</u>	<u>35,677</u>	<u>70,585</u>	<u>99,161</u>	<u>143,309</u>	<u>226,727</u>	<u>266,271</u>	<u>473,266</u>	<u>508,579</u>	<u>561,635</u>	2,409,297
Outstanding claims in respect of the years up to and including 2001 and balance in respect of business combination											<u>25,635</u>
Total insurance liabilities as at December 31, 2011											<u>2,434,932</u>

*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2011:

Underwriting year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
	NIS in thousands adjusted to the CPI of November 2011 *)										
Claims paid (accumulated) as at the end of the year:											
After the first year	5,838	6,665	8,773	11,938	12,109	13,513	13,022	11,451	4,135	4,226	
After two years	36,532	48,968	68,955	85,694	88,622	89,192	82,326	65,714	40,343		
After three years	65,222	94,123	145,697	167,985	168,917	173,138	160,598	143,790			
After four years	86,892	140,819	206,179	246,625	236,853	246,233	225,947				
After five years	111,433	182,602	253,710	313,991	317,049	308,738					
After six years	126,858	224,618	295,521	366,749	365,248						
After seven years	140,691	247,054	324,901	411,692							
After eight years	151,389	264,552	353,104								
After nine years	158,253	284,547									
After ten years	164,937										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	209,963	301,325	462,857	484,621	458,716	463,599	462,226	479,530	364,405	555,043	
After two years	219,465	376,569	514,263	544,681	526,793	533,312	539,637	581,911	455,912		
After three years	246,589	390,284	537,006	555,250	522,755	545,059	551,567	595,142			
After four years	192,784	307,697	413,799	516,312	504,710	509,231	479,422				
After five years	189,056	315,431	423,336	509,444	512,767	508,384					
After six years	189,150	321,579	425,246	523,272	498,182						
After seven years	193,568	322,103	425,175	509,417							
After eight years	192,465	320,962	420,945								
After nine years	185,976	319,164									
After ten years	186,702										
Surplus (deficiency) after release of fund **)	6,082	(11,467)	(7,146)	6,895	6,528	847					1,739
Deviation rate after release of fund in percentage	3.15%	(3.73%)	(1.73%)	1.34%	1.29%	0.17%					0.07%
Accumulated claims cost as at December 31, 2011	186,702	319,164	420,945	509,417	498,182	508,384	479,422	595,142	455,912	555,043	4,528,313
Accumulated payments up to December 31, 2011	164,937	284,547	353,104	411,692	365,248	308,738	225,947	143,790	40,343	4,226	2,302,572
Total insurance liabilities	21,765	34,617	67,841	97,725	132,934	199,646	253,475	451,352	415,569	550,817	2,225,741
Outstanding claims in respect of the years up to and including 2001 and balance in respect of business combination											16,541
Total insurance liabilities as at December 31, 2011											2,242,282

*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2011	Life assurance policies including savings component (including riders) according policy's date of issue				Life assurance policies not including savings component		Liabilities to members of guaranteed yield provident fund tracks	Total
	Up to 1990 (1)	Up to 2003	From the year 2004		Risk sold as separate policy			
			Non-yield dependent	Yield dependent	Individual	Collective		
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	1,561,778	3,855,501	-	-	-	-	-	5,417,279
From June 2001	-	660,870	-	1,640,987	-	-	-	2,301,857
Annuity in payment	107,810	98,734	174,949	5,171	-	-	-	386,664
Lump sum (without annuity option)	2,155,250	3,480,879	-	588,844	-	-	-	6,224,973
Other risk components	80,196	361,308	-	261,030	271,428	31,602	-	1,005,564
Total in respect of insurance contracts	3,905,034	8,457,292	174,949	2,496,032	271,428	31,602	-	15,336,337
Liabilities in respect of investment contracts								
In life assurance	3,898	2,843	1,840	1,174,512	-	-	-	1,183,093
For provident fund track members	-	-	-	-	-	-	4,511,784	4,511,784
Total in respect of investment contracts	3,898	2,843	1,840	1,174,512	-	-	4,511,784	5,694,877
Total	3,908,932	8,460,135	176,789	3,670,544	271,428	31,602	4,511,784	21,031,214
(b) According to financial exposure:								
Non-yield-dependent	3,857,831	199,717	176,789	260,796	248,242	31,602	4,511,784	9,286,761
Yield-dependent	51,101	8,260,418	-	3,409,748	23,186	-	-	11,744,453
Total	3,908,932	8,460,135	176,789	3,670,544	271,428	31,602	4,511,784	21,031,214

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG-TERM SAVINGS (Cont.)

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		Liabilities to members of guaranteed yield provident fund tracks	Total
	Up to 1990 (1)	Up to 2003	From the year 2004		Risk sold as separate policy			
			Non-yield dependent	Yield dependent	Individual	Collective		
(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	3,968,560	-	-	-	-	-	5,424,958
From June 2001	-	614,509	-	1,328,770	-	-	-	1,943,279
Annuity in payment	67,078	88,049	171,095	-	-	-	-	326,222
Lump sum (without annuity option)	2,178,004	3,871,647	-	641,390	-	-	-	6,691,041
Other risk components	87,279	363,617	-	223,020	224,394	34,225	-	932,535
Total in respect of insurance contracts	3,788,759	8,906,382	171,095	2,193,180	224,394	34,225	-	15,318,035
Liabilities in respect of investment contracts	23,410	9,144	2,793	1,099,648	-	-	-	1,134,995
In life assurance								
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	8,915,526	173,888	3,292,828	224,394	34,225	4,341,976	20,795,006
(b) According to financial exposure:								
Non-yield-dependent	3,757,597	202,935	173,888	221,854	199,759	34,225	4,341,976	8,932,234
Yield-dependent	54,572	8,712,591	-	3,070,974	24,635	-	-	11,862,772
Total	3,812,169	8,915,526	173,888	3,292,828	224,394	34,225	4,341,976	20,795,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG-TERM SAVINGS (Cont.)

b. Details of the results according to policy type:

Data as at December 31, 2011	Life assurance policies including savings component (including riders) according policy's date of issue				Life assurance policies not including savings component		Total
	Up to 1990 (1)	Up to 2003	From the year 2004		Risk sold as separate policy		
			Non-yield dependent	Yield dependent	Individual	Collective	
NIS in thousands							
Gross premiums:							
Traditional/Endowment	50,394	59,120	-	-	-	-	109,514
Savings component	28,507	363,329	55	582,417	-	-	974,308
Other	21,739	197,857	-	78,383	289,333	9,768	597,080
Total	100,640	620,306	55	660,800	289,333	9,768	1,680,902
Receipts from investment contracts carried directly to insurance reserves	3	56	6	407,629	-	-	407,694
Financial margin including management fees	14,463	52,220	(4,279)	42,012	-	-	104,416
Income (loss) from life assurance business	29,668	(25,702)	(4,054)	(112,300)	1,177	(114)	(111,325)
Offsets and adjustments	-	(2,415)	-	-	-	-	(2,415)
Income (loss) from life assurance business after offsets and adjustment	29,668	(28,117)	(4,054)	(112,300)	1,177	(114)	(113,740)
Other comprehensive loss from life assurance business	(8,689)	(1,106)	(659)	(1,397)	(745)	(157)	(12,753)
Total comprehensive income from life assurance business	20,979	(29,223)	(4,713)	(113,697)	432	(271)	(126,493)
Income from pension and provident							86,077
Total income from life assurance and long-term savings							(40,416)
Annualized premium in respect of insurance contracts - new business (2)	201	1,337	-	144,545	48,130	-	194,213
One time premium in respect of insurance contracts	611	6,157	55	86,932	-	-	93,755
Annualized premium in respect of investment contracts - new business	-	-	-	17,707	-	-	17,707
One time premium in respect of investment contracts	-	-	-	351,379	-	-	351,379
Transfers in respect of insurance and investment contracts to the Company	-	-	-	25,682	-	-	25,682
Transfers in respect of insurance and investment contracts from the Company	40	25,246	-	37,377	-	-	62,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG-TERM SAVINGS (Cont.)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG-TERM SAVINGS (Cont.)

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		Total
	Up to 1990 (1)	Up to 2003	From the year 2004		Risk sold as separate policy		
			Non-yield dependent	Yield dependent	Individual	Collective	
	NIS in thousands						
Gross premiums:							
Traditional/Endowment	50,490	61,759	-	-	-	-	112,249
Savings component	35,049	364,261	124,738	462,705	-	-	986,753
Other	6,100	205,493	-	103,126	268,973	18,051	601,743
Total	91,639	631,513	124,738	565,831	268,973	18,051	1,700,745
Receipts from investment contracts carried directly to insurance reserves	3	111	9	399,511	-	-	399,634
Financial margin including management fees	71,006	159,455	(13,290)	33,870	-	-	251,041
Income (loss) from life assurance business	57,026	57,534	(13,832)	(84,519)	47,259	2,047	65,515
Offsets and adjustments	-	(2,183)	-	-	-	-	(2,183)
Income (loss) from life assurance business after offsets and adjustment	57,026	55,351	(13,832)	(84,519)	47,259	2,047	63,332
Other comprehensive income from life assurance business	16,030	874	-	982	663	116	18,665
Total comprehensive income (loss) from life assurance business	73,056	56,225	(13,832)	(83,537)	47,922	2,163	81,997
Income from pension and provident							148,758
Total income from life assurance and long-term savings							230,755
Annualized premium in respect of insurance contracts - new business (2)	195	1,786	-	125,400	50,258	-	177,639
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	-	-	-	28,996	-	-	28,996
One time premium in respect of investment contracts	-	-	-	352,578	-	-	352,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG-TERM SAVINGS (Cont.)

Data as at December 31, 2009	Life assurance policies including savings component (including riders) according to policy's date of issue				Life assurance policies not including savings component		Total	
	Up to 1990 (1)	Up to 2003	From the year 2004		Risk sold as separate policy			
			Non-yield dependent	Yield dependent	Individual	Collective		
	NIS in thousands							
Gross premiums:								
Traditional/Endowment	61,397	70,714	-	-	-	-	-	132,111
Savings component	30,378	383,439	36,328	352,436	-	-	-	802,581
Other	17,425	217,680	-	97,629	239,710	30,213	-	602,657
Total	109,200	671,833	36,328	450,065	239,710	30,213		1,537,349
Receipts from investment contracts carried directly to insurance reserves	46	606	38	237,192	-	-	-	237,882
Financial margin including management fees	136,016	55,633	6,397	23,674	-	-	-	221,720
Income (loss) from life assurance business	107,269	(47,802)	6,064	(36,468)	50,575	20,952	-	100,590
Offsets and adjustments	-	(1,827)	-	-	-	-	-	(1,827)
Income (loss) from life assurance business after offsets and adjustment	107,269	(49,629)	6,064	(36,468)	50,575	20,952	-	98,763
Other comprehensive income from life assurance business	69,970	-	-	-	517	538	-	71,025
Total comprehensive income (loss) from life assurance business	177,239	(49,629)	6,064	(36,468)	51,092	21,490		169,788
Income from pension and provident								142,446
Total income from life assurance and long-term savings								312,234
Annualized premium in respect of insurance contracts - new business (2)	131	3,126	-	125,355	54,270	-	-	182,882
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG-TERM SAVINGS (Cont.)

c. Additional information regarding yield-dependent liabilities:

	December 31, 2011	Year ended December 31, 2011		
	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)	405,859	18,789	12,469	17,824
"Yud" Fund (Fund No. 10)	7,926,004	888,011	228,821	316,744
In respect of policies issued from the year 2004	2,235,235	660,624	62,715	157,319
Investment contracts	1,177,355	407,685	-	280,768
Total	11,744,453	1,975,109	304,005	772,655
	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	18,308	7,588	15,855
"Yud" Fund (Fund No. 10)	8,340,772	886,683	214,401	326,248
In respect of policies issued from the year 2004	1,969,679	540,903	46,568	141,293
Investment contracts	1,108,792	399,622	-	186,951
Total	11,862,772	1,845,516	268,557	670,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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				2007	Annual nominal average yield 5 years		Management fees for the year ended December 31,		
	2011	2010	2009	2008		Before management fees	After management fees	2011	2010	2009
	%							NIS in thousands		
"Yud" Fund (Fund No. 10)	(5.67)	11.63	40.53	(23.12)	6.92	4.00	5.73	52,220	159,455	55,632
General track for policies beginning from the year 2004	(5.57)	11.63	40.53	(23.12)	6.92	4.02	2.68	30,824	25,196	18,443
Other								11,188	8,674	5,232
Total								94,232	193,325	79,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG-TERM SAVINGS (Cont.)

e. Information in respect of transactions:

	Year ended December 31, 2011
	NIS in thousands
Transfers to the Company from other entities:	
Transfers from other insurance companies	19,337
Transfers from pension funds	1,511
Transfers from provident funds	4,834
Total transfers to the Company	25,682
Transfers from the Company to other entities:	
Transfers to other insurance companies	39,131
Transfers to pension funds	11,335
Transfers to provident funds	12,197
Total transfers to the Company	62,663
Net transfers	(36,981)

The transfers relate to life assurance and not to provident fund and pension fund assets which are not included in the consolidated financial statements.

NOTE 20:- ADDITIONAL INFORMATION IN RESPECT OF THE HEALTH INSURANCE BUSINESS

a. Details of gross liabilities in respect of insurance contracts according to financial exposure:

The data included in each of the columns in the tables below relate to the main policy and the additional coverage attached to it:

	December 31, 2011			
	LTC			
	Individual	Collective	Other *)	Total
	NIS in thousands			
Yield-dependent	45,811	-	-	45,811
Non-yield-dependent	388,552	3,711	196,548	588,811
Total	434,363	3,711	196,548	634,622

*) The most significant part of other health insurance is for long-term care and the most significant coverage included in other health insurance is medical expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 20:- ADDITIONAL INFORMATION IN RESPECT OF THE HEALTH INSURANCE BUSINESS
(Cont.)**

	December 31, 2010			Total
	LTC			
	Individual	Collective	Other *)	
	NIS in thousands			
Yield-dependent	45,424	-	-	45,424
Non-yield-dependent	365,768	4,555	170,452	540,775
Total	411,192	4,555	170,452	586,199

*) The most significant part of other health insurance is for long-term care and the most significant coverage included in other health insurance is medical expenses.

b. Details of gross liabilities in respect of insurance contracts according to insurance exposure:

	December 31, 2011			Total
	LTC			
	Individual	Collective	Other *)	
	NIS in thousands			
Paid annuity	44,679	1,872	167,654	214,205
Other risk components	389,684	1,839	28,894	420,417
Total	434,363	3,711	196,548	634,622

	December 31, 2010			Total
	LTC			
	Individual	Collective	Other *)	
	NIS in thousands			
Paid annuity	43,654	2,756	145,462	191,872
Other risk components	367,538	1,799	24,990	394,327
Total	411,192	4,555	170,452	586,199

*) The most significant part of other health insurance is for long-term care and the most significant coverage included in other health insurance is medical expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- ADDITIONAL INFORMATION IN RESPECT OF THE HEALTH INSURANCE BUSINESS (Cont.)

c. Details of results according to policies:

	Year ended December 31, 2011			
	LTC			Total
	Individual	Collective	Other *)	
	NIS in thousands			
Gross premiums	56,896	724	268,309 *)	325,929
Income from the health insurance business	20,909	1,402	28,979	51,290
Other comprehensive loss from the health insurance business	(2,245)	(16)	(1,983)	(4,244)
Total comprehensive income from the health insurance business	18,664	1,386	26,996	47,046
Annualized premium - new business	4,524	-	31,663	36,187

*) Of which individual premiums totaling NIS 239,625 thousand and collective premiums totaling NIS 28,684 thousand.

	Year ended December 31, 2010			
	LTC			Total
	Individual	Collective	Other *)	
	NIS in thousands			
Gross premiums	49,548	859	*) 261,921	312,328
Income (loss) from the health insurance business	(6,813)	(972)	19,611	11,826
Other comprehensive income from the health insurance business	1,605	19	193	1,817
Total comprehensive income (loss) from the health insurance business	(5,208)	(953)	19,804	13,643
Annualized premium - new business	5,584	-	25,128	30,712

*) Of which individual premiums totaling NIS 223,894 thousand and collective premiums totaling NIS 38,027 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 20:- ADDITIONAL INFORMATION IN RESPECT OF THE HEALTH INSURANCE BUSINESS
(Cont.)**

	Year ended December 31, 2009			Total
	LTC			
	Individual	Collective	Other *)	
	NIS in thousands			
Gross premiums	43,741	1,407	*) 246,642	291,790
Income from the health insurance business	55,943	2,588	40,703	99,234
Other comprehensive income from the health insurance business	1	98	3,026	3,125
Total comprehensive income from the health insurance business	55,944	2,686	43,729	102,359
Annualized premium - new business	5,224	-	2,325	7,549

*) Of which individual premiums totaling NIS 209,790 thousand and collective premiums totaling NIS 36,582 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- MOVEMENT IN LIABILITIES IN RESPECT OF LIFE ASSURANCE, INVESTMENT AND HEALTH INSURANCE CONTRACTS, GROSS

	<u>Life assurance and long-term savings *)</u>			<u>Health insurance</u>
	<u>Insurance contracts</u>	<u>Investment contracts</u>	<u>Total</u>	
	<u>NIS in thousands</u>			
Balance as of January 1, 2010	13,675,852	5,042,098	18,717,950	470,170
Interest, linkage differences and investment income	1,103,000	351,454	1,454,454	8,860
Increase in respect of premiums allocated to liabilities	1,187,107	419,798	1,606,905	33,714
Decrease in respect of claims, surrenders and maturity	(717,701)	(343,208)	(1,060,909)	(4,045)
Changes due to change in assumptions	16,974	-	16,974	39,592
Reclassification of investment plans	(6,829)	6,829	-	-
Other changes	59,632	-	59,632	37,908
Balance as of December 31, 2010	15,318,035	5,476,971	20,795,006	586,199
Interest, linkage differences and investment gains (losses)	(409,802)	262,030	(147,772)	12,304
Increase in respect of premiums allocated to liabilities	1,178,966	425,942	1,604,908	32,711
Decrease in respect of claims, surrenders and maturity	(836,001)	(448,392)	(1,284,393)	-
Changes due to change in assumptions	-	-	-	8,017
Reclassification of investment plans	21,674	(21,674)	-	-
Other changes	63,465	-	63,465	(4,609)
Balance as of December 31, 2011	<u>15,336,337</u>	<u>5,694,877</u>	<u>21,031,214</u>	<u>634,622</u>

*) Composition (gross):

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Non-yield-dependent insurance and investment contracts	9,286,761	8,932,234
Yield-dependent insurance and investment contracts	<u>11,744,453</u>	<u>11,862,772</u>
	<u>21,031,214</u>	<u>20,795,006</u>

1. Interest, linkage differences and investment gains - this item includes interest, linkage differences and investment gains (losses) in respect of the balance as at the beginning of the year, with the addition of interest, linkage differences and investment gains (losses) in respect of premiums only for savings reported during the reporting period.
2. Increase in respect of premiums allocated to liabilities - this premium does not include all the premium recorded as income. The premium includes the premium for savings and part of the premium in products with fixed premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- MOVEMENT IN LIABILITIES IN RESPECT OF LIFE ASSURANCE, INVESTMENT AND HEALTH INSURANCE CONTRACTS, GROSS (Cont.)

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. In health insurance, the main amount included in this item represents a change in actuarial estimate arising from the difference between actual results and the estimate at the beginning of the year.

The movement in liabilities in respect of insurance contracts does not include a reference to policies issued and cancelled in the reporting year.

NOTE 22:- TAXES ON INCOME

- a. Tax laws applicable to the Group companies:

1. General:

The subsidiaries, Menorah Insurance, Shomera Insurance, Mivtachim Pension, Mivtachim Provident, Mutual Funds, Menorah Engineers and Capital Raising are "financial institutions" as defined in the Value Added Tax Law, 1975. The tax applicable to the income of financial institutions is comprised of corporate tax and profit tax.

The income of the Company and the rest of the investees is subject to corporate tax only.

2. Income Tax (Inflationary Adjustments) Law, 1985:

The Income Tax (Inflationary Adjustments) Law, 1985 ("the Adjustments 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 Adjustments Law, the results for tax purposes are measured after adjustment to the changes in the CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Adjustments Law which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out 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 disposal. Since 2008, 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 depreciable assets purchased after the 2007 tax year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (Cont.)

3. Tax arrangements that are unique to the insurance industry:

a) The agreement with the Israeli Tax Authorities ("ITA"):

An agreement has been signed between the Israeli association of insurance companies and the ITA ("the tax agreement") that is renewed every year and arranges the unique tax issues of the insurance business for the tax years up to and including the 2010 tax year. The tax agreement relates, among others, to the following issues:

- Deferred acquisition costs ("DAC") - direct expenses of insurance companies incurred in the purchase of life insurance contracts will be deductible for tax purposes in equal parts, distributed over a period of four years. DAC in disease and hospitalization insurance are amortized over a period of six years, similarly to the amortization rate in the books.
- Attribution of expenses to preferred income - for income to which reduced taxation rates apply, and for tax-exempt income received from the insurance companies ("preferred income"), attribution of expenses will be performed, i.e., some of the preferred income will be turned into fully taxable income, in accordance with the attribution rate. The attribution rate stipulated in the tax agreement is dependent upon the financial source yielding the preferred income.
- Taxation of income from assets held as investments will be equivalent to the taxation of yield-dependent liabilities.
- The effect of the transition to international standards - it was agreed that the one-time effect on the date of transition to international standards will be reduced for tax purposes over 3 years, from the 2008 tax year until the 2010 tax year (inclusive). However, it was agreed that, if and when the ITA forms a position on the matter in a way that contradicts the principles of the tax agreement, the parties will discuss the ensuing tax implications.
- Cancellation of the Adjustments Law - it was agreed that the effect of the transitional provision on the Adjustments Law, in all matters relating to marketable securities, will be reduced for tax purposes over a period of 3 years, from 2008 to 2010 (inclusive).

An agreement for the 2011 tax year has not yet been signed. The financial statements have been prepared in accordance with the principles of said tax agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (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 of December 31, 2006, Menorah Insurance's outstanding reserve represented 0.17% of the insurance risk amount, on retention.

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 records on February 4, 2010 ("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 significance of the Temporary Order is that the IFRS standards will not effectively apply to the calculation of reported income for tax purposes for the above tax years. The Group estimates that the amendment to the Ordinance has no material impact on the taxes reported in the financial statements.

On January 12, 2012, an amendment to Section 87a of the Income Tax Ordinance (Amendment No. 188 to the Income Tax Ordinance) was published in the records, which extended the validity period of the Temporary Order, including with regard to the 2010 and 2011 tax years.

5. On August 2, 2009 the ITA published the report of the committee that examined the tax implications involving the implementation of the recommendations of the Bachar Committee ("the report" and "the committee", respectively). The committee included in its recommendations a number of basic principles that will serve as an outline in principle for the position of the ITA 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.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 22:- TAXES ON INCOME (Cont.)**

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 effect on the consolidated financial statements.

- b. Tax rates applicable to the to the income of the Group companies:
1. The statutory tax applicable to financial institutions which 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 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. On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

Hereunder are the statutory tax rates applicable to financial institutions:

Year	Corporate tax rate	Profit tax rate	Overall tax rate in financial institutions
		%	
2009	26	(* 16.0	36.21
2010	25	16.0	35.34
2011	24	16.0	34.48
2012	25	16.0	35.34
2013 and thereafter	25	15.5	35.06

*) Weighted tax rate.

The effect of the said changes on the deferred tax balances resulted in a decrease in comprehensive income for 2011 in the amount of approximately NIS 20,937 thousand. Of this amount, a total of approximately NIS 18,898 thousand originating from the increase in the deferred tax liabilities was accrued to taxes on income and a total of approximately NIS 2,039 thousand was carried to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (Cont.)

c. Tax assessments:

1. Final tax assessments:

The Company has received final tax assessments up to and including the 2006 tax year. Menorah Insurance and Mivtachim Provident have received final tax assessments up to and including the 2008 tax year. Mivtachim Pension has received final tax assessments up to and including the 2001 tax year and the tax assessments for the tax years 2002-2006 are considered final. Shomera Insurance, Menorah Mutual Funds and Menorah Portfolio Management have received final tax assessments up to and including the 2009 tax year. Shomera Real Estate has received final tax assessments up to and including the 2010 tax year. Menorah Real Estate has received final tax assessments up to and including the 2006 tax year. The tax assessments of other subsidiaries for the tax years up to and including the 2007 tax year are considered to be final. Subsidiaries that were established after the 2005 tax year did not receive final tax assessments since their establishment.

2. Tax assessments in dispute:

- a) 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 ITA 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 ITA's opinion, which forms the basis for the abovementioned requirement and has submitted its objections accordingly. The ITA did not respond to these objections within a year from the date of their filing by Mivtachim Pension. Accordingly, given that it has been four years since the date of filing the annual report with the ITA for the 2005 and 2006 tax years, these tax assessments are considered to be final. Mivtachim Pension did not set up a provision in respect of the tax assessment issued to the best of judgment for the 2007 tax year since it claims that there is a good chance that its objections will be accepted.

- b) In October 2010, Mivtachim Pension was issued a decree in respect of 2004 whereby it was required to pay an amount of approximately NIS 389 million (including interest and linkage differences through the date of issuing the alternative assessment) in excess of the tax it had already paid, this as an alternative tax assessment determined in the negotiations held between the tax assessing officer and Menorah Insurance regarding the amortization of goodwill arising for Menorah Insurance from the acquisition of Mivtachim Pension. Mivtachim Pension disputed the tax assessing officer's argument and in November 2010 appealed the decree to the Court.

In February 2011, a settlement was signed between the ITA and Menorah Insurance and Mivtachim Pension in which it was agreed that the cost of acquisition will not be amortized for tax purposes and the alternative tax assessment issued to Mivtachim Pension will be eliminated. The agreement was given the status of a court verdict. Accordingly, the tax assessment for this year is considered final.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (Cont.)

- d. Losses carried forward for tax purposes and other temporary differences:

Subsidiaries have business losses for tax purposes carried forward to future years, as at December 31, 2011 in the amount of approximately NIS 8,413 thousand (as at December 31, 2010 - NIS 4,522 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 approximately NIS 13,614 thousand and in respect of a capital loss in the amount of NIS 3,161 thousand (as at December 31, 2010 - business losses in the amount of NIS 9,522 thousand and a capital loss in the amount of NIS 3,161 thousand), was not included since it was not expected to be utilized in the foreseeable future.

- e. Taxes on income included in the statements of income:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Current taxes	74,486	148,940	120,385
Deferred taxes relating to the creation and reversal of temporary differences, also see h below	(34,743)	317	73,424
Taxes (tax benefit) in respect of previous years (current and deferred)	(5,956)	3,511	7,242
Adjustment of the deferred tax balances following change in tax rates	18,898	-	(10,258)
	<u>52,685</u>	<u>152,768</u>	<u>190,793</u>

- f. Taxes on income (tax benefit) relating to other comprehensive income items:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Gain (loss) in respect of available-for-sale assets	(47,450)	8,041	143,764
Loss in respect of adjustments resulting from the translation of the financial statements of foreign operations	3,162	(604)	-
	<u>(44,288)</u>	<u>7,437</u>	<u>143,764</u>

- g. Tax benefit relating to equity items:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Tax benefit in respect of share-based payment	<u>18</u>	<u>25</u>	<u>3,458</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (Cont.)

h. Deferred taxes:

Composition:

	Deferred acquisition costs in life assurance	Fixed assets and investment property	Financial instruments	Allowance for doubtful accounts	Employee benefits	Others	Total
	NIS in thousands						
Balance of deferred tax asset (liability) as at January 1, 2010	(122,759)	(32,459)	(50,816)	31,168	17,857	(9,786)	(166,795)
Changes allocated to profit and loss	8,333	(9,936)	4,829	559	(220)	2,106	5,671
Changes allocated to comprehensive income and equity	-	-	(8,041)	-	-	629	(7,412)
Balance of deferred tax asset (liability) as at December 31, 2010	(114,426)	(42,395)	(54,028)	31,727	17,637	(7,051)	(168,536)
Changes allocated to profit and loss	726	(12,714)	38,762	(1,983)	5,349	3,473	33,613
Changes allocated to comprehensive income and capital	-	-	47,450	-	-	(3,143)	44,307
Effect of change in tax rates	(14,746)	(9,955)	922	2,586	2,579	(284)	(18,898)
Balance of deferred tax asset (liability) as at December 31, 2011	(128,446)	(65,064)	33,106	32,330	25,565	(7,005)	(109,514)

The deferred taxes are reported in the consolidated statements of financial position as follows:

	December 31,	
	2011	2010
	NIS in thousands	
Deferred tax assets	8,274	556
Deferred tax liabilities	(117,788)	(169,092)
	(109,514)	(168,536)

As at December 31, 2011, no deferred tax liabilities were recognized in respect of temporary differences in a total of approximately NIS 1,337,113 thousand (as at December 2010 - approximately NIS 1,484,485 thousand) relating to investments in investees since these investments were not expected to be realized in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- TAXES ON INCOME (Cont.)

i. Theoretical tax:

Hereunder is the reconciliation of the theoretical tax amount that would have applied had all the income and expenses, gains and losses in the statement of income been liable to tax at the statutory tax rate and the taxes on income carried to the statement of income:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Income before taxes on income	90,985	434,715	593,763
Comprehensive statutory tax rate applicable to financial institutions (see paragraph b above)	34.48%	35.34%	36.21%
Tax computed at the statutory tax rate including amortization for not applying profit tax to companies which are not financial institutions	32,656	153,750	201,826
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses for tax purposes	5,300	10,582	6,741
Tax-exempt income	(2,222)	(5,492)	(2,919)
Group's share of earnings of associates	(263)	1,562	899
Differences in the measurement basis	(445)	(2,914)	(2,628)
Temporary differences for which no deferred taxes were allocated	1,851	1,176	(102)
Increase (decrease) in losses for tax purposes for which no deferred taxes were allocated	(17)	93	393
Utilization of losses from previous years for tax purposes for which no deferred taxes were allocated in the past	(2,949)	(3,624)	(10,542)
Update of deferred taxes due to changes in legislation	18,898	-	(10,258)
Update of deferred tax balances in respect of changes in tax rates	4,503	(6,140)	-
Taxes in respect of previous years (current and deferred)	(5,956)	3,511	7,242
Others	1,329	264	141
Taxes on income	52,685	152,768	190,793
Average effective tax rate	57.91%	35.14%	32.13%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- LIABILITIES DUE TO EMPLOYEE BENEFITS, NET

Employee benefits include short-term benefits, post-employment benefits, other long-term benefits, and termination benefits.

Post-employment benefits

Labor laws and the Severance Pay Law in Israel require the Company to pay severance to an employee upon dismissal or retirement or to make current deposits in a defined contribution 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 Group'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 contribution plans or as a defined benefit plan as detailed below:

Defined contribution plans

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for compensation represent defined contribution plans. In 2011, 2010 and 2009, the expenses in respect of the defined contribution plans amounted to NIS 22,638 thousand, NIS 15,783 thousand and NIS 12,297 thousand, respectively and were included under general and administrative expenses.

Defined benefit plan

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

- a. Composition of liabilities due to employee benefits, net:

	December 31,	
	2011	2010
	NIS in thousands	
Liabilities in respect of unfinanced defined benefit plan	39,123	33,492
Liability in respect of financed defined benefit plan	138,103	128,153
	177,226	161,645
Fair value of the plan's assets	46,317	43,023
Total liabilities, net in respect of defined benefit plans	<u>130,909</u>	<u>118,622</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- LIABILITIES DUE TO EMPLOYEE BENEFITS, NET (Cont.)

b. Information regarding defined benefit plans:

1. Changes in the present value of the liability for a defined benefit plan:

	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Balance as at January 1	161,645	136,773
Interest cost	7,670	7,033
Current service costs	19,013	17,479
Benefits paid	(8,929)	(7,244)
Actuarial loss (gain), net	(956)	7,487
Other adjustments	(1,217)	117
Balance as at December 31	<u>177,226</u>	<u>161,645</u>

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:

	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Balance as at January 1	43,023	33,699
Expected return	2,360	1,952
Net actuarial gain (loss)	(2,766)	412
Contributions by employer	9,490	9,884
Benefits paid	(4,182)	(2,827)
Other adjustments	(1,608)	(97)
Balance as at December 31	<u>46,317</u>	<u>43,023</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- LIABILITIES DUE TO EMPLOYEE BENEFITS, NET (Cont.)

3. The main actuarial assumptions in determining liabilities in respect of defined benefit plans:

	December 31,	
	2011	2010
	%	
Discount rate	4.94	5.32
Expected rate of return on plan assets	5.48	5.55
Future salary increases	4.94	5.40

4. The amounts regarding the current year and previous years:

	December 31,		
	2011	2010	2009
	NIS in thousands		
Present value of liability in respect of defined benefit	177,226	161,645	136,773
Fair value of the plan assets	46,317	43,023	33,699
Deficiency in plan	(130,909)	(118,622)	(103,074)
Adjustments resulting from past experience regarding:			
Plan liabilities	(956)	7,487	11,210
Plan assets	(2,766)	412	3,200

5. Expenses allocated to profit and loss:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Current service cost	19,013	17,479	17,414
Interest cost on benefit obligation	7,670	7,033	3,820
Expected return on plan assets	(2,360)	(1,952)	(1,023)
Net actuarial loss recognized in the year	1,810	7,075	8,010
Total employee benefit expenses *)	26,133	29,635	28,221
Actual return on plan assets	(529)	2,968	4,440

- *) The expenses were included in the salaries and related expenses item, under general and administrative expenses, see Note 33 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24:- CREDITORS AND PAYABLES

	December 31,	
	2011	2010
	NIS in thousands	
Employees and payroll accruals	81,995	87,243
Expenses payable	34,444	28,376
Suppliers and service providers	117,230	58,077
Payables in respect of fixed assets	48,722	-
Government authorities and institutions	19,148	17,314
Deferred acquisition costs in respect of reinsurance	59,813	71,404
Insurance companies and brokers:		
Deposits by reinsurers	381,588	384,311
Other accounts	86,577	50,265
	<u>468,165</u>	<u>434,576</u>
Insurance agents	173,761	189,575
Policyholders and members	183,899	162,752
Provision for policyholders' participation in profits	12,577	3,458
Prepaid premium	31,981	36,773
Pension funds	14,744	19,133
Liability due to purchase of operation (see Note 4a above)	7,027	-
Others	4,587	2,730
	<u>1,258,093</u>	<u>1,111,411</u>
Total creditors and payables		

See details of assets and liabilities distributed according to linkage basis in Note 37(2)(g) below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- FINANCIAL LIABILITIES

This Note provides information regarding the contractual conditions of financial liabilities. Additional information regarding the Group's exposure to interest, foreign currency and liquidity risks is provided in Note 37, regarding risk management.

a. Details of financial liabilities:

1. Financial liabilities reported at amortized cost:

	December 31,			
	Carrying amount		Fair value **)	
	2011	2010	2011	2010
	NIS in thousands			
Short-term credit from banks	2,498	-	2,498	-
Loans from banks (see c below)	31,250	38,381	32,332	46,782
Debentures (see d below)	952,537	902,009	961,761	964,025
Subordinated deeds *) (see e below)	965,627	819,651	1,012,982	887,442
Loan from associate (see f below)	418	455	320	443
	<u>1,952,330</u>	<u>1,760,496</u>	<u>2,009,893</u>	<u>1,898,692</u>

2. Financial liabilities reported at fair value through profit and loss:

Derivatives	110,790	-	110,790	-
Total financial liabilities	<u>2,063,120</u>	<u>1,760,496</u>	<u>2,120,683</u>	<u>1,898,692</u>

*) Of which subordinated deeds serving as second tier capital	<u>708,423</u>	<u>609,668</u>	<u>759,498</u>	<u>678,560</u>
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**) 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.

b. Financial liabilities reported at amortized cost - details regarding interest and linkage:

	December 31,	
	2011	2010
	Effective interest Percentage	
Linkage basis:		
Linked to the CPI	4.55	4.52
In NIS	6.60	6.60
In U.S. dollars	2.42	2.42

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- FINANCIAL LIABILITIES (Cont.)

- c. Loans from banks - additional information:

Details	Linkage basis	Annual nominal interest in % as at the reporting date	Carrying amount as at December 31,	
			2011	2010
			NIS in thousands	
(1)	NIS	6.60	31,250	34,375
	CPI	4.90	-	4,006
			<u>31,250</u>	<u>38,381</u>

- (1) A bank loan to Menorah Mivtachim Mutual Funds received in July 2007. The loan will be repaid in sixteen equal semi-annual payments beginning from December 31, 2008.

- d. Debentures - additional information:

Details	Linkage basis	Annual nominal interest in % as at the reporting date	Carrying amount as at December 31,	
			2011	2010
			NIS in thousands	
(1)	CPI	4.28	681,668	637,431
(2)	CPI	4.50	270,869	264,578
			<u>952,537</u>	<u>902,009</u>

- (1) Debentures were issued by the Company to institutional investors on July 12, 2007 and were rated by the Midroog Rating Company at Aa2. The debentures 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 debentures were listed for trade on March 6, 2008.

In October 2011, the Company raised a debt in the amount of NIS 100 million through a private placement of debentures to institutional entities by way of expansion of the debenture series. Before the private placement, Midroog issued a rating report which stated that the rating of the Company's debentures remains unchanged at Aa3 with a stable outlook. The rating report was based among others, on the execution of a restructuring consisting of the transfer of shares of Mivtachim Pension from Menorah Insurance to the Company (see Note 41 below) within a year from the date of the rating. If such restructuring is not executed, the rating will be reexamined. In addition, the Company has declared that it intends to maintain liquid assets and credit facilities at a rate of 125% of the debt payments (principal and interest) one year in advance, based on the debentures' amortization schedule.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- FINANCIAL LIABILITIES (Cont.)

- (2) In July 2010, the Company completed a private capital raising from institutional investors in the amount of NIS 170 million. In the framework of the debt raising, the Company allotted NIS 170 million par value of debentures (Series B) to the institutional investors, bearing interest at the rate of 4.5% per annum, paid once a year on June 30 beginning from 2011 through 2022. The principal of the debentures 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 CPI. 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 debentures 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 debentures were rated by Midroog at Aa3. The rating was granted for the series and/or for loans from banks in the overall amount of NIS 250 million. The Company invested the entire proceeds from the offering in Menorah Insurance as compound first tier capital (hybrid capital).

In September 2010, the Company issued to an institutional investor additional debentures in the amount of NIS 80 million par 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 raising of debentures (Series B) in the overall amount of NIS 250 million par value, whose terms were described above. An amount of NIS 83 million from the issue proceeds was invested in Menorah Insurance as compound first tier capital (hybrid capital), by way of issuing a deferred capital note in the amount of NIS 80 million par value, whose conditions are identical to the conditions of the capital note issued in July 2010.

- e. Subordinated deeds - additional information:

Details	Linkage basis	Annual nominal interest in % as at the reporting date	Carrying amount as at December 31,	
			2011	2010
			NIS in thousands	
(1)	CPI	6.60	19,088	27,922
(2)	CPI	5.84	31,416	38,287
(3)	CPI	5.45	241,502	294,344
(4)	CPI	4.05	471,745	459,098
(5)	CPI	6.30	201,876	-
			965,627	819,651

- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- FINANCIAL LIABILITIES (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 at Aa2 by Midroog.

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) Debentures totaling NIS 200 million par value each issued by Menorah Capital Raising in accordance with a prospectus from May 2007 to institutional investors and to the public. The proceeds from the issue of the debentures were deposited with Menorah Insurance, for its own use and at its own judgment and responsibility. Menorah Insurance undertook to pay the holders of the debentures the principal, linkage and interest in accordance with the terms of the debentures. The debentures were rated at Aa2 by Midroog and are traded on the stock exchange. The debentures will be repaid in 11 equal annual installments starting from July 1, 2012.

In May 2008, Menorah Capital Raising issued NIS 200,000,000 par value of registered debentures (Series A) of NIS 1 par value each of Menorah Capital Raising by way of expanding the series first listed for trade on the Tel-Aviv Stock Exchange according to a prospectus published by Menorah Capital Raising on May 3, 2007. The debentures were issued at a discount rate of 2.57%. The investors' rights to receive any amounts are deferred until after the claims of all the other creditors of Menorah Insurance are settled.

In October 2011, Midroog announced that it was keeping the rating of the debentures (Series A) issued by Menorah Capital Raising at Aa2 with a negative outlook.

- (5) On October 6, 2011, Menorah Capital Raising completed a capital raising of NIS 200 million in a private placement to institutional investors. The capital raised is used as compound second tier capital in Menorah Insurance. Before the private placement, Midroog published a rating report according to which all said debentures are rated at Aa3 with a negative outlook.

The debentures (Series B) of NIS 1 par value each bear annual interest of 4.65%, linked to the CPI of August 2011, and repayable in a lump sum on October 14, 2024. The interest on the debentures (Series B) is payable in annual installments on October 14 of each calendar year starting from 2012 until their final maturity in 2024. However, Menorah Capital Raising is entitled to make an early redemption of the debentures (Series B) in 2012 provided that any of the following conditions is met: (1) simultaneously with the early redemption of the debentures (Series B), Menorah Capital Raising issues an equity instrument of a similar or preferred quality; or (2) with the Commissioner's advance approval and under this terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- FINANCIAL LIABILITIES (Cont.)

To the extent that Menorah Capital Raising does not utilize its early redemption right, additional interest to the interest then borne by the debentures (Series B) will be paid to the holders of the debentures (Series B) for the remaining period (from the date of the unutilized early redemption to the date of actual redemption) at a rate of 50% from the original risk margin determined in the offering ("the updated interest"). This additional interest will be at 1.235%.

Furthermore, in respect of the debentures (Series B), the payments of principal and/or interest will be deferred if on their maturity date certain delaying circumstances are met, as defined in deed of trust. Such payments will be deferred until said delaying circumstances no longer exist within a period of three years from the date of repayment of the interest and/or principal. The deferred principal and interest payments will continue to accrue linkage differences and interest at the rate denominated in the deed of trust.

The proceeds from the offering totaled NIS 200 million and were deposited in Menorah Insurance in a deferred deposit under the same repayment and interest terms as the debentures. The deposit is equivalent in ranking to the subordinated deeds that were and/or will be issued by Menorah Insurance and subordinated to Menorah Insurance's other liabilities to its creditors.

f. Loan from associate:

In January 2010, an associate granted a loan to a subsidiary in the amount of \$ 125 thousand. The loan bears annual interest at the rate of Euribor for two years + 1.5% and is expected to be settled in January 2014 with an option for immediate repayment at the associate's demand.

g. Unamortized issue expenses:

The balance of the unamortized deferred issue expenses as at December 31, 2011 is NIS 2,835 thousand (as at December 31, 2010 - NIS 2,824 thousand). The deferred issue expenses are amortized according to the effective interest rate method.

h. Financial liabilities presented at fair value:

The fair value of financial liabilities presented at fair value through profit and loss is grouped into classes as follows:

- | | |
|---------|---|
| Level 1 | - quoted prices (unadjusted) in active markets for identical assets or liabilities. |
| Level 2 | - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. |
| Level 3 | - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data). |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- FINANCIAL LIABILITIES (Cont.)

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
	NIS in thousands			
Derivatives *)	-	110,790	-	110,790

*) The amount of the net exposure to the base asset presented in delta terms of the financial liabilities as of the financial reporting date:

	December 31, 2011 NIS in thousands
Foreign currency	(477,610)
Share index	18,784
Interest	(203,738)

NOTE 26:- PREMIUMS EARNED ON RETENTION

	Year ended December 31, 2011		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	1,680,902	118,579	1,562,323
Premiums in health insurance	325,929	101,410	224,519
Premiums in general insurance	2,354,892	591,402	1,763,490
Total premiums	4,361,723	811,391	3,550,332
Change in the unearned premium balance	(43,029)	67,042	(110,071)
Total premiums earned	4,318,694	878,433	3,440,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- PREMIUMS EARNED ON RETENTION (Cont.)

	Year ended December 31, 2010		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	1,700,745	113,191	1,587,554
Premiums in health insurance	312,328	95,114	217,214
Premiums in general insurance	<u>2,279,287</u>	<u>756,624</u>	<u>1,522,663</u>
Total premiums	4,292,360	964,929	3,327,431
Change in the unearned premium balance	<u>(22,098)</u>	<u>(60,111)</u>	<u>38,013</u>
Total premiums earned	<u><u>4,270,262</u></u>	<u><u>904,818</u></u>	<u><u>3,365,444</u></u>
	Year ended December 31, 2009		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	1,537,349	112,321	1,425,028
Premiums in health insurance	291,790	90,928	200,862
Premiums in general insurance	<u>2,277,818</u>	<u>624,451</u>	<u>1,653,367</u>
Total premiums	4,106,957	827,700	3,279,257
Change in the unearned premium balance	<u>(36,479)</u>	<u>(95,979)</u>	<u>59,500</u>
Total premiums earned	<u><u>4,070,478</u></u>	<u><u>731,721</u></u>	<u><u>3,338,757</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27:- NET INVESTMENT GAINS (LOSSES) AND FINANCIAL INCOME

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
<u>Gains (losses) from assets held against yield-dependent liabilities</u>			
Financial investments:			
Quoted debt assets	97,075	320,655	991,347
Unquoted debt assets	56,961	276,464	646,718
Shares	(681,745)	430,336	1,018,036
Others	(116,646)	146,565	224,181
Cash and cash equivalents	<u>3,742</u>	<u>626</u>	<u>(3,787)</u>
Total gains (losses) from assets held against yield-dependent liabilities, net	<u>(640,613)</u>	<u>1,174,646</u>	<u>2,876,495</u>
<u>Gains (losses) from assets held against non-yield-dependent liabilities, equity and others</u>			
Income from investment property:			
Revaluation of investment property	16,806	20,548	16,091
Current income in respect of investment property	<u>6,372</u>	<u>5,702</u>	<u>4,328</u>
Total income from investment property	<u>23,178</u>	<u>26,250</u>	<u>20,419</u>
Gains (losses) from financial investments, except for interest, linkage differences, exchange rate differences and dividend in respect of:			
Available-for-sale financial assets (a)	(7,064)	158,172	133,715
Assets measured at fair value through profit and loss (b)	(92,401)	88,464	123,658
Assets reported as loans and receivables (c)	<u>19,948</u>	<u>16,878</u>	<u>(5,488)</u>
	<u>(79,517)</u>	<u>263,514</u>	<u>251,885</u>
Interest income (*) and linkage differences from financial assets not measured at fair value through profit and loss	831,688	835,158	921,175
Interest income and linkage differences from financial assets measured at fair value through profit and loss	65,996	41,549	21,312
Gain (loss) from exchange rate differences in respect of investments not measured at fair value through profit and loss and from other assets	46,114	(46,384)	10,748
Income from dividend	<u>19,247</u>	<u>14,652</u>	<u>10,140</u>
Total net investment gains and financial income	<u>266,093</u>	<u>2,309,385</u>	<u>4,112,174</u>
(*) The above income includes interest in respect of financial assets not reported at fair value through profit and loss whose value was impaired	<u>10,693</u>	<u>6,030</u>	<u>7,003</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27:- NET INVESTMENT GAINS (LOSSES) AND FINANCIAL INCOME (Cont.)

- a. Net investment gains (losses) in respect of available-for-sale assets:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Net gains from realized securities	78,218	117,694	65,416
Net reversal of impairment (impairment) allocated to profit and loss	(85,282)	40,478	68,299
Total investment gains (losses) in respect of available-for-sale assets	(7,064)	158,172	133,715

- b. Investment gains (losses) in respect of assets measured at fair value through profit and loss:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Net changes in fair value, including realization profit:			
In respect of assets designated upon initial recognition	(92,401)	88,464	123,658

- c. Investment gains (losses) in respect of assets reported as loans and receivables:

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Net gains from the realization of assets reported as loans and receivables	22,079	15,950	27,224
Net reversal of impairment (impairment) allocated to profit and loss	(2,131)	928	(32,712)
Total gains (losses) from investments in respect of assets reported as loans and receivables	19,948	16,878	(5,488)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- INCOME FROM MANAGEMENT FEES

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Management fees in the pension and provident fund branches	408,109	355,706	310,266
Variable management fees in respect of life assurance contracts	-	108,082	9,792
Fixed management fees in respect of life assurance contracts	73,104	68,350	56,327
Management fees in respect of investment contracts	21,128	16,893	13,188
Management fees in respect of mutual funds and other investment portfolios	81,873	86,840	65,754
Total income from management fees	584,214	635,871	455,327

NOTE 29:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Insurance agencies' commissions	12,868	9,110	9,277
Reinsurance commissions, net of change in deferred acquisition costs in respect of reinsurers	188,028	208,157	158,338
Other commissions	5,496	12,864	10,806
Total income from commissions	206,392	230,131	178,421

NOTE 30:- OTHER INCOME

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Income from royalties	650	-	-
Capital gain (loss) from sale of fixed assets	(106)	427	195
Rental income	311	-	-
Other	580	-	-
Total other income	1,435	427	195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- PAYMENTS AND CHANGE IN LIABILITIES IN RESPECT OF INSURANCE CONTRACTS AND INVESTMENT CONTRACTS ON RETENTION

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
In respect of life assurance contracts:			
Claims paid and outstanding			
Death, disability and others	299,626	292,827	250,471
Less reinsurance	<u>(53,782)</u>	<u>(69,160)</u>	<u>(59,770)</u>
	245,844	223,667	190,701
Surrenders	570,262	549,146	452,893
Maturities	160,949	136,897	108,584
Annuities	<u>22,059</u>	<u>15,234</u>	<u>7,508</u>
Total claims	999,114	924,944	759,686
Increase in liabilities in respect of life assurance contracts (except for change in outstanding claims) on retention	43,674	1,812,024	3,202,983
Increase in liabilities in respect of investment contracts for the yield component	<u>283,150</u>	<u>368,335</u>	<u>554,567</u>
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention, in respect of life assurance contracts	<u>1,325,938</u>	<u>3,105,303</u>	<u>4,517,236</u>
Total payments and change in liabilities in respect of general insurance contracts:			
Gross	1,629,905	1,730,966	1,664,935
Reinsurance	<u>(400,505)</u>	<u>(509,622)</u>	<u>(346,768)</u>
On retention	<u>1,229,400</u>	<u>1,221,344</u>	<u>1,318,167</u>
Total payments and change in liabilities in respect of health insurance contracts:			
Gross	213,113	246,663	201,572
Reinsurance	<u>(99,324)</u>	<u>(95,691)</u>	<u>(77,867)</u>
On retention	<u>113,789</u>	<u>150,972</u>	<u>123,705</u>
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention	<u>2,669,127</u>	<u>4,477,619</u>	<u>5,959,108</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 32:- COMMISSIONS, MARKETING EXPENSES AND OTHER ACQUISITION EXPENSES

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Acquisition expenses:			
Acquisition commissions	492,978	505,913	476,120
Other acquisition expenses	200,821	207,682	182,279
Change in deferred acquisition costs	(56,215)	(70,961)	(10,713)
Total acquisition expenses	637,584	642,634	647,686
Other current commissions	257,834	247,890	193,849
Other marketing expenses	33,916	24,313	27,270
Total commissions, marketing expenses and other acquisition expenses	<u>929,334</u>	<u>914,837</u>	<u>868,805</u>

NOTE 33:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Salaries and related expenses	515,379	456,254	406,868
Depreciation and amortization	101,326	81,574	65,181
Maintenance of office premises and communications	74,389	60,233	54,502
Professional and legal counseling	56,797	45,086	37,351
IT expenses (not including depreciation and wages)	99,258	89,544	83,134
Fines	348	14,262	-
Bank	30,088	28,959	30,969
Vehicle maintenance	19,521	16,784	14,863
Others	47,384	49,175	34,907
Total (*)	944,490	841,871	727,775
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contract	(71,013)	(58,909)	(43,993)
Amounts classified under commissions, marketing expenses and other acquisition expenses	(223,058)	(222,084)	(194,972)
General and administrative expenses	<u>650,419</u>	<u>560,878</u>	<u>488,810</u>
(*) General and administrative expenses including expenses in respect of IT in the amount of	<u>232,114</u>	<u>181,759</u>	<u>173,677</u>
After participation of other companies in general and administrative expenses in the amount of	<u>1,703</u>	<u>2,131</u>	<u>1,146</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34:- 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,		
	2011	2010	2009
	NIS in thousands		
Total expenses recognized from equity-settled share-based payment transaction (see b below)	1,310	1,921	2,630
Total expenses recognized from cash-settled share-based payment plan (see c below)	1,869	5	-
	<u>3,179</u>	<u>1,926</u>	<u>2,630</u>

- b. Plan to allocate shares to the Company's CEO (formerly - the CEO of Menorah Insurance):

1. Details of the plan:

On August 27, 2003, Menorah Insurance's board of directors, and later on its general meeting, and the Company's audit committee and board of directors, approved a plan to allocate shares to the Company's CEO (on the date the plan was approved - Menorah Insurance's CEO) ("the plan") as detailed below:

In the framework of the plan, Menorah Insurance allocated shares to the CEO which constitute 4% of its issued share capital after the allocation, and which were entrusted with a trustee. The shares were allocated 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 Menorah Insurance's shares into the Company's shares, which constitute 4% of the Company's share capital after the conversion, subject to adjustments. The Company is entitled to obligate the CEO to convert the shares as mentioned above.

The fair value of the shares on the date of allocation is approximately NIS 44.7 million. The fair value was measured according to the value at which the Company's shares were traded on the Tel-Aviv Stock Exchange on the date of allocation. Menorah Insurance and the Company received an approval for the plan from the Tax Authorities, in accordance with the provisions of Section 102 to the Income Tax Ordinance, under the labor income track. The share allocation 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 expedite the employee's entitlement in respect of the shares in an amount not exceeding 20% of the shares.

The plan was approved by the Company's general meeting on November 19, 2003 and received all the necessary approvals by law.

In 2005, the CEO converted two portions (out of ten) of Menorah Insurance's shares that were granted to him into the Company's shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34:- SHARE-BASED PAYMENT (Cont.)

2. Change in the plan:

On July 31, 2008, the audit committees and boards of directors of Menorah Insurance and the Company approved a change in the CEO share allocation plan, which was originally approved on August 27, 2003 ("the original plan"), as detailed below.

All of Menorah Insurance's shares that were held with the trustee for the CEO were immediately converted into the Company's shares, which are also held with the trustee, according to the conversion ratio as determined in the original plan, calculated on the date right before the approval of the audit committee and board of directors, as mentioned above, namely, at the end of the trading day of July 30, 2008 ("the immediate conversion"). It should be clarified that as a result of the immediate conversion there was no change in the vesting dates of the portions of shares to which the CEO was entitled according to the original plan.

In addition, the taxation track that is applicable for the shares the CEO is entitled to was changed from the ordinary track to the capital track pursuant to Section 102 to the Income Tax Ordinance, namely, instead of the ordinary track (the labor income track), as determined in the original plan, the CEO will be taxed at the time of exercise (as defined in Section 102 to the Income Tax Ordinance) according to the capital track. It should be clarified that the plan according to the capital track replaces the original plan and applies to the six portions 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 apply.

On August 24, 2008, following the aforementioned, the Company issued 1,696,518 shares of NIS 1 par value each, against the receipt of the balance of all the Menorah Insurance shares that were held in trust for the CEO according to the original plan. Consequently, the Company's holdings in Menorah Insurance increased to 100%.

c. Plan to allocate benefit units to the CEO of Menorah Insurance and to senior officers ("the plan"):

1. Details of the plan:

In the framework of an overall remuneration plan as detailed in Note 38c below, Menorah Insurance allocated to officers 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 directors in the Company or in Menorah Insurance and to officers who are a related party to the controlling shareholder or who are not executives. 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 remuneration plan and 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34:- SHARE-BASED PAYMENT (Cont.)

The benefit units are units for calculating the (gross) monetary benefit due to the offerees at the time of realization of the benefit units only, and 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 exercise of any of the benefit units will be calculated according to the difference between the exercise price of each benefit unit and the base price of each benefit unit, multiplied by the number of the exercised benefit units ("the benefit amount"). The base 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 approves 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 exercise price will be the closing price of the Company's share on the Stock Exchange, on the date of exercise (and if the exercise date is not a trading day, then the first trading day after the exercise date). The amount to be paid to the offeree in respect of the exercise 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 vest in a number of portions, over four years from the date the board of directors of Menorah Insurance approves the grant of the benefit units, whereby the first portion at the rate of 50% will vest after two years, 25% after three years and the remaining 25% after four years. Each portion will be exercisable within one year from the date of its vesting, and after the last exercise date of the benefit units in relation to each portion, the offeree will not be entitled to exercise the benefit units relating to that portion, and will not be entitled to any other right by its virtue. The life span of each option is one year from its vesting date.

The plan prescribes directives regarding the exercise 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 offering of rights in the Company and also due to additional events which the board of directors will determine, at its discretion, or adjustment mechanisms, as the case may be.

2. Balance of liabilities in respect of employee rights that have vested by the reporting date:

December 31,	
2011	2010
NIS in thousands	
<u>1,874</u>	<u>5</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34:- SHARE-BASED PAYMENT (Cont.)

3. The fair value of the options was estimated on the date of grant using the binomial model. The total value of the benefit units to officers in the Group is approximately NIS 5,546 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 income.

Hereunder is a table presenting the data which was used for measuring the fair value of the options:

	<u>2010 Plan</u>
Dividend yield (%)	-
Excepted share price fluctuations (%)	49% - 37%
Risk-free interest rate (%)	3.5% - 2.7%
Expected life of the options (years)	2 - 4.7
Share price (NIS)	29

4. Movement during the year:

	<u>2011</u>	<u>2010</u>
	<u>Units</u>	
Balance at January 1	1,052,337	-
Benefit units forfeited this year	(40,334)	-
Benefit units granted this year	125,992	1,052,337
Balance at December 31	<u>1,137,995</u>	<u>1,052,337</u>

5. The weighted average remaining expected life of the benefit units as of December 31, 2011 is 2.7 years (2010 - 3.55 years).

NOTE 35:- FINANCIAL EXPENSES

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
Interest expenses, linkage differences and exchange rate differences in respect of:			
Liabilities to banks	2,454	3,096	5,339
Subordinated deeds	58,713	57,025	73,265
Debentures	60,993	51,070	48,730
Reinsurers	13,275	9,063	9,454
Other	8,470	1,620	3,288
Total financial expenses	<u>143,905</u>	<u>121,874</u>	<u>140,076</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36:- EARNINGS PER SHARE

The calculation of basic earnings per share in 2011 was based on the income attributable to the holders of Ordinary shares totaling NIS 37,816 thousand (in 2010 - income of NIS 281,616 thousand, in 2009 - income of NIS 402,798 thousand) divided by the weighted average of the number of outstanding Ordinary shares by 63,272 thousand shares.

NOTE 37:- RISK MANAGEMENT

1. General:

a) Operating segments:

The Group operates in following main areas of activity: life assurance and long-term savings (including life assurance, pension and provident), health insurance and general insurance. In addition, the Group provides various services in the finance sector (mutual funds, investment portfolio management and underwriting) and real estate. The Group's activities expose it to the following risks:

- financial risks: market risks, credit risks and liquidity risks.
- insurance risks.
- operating risks.

b) Description of risk management procedures and practices:

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 risk management is to prudently manage the risks in such a manner that will maximize the profit while preserving the risk limitations that were predetermined and meeting regulatory requirements. The Group appointed a chief 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 Commissioner's directives.

Risk management is an entity-wide activity which is based on the responsibility of the business factors in the various Group entities for the risks assumed by them, the supporting units that include actuary, reinsurance and finances and the risk management field that is engaged in identification, measurement, control and reporting. The various boards of directors in the Group establish risk management principles and approve policies in the different lines of operation while addressing the risk management activity. The Group has risk management committees - one for the insurance activity and one for the pension and provident fund members, both headed by the various CEOs, whose role is to define, direct and support the Group's risk management array, taking into consideration business and regulatory aspects.

In the subsidiaries Menorah Mivtachim Insurance, Shomera, Menorah Mivtachim Pension and Menorah Mivtachim Provident, a survey is held annually for identifying risks in collaboration with the senior executives in the Group. The survey identifies new risks, reevaluates existing risks and reviews the steps taken to handle the risks that were realized during the year. The process of launching new products includes the identification and comprehensive examination of the risks inherent in the products and the measures for managing and controlling them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

1) Financial risk management (market, credit and liquidity risks):

Market risk relates to the uncertainty of the future value of the 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.

Credits risk relates to the uncertainty of the ability of the borrower, issuer or reinsurer to comply with their liabilities towards the Company. This risk is expressed in two manners: (a) the market price of the debt asset - the price reflecting the market valuation of the issuer's ability to comply with its liabilities and therefore the credit risk is expressed in the interest margin compared to an identical debt asset issued by the Government and is defined in this respect as risk free. To the extent that the market assesses the credit risk as increased, the margin at which the debt asset is traded expands and its value decreases and vice versa; (b) the loss of the investment incurred in the event of insolvency - as a result of the issuer's inability to meet its principal and/or interest obligations.

Liquidity risk derives from: (a) accelerated surrenders of life assurance policies (the probability of this scenario increased after the publication of the regulations for the mobility of the long-term investment funds); (b) uncertainty as to the strength and timing of the claims in general insurance.

The financial risk management responsibility is divided between officers and various functions in the organization, starting with the board of directors, investment committees, credit committee, investment department, risk management department and back office and middle office departments.

The Group companies adopt a financial risk management policy of dispersing the exposure by determining the allowed investment ranges for the different types of assets while addressing their distribution over geographical areas, issuers, currencies and market sectors. There are also limitations regarding specific risk factors such as interest, shares, credit and exchange rates.

In the insurance and pension companies, the boards of directors establish the financial risk management policies, approve the ranges of investments in the major types of assets and approve exposure and risk limitations for the managed portfolios (where the financial risks are borne by the policyholder or by the member). The boards approve the allocation of assets to each portfolio and determine the overall risk limitation for each managed portfolio based on the portfolio's composition. The boards receive ongoing reports on the compliance with statutory limitations and the risk management limitations approved by them.

The managements of the Group's subsidiaries implement the policies regarding investments, credit and financial risk management (in the insurance and pension companies) as approved by the various boards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

The middle office department monitors the limitations on an ongoing basis, alerts any irregularities, and reports them to the investment committees as applicable. The risk management department controls this process. The calculation and monitoring of risk indices in the nostro portfolio and in the managed portfolios are performed by the risk management department on a quarterly basis and reported to the investment committees and boards of the various companies. See details of the types of financial risks, the relevant exposures and the sensitivity tests for changes in market factors in 2 and 3 below.

The market risk management policies in the nostro of the insurance companies (assets against general insurance reserves and non-yield-dependent life assurance and shareholders' equity) are based on 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 receipts and payments of the respective 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, follow up of assets and liabilities adjustment during various periods of repayments and evaluating extreme scenarios.

In the managed portfolios (yield-dependent life assurance, pension and provident funds), active risk management is performed: examination of the strategic allocation of assets for each managed portfolio against indicator portfolios, measurement of absolute and proportional risks (proportionally to the indicator portfolio) calculation of risk adjusted performance indices and analysis of the effect of extreme scenarios.

The credit risk management policies in the asset portfolio include the dispersion of the credit risk over market sectors, geographical areas, lenders (individual and group) and their rating. When assessing credit risks in specific transactions, the Group uses an intrinsic model developed by it that is currently in the process of being approved by the Commissioner. In the context of the credit risk management activity, the risks are assessed on an ongoing basis while attempting to identify and solve problematic debts early.

The credit risk management policies arising from the exposure to reinsurers, based on maintaining the quality and dispersion of the portfolio, are detailed in 5(f) below.

The liquidity risk management policies are mainly based on maintaining a minimum level of the rate of liquid assets and cash in the asset portfolios. In addition, a minimum weight was determined for investing in liquid assets abroad, taking into consideration the probability of the occurrence of a catastrophe in Israel that requires providing large amounts of cash within a short period of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

2) Insurance risk management:

The insurance risk (that is derived from the policy underwriting risk) relates to exposure to monetary losses as a result of choosing risks which the Group insures and is expressed by the uncertainty regarding the number and 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 insurance risks are managed by the business factors of the various insurance branches with the support of the actuarial, salary and risk management units.

These factors hold professional/insurance discussions about various risk management matters including exposure analysis, branch profitability, and periodic examinations of the risk factors and accordingly, they come to administrative decisions. The exposure to insurance risks is moderated by a large spread of the insurance contracts and by transferring (part of) the exposure to reinsurers. The risks are also minimized by choosing and applying underwriting strategies and creating spreads according to branches, 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, the tools and methods used for estimating them, as well as sensitivity tests in their respect, in 4 below.

Menorah Insurance and in Shomera apply an insurance risk management program approved by their boards.

The insurance risk management policies include

General approach: the insurance rate is adjusted in order to address all types of future insurance liabilities arising from the occurrence of insurance risks (identified as highly probable) which are included in each policy, including expenses and preferred profit margins. The duration and nature of the insurance coverage determine the nature of the flow of future liabilities (short tail vs. long tail).

Exposure on retention limitations: a maximum exposure on retention limitation is established for each branch at the portfolio, policy or event level. The limitation expresses the exposure to the insurance risk which the Group is willing to assume upon itself. Any risk beyond that is transferred to foreign reinsurers. In the motor act insurance branch, the insurer's liability is legally unlimited. The Company purchases limited reinsurance protection and assesses that the probability of exposure in excess of the limits of this purchased protection is remote. An exposure to a new risk type is performed gradually, by gathering data on claim run-offs, and initially, a large portion of the risk is transferred to reinsurers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

The insurance product design process: under this process, the Group defines the nature of the insurance coverage which it wants to sell. The purpose of this process is to limit, as early as in the product design stage, the exposure to risks which the Group is not interested in bearing. In the design process of a new product, the risks inherent in the product are identified and thoroughly examined and the methods of managing and controlling these risks are established. The Group aims to make the most exact evaluation of the (risk adjusted) capital needed to launch the new product in order to include the required capital cost in the product's pricing. Throughout the product's life cycle, if there is a risk of deterioration of the underwriting results which does not originate from random fluctuations, comprehensive tests are conducted to assess the inherent risk and if necessary, adjust the reserve evaluation.

Underwriting: the system of underwriting rules includes limitations with a twofold objective: (a) create a decision-making hierarchy when assuming risks (from the agent to the head of the district to the underwriter to the head of the department; (b) limit the exposure to insurance risks. The underwriting rules are enforced automatically (for example, an automatic underwriter in life assurance or coverage restrictions in general insurance) or manually by a professional (such as a medical doctor in health insurance).

The risk management principles of events with low probability and extreme intensity

The Group has adopted a policy for restricting the exposure to catastrophes by determining maximum coverage amounts in specific contracts and by purchasing adequate reinsurance. The objective of the underwriting and reinsurance policy is to adjust the maximum potential loss derived from the exposure to catastrophes to the risk price in the tariff. The maximum loss is predetermined based on the Group's risk policies as approved by the board.

(a) **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 deductible 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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- (b) **War risk management:** this risk is a significant insurance risk in the life assurance branch 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 in the beginning of 2011, 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.

The risk monitoring process

This process includes the following operations

- Controlling the risk assumption and management process (exposure, underwriting claims settlement limitations) performed by designated units in the business departments.
 - Assessing the risk and transferring it to reinsurers performed by the manager of the department, actuary or designated unit based on the policies approved by the boards of the insurance companies (who also monitor the actual implementation of the policies).
 - Making a quantitative assessment of the risks by conducting sensitivity tests to the main risk factors by the actuarial department, conducting general statistical studies of risk factors and relying on the Group's past experience.
 - In the insurance companies, the risk management department calculates the risk adjusted capital that is directly reported to the CEOs and boards of the companies.
- 3) 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. The boards of the Group's insurance companies have approved an operating risk management methodology. Menorah Insurance has initiated a comprehensive operating risk survey in respect of the business processes in order to identify the significant risks and establish an effective plan for enhancing the operating controls and minimizing operating risks. The progress of the preparations made by the insurance companies also depends on the expected compliance with Commissioner's regulations regarding the implementation of the IFRS standard for capital adequacy for insurance companies - "Solvency II".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

The Group has taken various measures in the operating 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 Commissioner's directives, a data security unit for handling the data security risks in the various subsidiaries; 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 operating risks.

According to the Israeli Securities Regulations (Periodic and Immediate Reports) (Amendment No. 3), 2009 ("the ISOX Amendment") and in the context of the adoption of Section 404 of the Sarbanes-Oxley Law by the Group's institutional entities in accordance with the Commissioner's directives, the risks relating to financial reporting and proper disclosure have been assessed, the controls aimed at preventing or minimizing these risks have been established and control gaps have been analyzed. In this context, the Group's institutional entities have adopted the COSO internal control module, which represents a defined and recognized internal control framework.

The Group aims to analyze and consolidate the findings of the various operating risk surveys in order to identify the significant risks and design an effective plan for enhancing the operating controls and minimizing the operating risks.

4) Overall risk management:

The Group's insurance companies are preparing to adopt the Solvency II European Directive. According to estimates of different regulators in Europe, the Directive's adoption date for insurance companies is expected to be delayed by one year to early 2014. The Commissioner has announced in the past that the adoption of the Directive in Israel is scheduled to be based on its adoption in EU countries and therefore the adoption date in Israel will not be before early 2014.

The board of directors occasionally discusses the implications of adopting the Solvency II Directive in Israel on the Group's risk adjusted capital and verifies that the Group is prepared to adopt the Directive in terms of organization and IT. In this context, a board committee has been appointed to oversee the Group's preparations for adopting the Solvency II Directive. The Group intends to formulate overall risk management principles, after the Commissioner issues guidelines regarding the adoption of the second pillar in Israel.

c) Legal requirements:

The Group's risk management process is guided by the relevant regulatory requirements for the various lines of operation, as published in recent years, which include the following:

- Amendments to the Supervision of Financial Services (Insurance) Law, 1981 regarding the requirement to appoint a risk manager in insurance companies and in management companies of pension funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- The Supervision of Financial Services (Insurance) (Board of Directors and its Committees) Regulations, 2007, which require an insurer's board of directors to discuss and decide on defining a policy regarding the exposure of the insurer and the policyholders to the various risks, determine maximum risk exposures, as possible, determine the overall risk exposure level and approve tools and controls for measuring and managing risks.
- The Commissioner's circular 2006-1-14, "the roles of an insurer's appointed actuary and risk manager", defining the roles of a risk manager as follows:
 - Identifying the insurance and financial risks that are significant to the insurer's solvency or that face policyholders and are liable to affect the liability to policyholders, and/or that are inherent in the assets held against the insurance liabilities or against yield-dependent liabilities.
 - Assessing the potential effect of the identified significant risks and the insurer's shareholders' equity required for bearing the identified significant risks.
 - Describing the control measures and assessing the controls, preparations and performance.
 - Recommending improvements in the management of the identified significant risks.
- The Commissioner's circular 2009-2-3, "the risk management and control system in management companies of provident funds".
- The Commissioner's circular 2006-9-5, "launching a new insurance plan or new provident fund articles of association or entering a new line of operation", which requires, among others, the identification and assessment of risks and establishing a policy and tools for measuring and managing the risks.
- The Commissioner's circulars dealing with the preparations for adopting the Solvency II Directive 2008-1-5, 2009-1-3 and 2010-1-7.
- The Commissioner's circulars regarding credit risks 2007-9-15, "managing credit risks regarding investment activities" and 2007-9-16, "extending unquoted credit by institutional entities - infrastructure for administrative, professional and operating support", which require the existence of adequate management, supervision and control mechanisms for managing credit risks and for extending unquoted credit.
- The Commissioner's circulars regarding data security, 2006-9-6, and managing IT systems, 2010-9-4.
- Provisions regarding the treatment of specific operating risk categories: embezzlement and fraud and control over financial reporting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- Provisions regarding reinsurers.
- The Commissioner's provisions regarding capital requirements.

2. Market 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.

In addition, the concentration of the asset investment portfolio in Israel exposes the value of the assets portfolio to political and security changes in Israel.

Interest risk: the assets portfolio is exposed to changes in interest curves (mainly to the real interest curve) thus resulting in changes in the quoted debt assets track. There is no full correlation between the average life of the assets and the average life of the liabilities, particularly in the life assurance branches where the average life of the liabilities is longer than the average life of the assets.

Equity risk: a risk of sharp decreases in the share markets in Israel and abroad is liable to affect the value of the equity instruments (such as shares, investment funds, trust funds) in the asset portfolio.

Currency risk: change in the exchange rate of foreign currencies compared to the NIS is likely to cause changes in the value of the assets linked to the foreign currency. The Group partially hedges the exposure to foreign currency using forward contracts.

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.

Real estate risk: a risk of decrease in real estate prices is likely to impair the real estate assets in which the Group invests directly, through Menorah Real Estate or through investment funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- b) The risks involving 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.

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 affected 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, 2011 is about NIS 8.4 billion, affects the management fees in the amount of about NIS 12.7 million (as at December 31, 2010, about NIS 8.9 billion, affects the management fees in the amount of about NIS 13.3 million). The effect of said change on policies issued after 2004 and thereafter is immaterial. In policies issued up to 2004, when the real yield of these contracts is negative, the Group may 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. Since as of December 31, 2011, a negative yield has been accumulated (net of fixed management fees) and according to the provisions variable management fees cannot be collected until the entire accumulated negative yield is covered. Therefore, a 1% change in the real yield on the investments in yield-dependent contracts will not have an immediate impact on income until after this negative yield is covered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

c) Sensitivity tests relating to market risks:

Hereunder are sensitivity tests regarding the effects of changes in interest rates, in the value of investments in equity instruments, in the CPI and in the foreign currency exchange rates on the profit (loss) and on 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 results of the sensitivity tests are based on the following assumptions:

- The sensitivity analysis does not include the effects of yield-dependent contracts as detailed above.
- The changes in the variables are in respect of the carrying amount of the assets and liabilities.
- In addition, it was assumed that the said changes do not reflect other-than-temporary impairment of the assets that are reported at amortized 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 results of the sensitivity tests are presented net of taxes.

As at December 31, 2011:

	The interest rate *)		Investments in equity 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)	(4,913)	5,091	12,674	(12,671)	(8,229)	8,229	14,917	(14,917)
Comprehensive income (loss)***)	(93,515)	105,027	39,820	(39,817)	(8,229)	8,229	35,309	(35,309)

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NOTE 37:- RISK MANAGEMENT (Cont.)

As at December 31, 2010:

	The interest rate *)		Investments in equity 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)	(15,886)	17,316	10,605	(10,591)	(6,369)	6,369	14,790	(14,790)
Comprehensive income (loss)***)	(96,039)	104,040	35,825	(35,811)	(6,369)	6,369	29,994	(29,994)

*) 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 fair value of the instrument, provided that its carrying amount is presented at its fair value, and for instruments with variable interest, the exposure is in relation to the cash flows from the financial instrument (the effect is calculated on the accrued interest). Out of the assets and liabilities presented in the table in d below as assets or liabilities "with direct interest risk", the sensitivity tests did not take into account unquoted debt assets, liabilities for insurance and investment contracts, financial liabilities, deposits and reinsurance balances. For the 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. The amount of the assets that are directly affected by interest risk is NIS 4,342 million (2010 - NIS 4,617 million) of which an amount of NIS 1,150 million was transferred to profit and loss (2010 - NIS 894 million).

***) Investments in instruments that do not have fixed flows, or alternatively, the Group has no information regarding this flow. According to the definitions of IFRS 7, this item does not include investments in associates.

****) The sensitivity tests in relation to the comprehensive income also reflect the effect on the profit (loss) for the period.

*****) The sensitivity tests in respect of the CPI and foreign exchange rate include financial instruments which are not monetary items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

d) 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 they 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 affect 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, 2011		
	Non-yield- dependent	Yield- dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	4,154,821	4,001,963	8,156,784
Unquoted debt assets:			
"Hetz - life linked" bonds and Accountant General deposits	6,300,858	168,466	6,469,324
Other	3,457,352	2,914,462	6,371,814
Other financial investments	193,971	96,070	290,041
Cash and cash equivalents	301,594	535,315	836,909
Reinsurance assets	1,371,510	-	1,371,510
Total assets with direct interest risk	15,780,106	7,716,276	23,496,382
Assets without direct interest risk *)	4,077,394	4,408,476	8,485,870
Total assets	19,857,500	12,124,752	31,982,252
Liabilities with direct interest risk:			
Financial liabilities	1,983,345	79,775	2,063,120
Liabilities in respect of insurance and investment contracts	14,401,448	11,790,264	26,191,712
Others	381,588	-	381,588
Total liabilities with direct interest risk	16,766,381	11,870,039	28,636,420
Liabilities without direct interest risk **)	1,003,346	133,844	1,137,190
Equity	2,208,642	-	2,208,642
Total equity and liabilities	19,978,369	12,003,883	31,982,252
Total assets net of liabilities	(120,869)	120,869	-

*) Assets without direct interest risk include shares, fixed assets, rental real estate properties, DAC, other assets and balance sheet groups of financial assets whose average life is up to six months and therefore their interest risk is relatively low (debtors and receivables, outstanding premiums and current balances).

***) The liabilities without direct interest risk include tax reserves current accounts etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

	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 Accountant General deposits	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 *)	3,597,753	4,664,847	8,262,600
Total assets	19,196,981	11,974,019	31,171,000
Liabilities with direct interest risk:			
Financial liabilities	1,760,496	-	1,760,496
Liabilities in respect of insurance and investment contracts	13,805,715	11,908,196	25,713,911
Others	384,311	-	384,311
Total liabilities with direct interest risk	15,950,522	11,908,196	27,858,718
Liabilities without direct interest risk **)	898,652	153,124	1,051,776
Equity	2,260,506	-	2,260,506
Total equity and liabilities	19,109,680	12,061,320	31,171,000
Total assets net of liabilities	87,301	(87,301)	-

*) Assets without direct interest risk include shares, fixed assets, rental real estate properties, DAC, other assets and balance sheet groups of financial assets whose average life is up to six months and therefore their interest risk is relatively low (debtors and receivables, outstanding premiums and current balances).

**) The liabilities without direct interest risk include tax reserves current accounts etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)Comments

In non-yield-dependent life assurance - the major part of the life assurance portfolio is in respect of yield-guaranteeing policies mainly backed by designated bonds (Hetz - life linked bonds) issued by the Bank of Israel throughout the policy's term. Therefore, the Company has financial coverage earmarked to the main liabilities regarding interest and linkage over the policy's term. As at December 31, 2011, the designated bonds covered about 62% (as at December 31, 2010 - about 63%) of all the insurance liabilities in life assurance in these programs.

In respect of the Company's other investments in the framework of the life assurance business, there is an exposure to the interest rates that will prevail when the investments whose term is shorter 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) below).

With respect to products under the general insurance business, the calculation of the insurance liabilities is based on the undiscounted real future claims flow. Therefore, their carrying amount is not affected by the changes in interest in excess of inflation.

Part of the liabilities for investment contracts include 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, 2011, the Accountant General deposits covered about 87.2% of all the liabilities in these provident funds (as at December 31, 2010 - about 86.9%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

e) Details of assets and liabilities distributed into linkage basis:

	December 31, 2011					Total
	In unlinked NIS	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	
	NIS in thousands					
Intangible assets	-	-	-	1,159,440	-	1,159,440
Deferred tax assets	-	-	-	8,274	-	8,274
Deferred acquisition costs	-	-	-	931,255	8,457	939,712
Fixed assets	-	-	-	365,207	-	365,207
Investments in associates	-	-	121,381	-	-	121,381
Investment property	-	-	-	187,610	-	187,610
Reinsurance assets	389,723	792,392	189,395	-	-	1,371,510
Current tax assets	-	108,611	-	-	-	108,611
Debtors and receivables	18,999	14,446	38,473	31,904	47,392	151,214
Outstanding premiums	-	460,290	19,965	-	67,347	547,602
Financial investments for yield-dependent contracts	-	-	-	-	11,466,241	11,466,241
Other financial investments:						
Quoted debt assets	656,385	3,058,029	440,407	-	-	4,154,821
Unquoted debt assets	351,701	9,049,419	357,090	-	-	9,758,210
Shares (**)	217,301	-	63,791	-	-	281,092
Others	128,395	187,847	208,176	-	-	524,418
Total other financial investments	<u>1,353,782</u>	<u>12,295,295</u>	<u>1,069,464</u>	<u>-</u>	<u>-</u>	<u>14,718,541</u>
Cash and cash equivalents for yield-dependent contracts	-	-	-	-	535,315	535,315
Other cash and cash equivalents	<u>252,036</u>	<u>-</u>	<u>49,558</u>	<u>-</u>	<u>-</u>	<u>301,594</u>
Total assets	<u>2,014,540</u>	<u>13,671,034</u>	<u>1,488,236</u>	<u>2,683,690</u>	<u>12,124,752</u>	<u>31,982,252</u>

*) The main exposure to foreign currency relates to the U.S. dollar.

***) The relevant currency for the exposure of shares is determined based on the listed value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

	December 31, 2011					Total
	In unlinked NIS	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	
	NIS in thousands					
Total equity	-	-	-	2,208,642	-	2,208,642
<u>Liabilities</u>						
Liabilities in respect of non-yield-dependent insurance and investment contracts	1,451,354	12,690,170	259,924	-	-	14,401,448
Liabilities in respect of yield-dependent insurance and investment contracts	-	-	-	-	11,790,264	11,790,264
Deferred tax liabilities	-	-	-	117,788	-	117,788
Liabilities for employee benefits	130,909	-	-	-	-	130,909
Liabilities in respect of current taxes	-	6,821	-	-	-	6,821
Excess of losses over investments in associates	-	-	5,167	-	-	5,167
Creditors and payables	652,168	334,306	121,538	16,237	133,844	1,258,093
Financial liabilities	-	1,952,330	31,015	-	79,775	2,063,120
Total liabilities	<u>2,234,431</u>	<u>14,983,627</u>	<u>417,644</u>	<u>134,025</u>	<u>12,003,883</u>	<u>29,773,610</u>
Total equity and liabilities	<u>2,234,431</u>	<u>14,983,627</u>	<u>417,644</u>	<u>2,342,667</u>	<u>12,003,883</u>	<u>31,982,252</u>
Total balance sheet exposure	<u>(219,891)</u>	<u>(1,312,593)</u>	<u>1,070,592</u>	<u>341,023</u>	<u>120,869</u>	<u>-</u>
Exposure to base assets through derivate instruments in Delta terms	<u>474,974</u>	<u>56,711</u>	<u>(531,685)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total exposure	<u>255,083</u>	<u>(1,255,882)</u>	<u>538,907</u>	<u>341,023</u>	<u>120,869</u>	<u>-</u>

*) The main exposure to foreign currency relates to the U.S. dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

	December 31, 2010					Total
	In unlinked NIS	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	
	NIS in thousands					
Intangible assets	-	-	-	1,097,067	-	1,097,067
Deferred tax assets	-	-	-	556	-	556
Deferred acquisition costs	-	-	-	874,456	9,041	883,497
Fixed assets	-	-	-	198,968	-	198,968
Investments in associates	-	-	25,221	-	-	25,221
Investment property	-	-	-	173,409	-	173,409
Reinsurance assets	449,281	723,218	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	-	443,394	9,953	-	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	116,549	8,748,889	300,707	-	-	9,166,145
Shares (**)	222,205	-	71,231	-	-	293,436
Others	114,271	162,682	221,270	-	-	498,223
Total other financial investments	<u>1,449,979</u>	<u>11,868,368</u>	<u>1,095,214</u>	<u>-</u>	<u>-</u>	<u>14,413,561</u>
Cash and cash equivalents for yield-dependent contracts	-	-	-	-	67,575	67,575
Other cash and cash equivalents	<u>375,120</u>	<u>-</u>	<u>60,871</u>	<u>-</u>	<u>-</u>	<u>435,991</u>
Total assets	<u><u>2,296,062</u></u>	<u><u>13,152,813</u></u>	<u><u>1,378,588</u></u>	<u><u>2,369,518</u></u>	<u><u>11,974,019</u></u>	<u><u>31,171,000</u></u>

*) The main exposure to foreign currency relates to the U.S. dollar.

***) The relevant currency for the exposure of shares is determined based on the listed value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

	December 31, 2010					Total
	In	In NIS	Denominated	Non-	Liabilities	
	unlinked	linked to	in foreign	financial	in respect	
NIS	the CPI	currency or	items and	of yield-		
		linked thereto	others	dependent		
		*)		contracts		
		NIS in thousands				
Total equity	-	-	-	2,260,506	-	2,260,506
<u>Liabilities</u>						
Liabilities in respect of non-yield-dependent insurance and investment contracts	1,367,447	12,161,035	277,233	-	-	13,805,715
Liabilities in respect of yield-dependent insurance and investment contracts	-	-	-	-	11,908,196	11,908,196
Deferred tax liabilities	-	-	-	169,092	-	169,092
Liabilities for employee benefits	118,622	-	-	-	-	118,622
Liabilities in respect of current taxes	-	32,988	-	-	-	32,988
Excess of losses over investments in associates	-	-	3,974	-	-	3,974
Creditors and payables	589,295	242,951	114,141	11,900	153,124	1,111,411
Financial liabilities	34,375	1,725,666	455	-	-	1,760,496
Total liabilities	2,109,739	14,162,640	395,803	180,992	12,061,320	28,910,494
Total equity and liabilities	2,109,739	14,162,640	395,803	2,441,498	12,061,320	31,171,000
Total balance sheet exposure	186,323	(1,009,827)	982,785	(71,980)	(87,301)	-
Exposure to base assets through derivate instruments in Delta terms	484,412	24,884	(509,296)	-	-	-
Total exposure	670,735	(984,943)	473,489	(71,980)	(87,301)	-

*) The main exposure to foreign currency relates to the U.S. dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

f) Details of the exposure to market sectors in respect of investments in equity instruments:

	December 31, 2011					
	Traded on the Tel-Aviv 100 Index	Traded on the Yeter Stock Index	Non-traded	Traded abroad	Total	%
	NIS in thousands					
Market sector:						
Industry	59,075	4,591	58	11,144	74,868	26.63%
Construction and real estate	22,841	10,544	6,510	-	39,895	14.19%
Commerce	747	3,636	-	-	4,383	1.56%
Investments and holdings	15,297	14,622	-	-	29,919	10.64%
Communications and computer services	27,080	2,195	3,972	9,669	42,916	15.27%
Banks	45,134	245	-	21,314	66,693	23.73%
Financial services	7,279	662	83	5,858	13,882	4.94%
Other business services	-	186	-	-	186	0.07%
Other	-	-	-	8,350	8,350	2.97%
Total	177,453	36,681	10,623	56,335	281,092	100%

	December 31, 2010					
	Traded on the Tel-Aviv 100 Index	Traded on the Yeter Stock Index	Non-traded	Traded abroad	Total	%
	NIS in thousands					
Market sector:						
Industry	57,461	5,116	660	18,127	81,364	27.73%
Construction and real estate	21,967	22,940	4,786	-	49,693	16.93%
Commerce	1,213	4,720	-	-	5,933	2.02%
Investments and holdings	11,292	16,125	2,189	-	29,606	10.09%
Communications and computer services	24,964	4,118	3,606	16,344	49,032	16.71%
Banks	34,181	334	-	5,370	39,885	13.59%
Financial services	10,785	1,352	-	11,624	23,761	8.10%
Other business services	-	310	31	419	760	0.26%
Other	-	-	-	13,402	13,402	4.57%
Total	161,863	55,015	11,272	65,286	293,436	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- 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 funds 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. Specifically, the Group may be required to pay claims before receiving the participation from the reinsurers.

A significant part of the Group's insurance liabilities in the life assurance and long-term savings segment is 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, 2011 is in the amount of NIS 3,992 million which constitutes 24% of the life assurance portfolio (previous year - NIS 3,880 million which constituted 24% of the life assurance portfolio). The contracts signed before 1992 are mainly backed 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. The liabilities in respect of these funds as at December 31, 2011 are in the amount of NIS 4,512 million (previous year - NIS 4,342 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 or the Accountant General's deposits and are not against yield-dependant contracts. The balance of assets as at December 31, 2011 is NIS 8.4 billion (previous year - NIS 8.3 billion).

From the said asset balance, as at December 31, 2011, approximately NIS 4.7 billion are quoted assets (as at December 31, 2010 - NIS 5.0 billion), realizable within a relatively short period, depending on the liquidity conditions in the capital markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (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, 2011 and December 31, 2010, 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 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 funds - 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 valued 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 choose 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

c) Analysis of the settlement dates of the financial and insurance liabilities amounts:

Liabilities in respect of life assurance and health insurance contracts *)

	<u>Up to one year</u>	<u>Over one year up to 5 years</u>	<u>Over 5 years up to 10 years</u>	<u>Over 10 years up to 15 years</u>	<u>Over 15 years</u>	<u>Without a defined settlement date</u>	<u>Total</u>
	NIS in thousands						
As at December 31, 2011	<u>733,423</u>	<u>1,400,241</u>	<u>1,395,870</u>	<u>1,132,543</u>	<u>1,098,557</u>	<u>1,117,638</u>	<u>6,878,272</u>
As at December 31, 2010	<u>667,757</u>	<u>1,241,156</u>	<u>1,418,841</u>	<u>1,124,675</u>	<u>1,258,267</u>	<u>1,078,855</u>	<u>6,789,551</u>

*) Does not include yield-dependent contracts.

Liabilities in respect of general insurance contracts

	<u>Up to one year</u>	<u>Over one year up to 3 years</u>	<u>Over 3 years up to 5 years</u>	<u>Over 5 years</u>	<u>Without a defined settlement date</u>	<u>Total</u>
	NIS in thousands					
As at December 31, 2011	<u>1,769,696</u>	<u>1,089,664</u>	<u>614,752</u>	<u>586,435</u>	<u>465,329</u>	<u>4,525,876</u>
As at December 31, 2010	<u>1,667,048</u>	<u>1,006,146</u>	<u>591,517</u>	<u>637,928</u>	<u>430,067</u>	<u>4,332,706</u>

Financial liabilities and liabilities in respect of investment contracts

	<u>Up to one year *)</u>	<u>Over one year up to 5 years</u>	<u>Over 5 years up to 10 years</u>	<u>Over 10 years up to 15 years</u>	<u>Over 15 years</u>	<u>Total</u>
	NIS in thousands					
As at December 31, 2011:						
Financial liabilities	<u>291,796</u>	<u>972,685</u>	<u>812,817</u>	<u>334,051</u>	<u>-</u>	<u>2,411,349</u>
Liabilities in respect of investment contracts	<u>4,517,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,517,522</u>
Liabilities in respect of yield-dependent investment contracts	<u>1,177,355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,177,355</u>
As at December 31, 2010						
Financial liabilities	<u>222,748</u>	<u>1,035,499</u>	<u>722,570</u>	<u>141,008</u>	<u>-</u>	<u>2,121,825</u>
Liabilities in respect of investment contracts	<u>4,368,179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,368,179</u>
Liabilities in respect of yield-dependent investment contracts	<u>1,108,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,108,792</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (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 damage probability of about 1:500 per annum (Maximum Possible Loss, "MPL", of 1.75% - 2.605%) is about NIS 3,822 million gross and about NIS 95 million on retention (in the previous year - NIS 2,666 million gross exposure and NIS 100 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 reevaluates 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:
 - 1) Description of the insurance products and their embedded risks:
 - (a) 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.
 - (b) Endowment insurance program - in this product the savings component is combined with the death component. This product involves the same risks as those described above.
 - (c) Guaranteed pension plan - the embedded risks in this product are: longevity risks, expenses risks and the risk of expenses.
 - (d) 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 are similar to the risks described above without any material impact on management fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- (e) Insurance programs for medical expenses - these programs include coverage for transplants and special treatment provided abroad, choosing private surgeons in private hospitals, medications that not included in the Government's health basket and other ambulatory coverage such as consultations with expert physicians. The main risks involved in this product are: increase in medical expenses as a result of technological advancements, the introduction of private healthcare services into public hospitals or change in the Government's health basket and in the healthcare services provided outside of the Government's health basket through sick funds for additional fees.
- (f) Other risks that are generically inherent to 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 which relates 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (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-guaranteeing contracts).

A certain immaterial number of cases provide guaranteed benefits for policies over a certain seniority based on the terms of the policy.

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 ("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 Commissioner's circular.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- (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 Commissioner'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, both based on an updated assumption of the experience of expected claims.
- (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.
- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

4) Main assumptions used in the calculation of the insurance liabilities:

 (1) The capitalization rate

For endowment insurance programs, etc. (traditional) (see above), and pure risk products (see 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 a rate of 3.1% on a gross basis and 2.5% by the reinsurers.

The discount rate can change as a result of significant changes in the long-term market interest rate.

 (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 policyholders according to retirement age (not including mortality of policyholders 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- 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 increases, the insurance liability for morbidity rate from serious diseases, occupational disability, long-term care, operations and hospitalization and disability from accidents, will increase.

(3) Annuity rates

Life assurance contracts that include a savings component, were managed, in respect of funds 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 choose 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 Commissioner's directives and adjusted to 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 affect 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 Menorah Insurance due to discontinuation of the premium payments or surrenders of policies at the policyholders' request. The assumptions regarding the cancellation rates are based on Menorah Insurance's experience regarding the life span of the product and sales frameworks according to the type of product.

(5) Continuity rates

In health insurance and group long-term care insurance 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

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.

Sensitivity tests in life assurance and health insurance *)

As at December 31, 2011:

	Rate of cancellations (surrenders, settlements and decreases)		Morbidity rate		Mortality rate	
	+10%	-10%	+10%	-10%	+10%	-10%
	NIS in thousands					
Profit (loss)	6,328	(16,162)	(59,551)	26,802	26,331	(54,553)

As at December 31, 2010:

	(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)

*) Sensitivity analyses are based on the carrying amount 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.

**) The sensitivity analyses as at December 31, 2011 were performed in compliance with the clarifications in the Commissioner's circular of November 30, 2011.

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), concentration exposure risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

(a) Motor act insurance:

Motor act insurance is a statutory insurance that is an essential pre-condition for driving a motor vehicle. The motor act 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.

- (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.
- (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.
- (3) Comprehensive insurance without theft coverage - insurance coverage of all the risks detailed in sub-section a above, except for vehicle theft.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- (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.
- (5) Motorcycle insurance.
- (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.

- (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 statute of limitations.
- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- (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.
- (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 affecting 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 effect of on the insurance premium tariff.
- (5) Directors' and officers' insurance - this insurance covers directors and officers for legal liabilities that were breached by the directors and officers 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 officers of the Company. The policyholder in this insurance is the group that acquires the coverage for officers 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.

- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- (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.
 - (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 Commissioner'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.
- (d) Property insurance:
- (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 (in this paragraph, "the Regulations") define the type of minimum insurance coverage for the private dwelling and contents, as defined in the Regulations ("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.
 - (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

- (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 lender. 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.
- (4) Marine insurance - insurance that covers transportation of cargo by sea or by air.
- (5) Cargo in transit - this insurance covers loss or damage to cargo caused during land transportation.
- (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.
- (7) Engineering insurance (work by contracts) - coverage for work by contracts, their equipment and materials, against accidental damage.
- (8) Engineering insurance (construction works) - coverage for construction works of mechanical systems, their equipment and materials, against accidental damage.
- (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.
- (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.
- (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.

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, values the foreseeable claims, the deviation the expectation and determines the suitable tariff for each product and the various populations of the potential policyholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

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. See also Note 2f(2) above.

In accordance with the Commissioner'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.

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 where 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

The outstanding claims valuation for the Group's share in the Israeli Motor Vehicle Insurance Pool at the Insurance Companies Association in Israel ("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.

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.). In certain coverage cases, the run-off of the cost of claims is weighted in with the expected severity according to past experience using the Bornhuetter Ferguson method.

The average 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.

The valuation of IBNR claims is calculated based on the type of coverage using a model that analyzes the rate of expected claims in the future multiplied by the expected severity of this type of claims.

4) Main assumptions used in the calculation of the insurance liabilities:

The actuarial calculations do not include a deduction due to the capitalization of future claims payments. In addition, for prudence sake, in the branches of product liability, professional liability, motor act, employers' liability and third party bodily damage liability, the reserves are estimated at the higher of the actuarial valuation and the valuation of the claim experts for each opening year. No other addition was included for a risk margin (such as standard deviation).

5) Information regarding the significant change in the actuarial assumptions:

In the last year no significant changes were made in the actuarial model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

5. Credit risks:

a. Breakdown of debt assets according to their location:

	December 31, 2011		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	3,767,162	9,506,858	13,274,020
Abroad	387,659	251,352	639,011
Total debt assets	<u>4,154,821</u>	<u>9,758,210</u>	<u>13,913,031</u>
	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	<u>4,455,757</u>	<u>9,166,145</u>	<u>13,621,902</u>

*) Quoted debt assets are mainly classified to the available-for-sale category and are measured at fair value. See also the details of the assets divided into ratings below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the assets divided into ratings:

1) Debt assets:

	Local rating *)				Total
	AA and above	BBB to A	Rated lower than BBB	Unrated	
	December 31, 2011				
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets					
Government bonds	2,117,206	-	-	-	2,117,206
Corporate bonds	618,324	862,662	30,637	138,333	1,649,956
Total quoted debts assets in Israel	2,735,530	862,662	30,637	138,333	3,767,162
Unquoted debt assets:					
Government bonds	6,300,858	-	-	-	6,300,858
Corporate bonds	794,286	327,472	31,657	46	1,153,461
Deposits in financial banks and financial institutions	1,050,133	124,747	306	2,260	1,177,446
Other debt assets according to guarantees:					
Mortgages	34,110	121,515	2,142	1,705	159,472
Loans on policies	31,705	1,638	-	19,594	52,937
Loans with pledge on real estate	27,482	-	-	-	27,482
Other guarantees	303,984	241,914	12,224	18,396	576,518
Not guaranteed	5,062	17,233	1,828	34,561	58,684
Total unquoted debt assets in Israel	8,547,620	834,519	48,157	76,562	9,506,858
Total debt assets in Israel	11,283,150	1,697,181	78,794	214,895	13,274,020
Of this - debt assets according to internal rating **)	225,982	326,907	43,641	-	596,530

*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

	International rating *)				Total
	December 31, 2011				
	A and above	BBB	Rated lower than BBB	Unrated	
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	1,264	-	-	-	1,264
Corporate bonds	123,465	225,095	36,419	1,416	386,395
Total quoted debt assets abroad	124,729	225,095	36,419	1,416	387,659
Unquoted debt assets					
Other guarantees	-	45,539	-	205,813	251,352
Total debt assets abroad	124,729	270,634	36,419	207,229	639,011
Of this - debt assets according to internal rating **)	-	45,539	-	-	45,539
	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 guaranteed	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

	International rating *)				Total
	December 31, 2010				
	A and above	BBB	Rated lower than BBB	Unrated	
	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+.

2) Credit risks in respect of other assets (In Israel):

	Local rating				Total
	December 31, 2011				
	AA and above	BBB-to A	Lower than BBB	Not rated	
	NIS in thousands				
Debtors and receivables, except for reinsurers' balances *)	-	-	-	123,099	123,099
Deferred tax assets	8,274	-	-	-	8,274
Other financial investments	126,398	1,387	35,776	-	163,561
Cash and cash equivalents	301,594	-	-	-	301,594
Total	436,266	1,387	35,776	123,099	596,528

	Local rating				Total
	December 31, 2010				
	AA and above	BBB-to A	Lower than BBB	Not rated	
	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 credit exposure to other assets	556,200	-	49,765	78,190	684,155

*) See details of reinsurers in paragraph f(1) below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

Credit risks in respect of other assets (abroad):

	International rating				Total
	A and above	- BBB	Lower than BBB	Not rated	
	December 31, 2011				
	NIS in thousands				
Other financial investments	29,820	-	16	574	30,410
	December 31, 2010				
	NIS in thousands				
Other financial investments	34,969	-	15	277	35,261

c. Additional information regarding credit risk:

- 1) The Group performs credit ratings 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. This methodology is currently in advanced stages of being examined and approved by the Department for the Supervision of Insurance at the Ministry of Finance.
- 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. In these financial statements, the local and international ratings are reported as is, without conversion into a uniform ladder. It should be noted that according to the Capital Market circular 2008-6-1 regarding the disclosure of a conversion ladder between Israeli and international ratings, the Commissioner ordered the rating companies which received the approval of the Commissioner of the Capital Market, Insurance and Savings Division to act as a rating company based on the Capital Market circular 2004-1 to disclose a conversion ladder between Israeli and international ratings by January 1, 2009.
- 4) Information regarding credit risks in this paragraph 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, 2011, in the amount of NIS 935 million (previous year - NIS 937 million), see paragraph 5(f) below.
- 6) Regarding outstanding premium balances as at December 31, 2011 in the amount of NIS 548 million (previous year - NIS 525 million), see Note 11 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Aging of investments in unquoted financial debt assets:

	December 31,	
	2011	2010
	NIS in thousands	
Debt assets whose value was not impaired:		
Not in arrears	9,647,275	9,083,007
In arrears:		
Below 90 days	11,463	12,108
Between 90 to 180 days	1,028	2,180
Over 180 days	20,382	2,319
Total debt assets whose value was not impaired	9,680,148	9,099,614
Debt assets whose value was impaired:		
Gross assets whose value was impaired	181,059	167,397
Provision for loss	102,997	100,866
Total net debt assets whose value was impaired	78,062	66,531
Total unquoted debt assets	9,758,210	9,166,145

e. Details of exposure to market sectors for investments in quoted and unquoted financial debt assets:

	December 31, 2011		
	Balance sheet credit risk	Off balance sheet risk	
	NIS in thousands	% of the total	NIS in thousands
Market sector			
Industry	320,339	2.30	182,002
Construction and real estate	1,012,019	7.27	299,591
Electricity and water	568,685	4.09	-
Commerce	37,922	0.27	-
Investments and holdings	438,831	3.16	-
Communication and computer services	236,529	1.70	-
Banks	1,884,587	13.55	-
Financial services	339,261	2.44	-
Other business services	147,633	1.06	41,447
Private individuals	487,271	3.50	-
Other	20,626	0.15	-
	5,493,703	39.49	523,040
State bonds / Accountant General's deposits	8,419,328	60.51	-
Total	13,913,031	100.00	523,040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

Market sector	December 31, 2010		
	Balance sheet credit risk		Off balance sheet risk
	NIS in thousands	% of the total	NIS in thousands
Industry	418,268	3.07	200,121
Construction and real estate	985,206	7.23	249,782
Electricity and water	522,821	3.84	-
Commerce	92,451	0.68	-
Investments and holdings	381,534	2.80	-
Communication and computer services	234,875	1.72	-
Banks	1,890,198	13.88	-
Financial services	353,549	2.60	-
Other business services	124,199	0.91	35,313
Private individuals	391,859	2.88	-
Other	19,263	0.14	-
	<u>5,414,223</u>	<u>39.75</u>	<u>485,216</u>
State bonds / Accountant General's deposits	<u>8,207,679</u>	<u>60.25</u>	<u>-</u>
Total	<u>13,621,902</u>	<u>100.00</u>	<u>485,216</u>

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 Commissioner'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 and in addition a maximum exposure limitation is determined for rating groups.

The Group performs a follow up of the reinsurer's position in the international market, changes in his credit rating, and the fulfillment of its current monetary liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

2. Information regarding exposure to reinsurers' credit risks:

As at December 31, 2011:

Rating group: *)	Total reinsurance premiums for 2010	Balances in debit (credit) net (b)	Reinsurance assets				Deposits by reinsurers	Letters of credit received from reinsurers	Total exposure (a)	Debts in arrears	
			In life assurance	In health insurance	In property insurance	In liability insurance				Between half a year and one year	Over one year
NIS in thousands											
AA and above											
Swiss Reinsurance	386,175	(23,654)	29,229	174,600	133,462	242,433	221,474	-	334,596	-	-
Other	161,267	(15,068)	82,157	111,960	107,033	101,222	81,197	-	306,107	328	67
	547,442	(38,722)	111,386	286,560	240,495	343,655	302,671	-	640,703	328	67
A	253,193	(9,281)	6,583	-	183,644	190,872	75,343	935	295,540	1,457	349
BBB	1,009	(264)	-	-	27	1,463	-	-	1,226	-	-
Lower than BBB - or unrated	9,747	(5,701)	465	-	3,941	2,419	3,574	-	(2,450)	76	170
Total	811,391	(53,968)	118,434	286,560	428,107	538,409	381,588	935	935,019	1,861	586

*) Each rating group includes all the ranges: for example, rate A includes A- up to A+.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

As at December 31, 2010:

Rating group: *)	Total reinsurance premiums for 2010	Balances in debit (credit) net (b)	Reinsurance assets					Letters of credit received from reinsurers	Total exposure (a)	Debts in arrears	
			In life assurance	In health insurance	In property insurance	In liability insurance	Deposits by reinsurers			Between half a year and one year	Over one year
NIS in thousands											
AA and above	207,346	(14,258)	75,440	101,607	109,734	83,510	86,991	-	269,042	-	-
A											
Swiss Reinsurance	452,684	(10,464)	22,345	158,358	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
	<u>737,377</u>	<u>(16,490)</u>	<u>29,093</u>	<u>158,358</u>	<u>311,564</u>	<u>439,297</u>	<u>294,934</u>	<u>-</u>	<u>626,888</u>	<u>641</u>	<u>389</u>
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	<u>964,929</u>	<u>(14,988)</u>	<u>105,044</u>	<u>259,965</u>	<u>430,015</u>	<u>542,317</u>	<u>384,311</u>	<u>869</u>	<u>937,173</u>	<u>681</u>	<u>389</u>

*) Each rating group includes all the ranges: for example, rate A includes A- up to A+.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (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 2011 an amortization was recorded in respect of the allowance for doubtful accounts in the amount of NIS 547 thousand (previous year - NIS 1,555 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 and AM rating companies.
- (e) The total exposure of the reinsurers to an earthquake at a damage probability of 1:500 per annum (MPL of 1.75%-2.60%) is NIS 3,727 million (compared to NIS 2,566 million in the previous year), of which the portion of the reinsurer who has the most significant part is NIS 538 million (compared to NIS 517 million in the previous year) for Munich Re which is rated AA-.
- (f) In 2011 there are no other reinsurers apart from those specified above in respect of which the exposure is higher than 10% of the total exposure of reinsurers, or in respect of which the premium is higher than 10% of the total premiums for reinsurance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

6. Information regarding financial investments for yield-dependent contracts:

1) Composition of investments according to linkage basis:

	December 31, 2011				Total
	In unlinked NIS	In NIS linked to the CPI	Denominated in foreign currency or linked thereto NIS in thousands	Non- financial items and others	
Cash and cash equivalents	535,315	-	-	-	535,315
Quoted assets	3,401,094	1,851,717	2,197,502	-	7,450,313
Unquoted assets	237,103	2,777,898	1,000,927	-	4,015,928
Total assets	4,173,512	4,629,615	3,198,429	-	12,001,556

	December 31, 2010				Total
	In unlinked NIS	In NIS linked to the CPI	Denominated in foreign currency or linked thereto NIS in thousands	Non- financial items and others	
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

2) Credit risk for assets in Israel:

	Local rating *)				Total **)
	AA and above	BBB- to A	Lower than BBB	Not rated	
December 31, 2011					
NIS in thousands					
Debt assets in Israel:					
Government bonds	1,713,795	-	-	-	1,713,795
Quoted other debt assets	834,089	787,330	20,805	95,500	1,737,724
Unquoted other debt assets	2,040,581	635,284	80,742	42,432	2,799,039
Total debt assets in Israel	4,588,465	1,422,614	101,547	137,932	6,250,558
Of this - debt assets at internal rating ***)	407,382	232,185	59,393	-	698,960

*) 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 carrying amount approximates 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 rating model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

	Local rating *)				Total **)
	AA and above	BBB-to A	Lower than BBB	Not rated	
	December 31, 2010				
	NIS in thousands				
Debt assets in Israel:					
Government bonds	2,026,809	-	-	-	2,026,809
Quoted other debt assets	575,926	516,622	114,611	108,897	1,316,056
Unquoted other debt assets	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
Of this - debt assets at internal rating ***)	274,212	226,407	30,693	-	531,312

*) 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 carrying amount approximates 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 rating model.

3) Credit risks for assets abroad:

	International rating *)				Total **)
	A and above	BBB	Lower than BBB	Not rated	
	December 31, 2011				
	NIS in thousands				
Total debt assets abroad	196,527	480,929	138,165	18,712	834,333
Of this - debt assets at internal rating ***)	-	115,424	-	-	115,424

*) The sources for the rating level aboard are the rating companies S&P, Moody's and Fitch, which were approved by the Commissioner.

**) The carrying amount approximates 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 rating model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 37:- RISK MANAGEMENT (Cont.)

	International rating *)				Total **)
	December 31, 2010				
	A and above	BBB	Lower than BBB NIS in thousands	Not rated	
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 Commissioner.

***) The carrying amount approximates the maximum credit risk. Therefore, the "total" column represents the maximum credit risk.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. Balances with interested and related parties:

Composition:

As at December 31, 2011:

	Associates	Interested party and other related parties
	NIS in thousands	
Unquoted debt assets	*) 251,352	-
Creditors and payables	-	4,452
Financial liabilities	418	-

As at December 31, 2010:

	Associates	Interested party and other related parties
	NIS in thousands	
Unquoted debt assets	*) 230,908	-
Creditors and payables	-	8,791
Financial liabilities	455	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

*) The composition of loans to associates:

	% of denominated annual interest	December 31,	
		2011	2010
		NIS in thousands	
Denominated in Euro	Euribor + 3% - 8%	147,145	137,363
Denominated in U.S. dollars	6%	58,668	51,077
Denominated in Pound Sterling	5.423%	45,539	42,468
		<u>251,352</u>	<u>230,908</u>

The loans are expected to be settled between a year to eight years from the reporting date.

b. Transactions with interested and related parties:

Year ended December 31, 2011:

	Associates	Interested party and other related parties
	NIS in thousands	
Gains from investments and financial income	27,172	-
Income from consulting services	272	-
	<u>27,444</u>	<u>-</u>

Year ended December 31, 2010:

	Associates	Interested party and other related parties
	NIS in thousands	
Losses from investments and financial income	(7,356)	-

Year ended December 31, 2009:

	Associates	Interested party and other related parties
	NIS in thousands	
Gains from investments and financial income	7,488	-
Income from management fees	62	-
	<u>7,550</u>	<u>-</u>

Officers 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

c. Benefits to key management personnel:

	Year ended December 31,					
	2011		2010		2009	
	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands
Short-term benefits	8	20,677	8	18,681	13	32,051
Post-employment benefits	-	-	-	-	1	3,169
Share-based payments (see Note 34 above)	4	2,488	3	1,926	1	2,630
		<u>23,165</u>		<u>20,607</u>		<u>37,850</u>

1) Employment agreement with the Company's Chairman of the Board:

On January 22, 2007, following the approval of the Company's audit committee and board, the Company's general meeting approved the renewal of the Chairman of the Board's employment agreement under the terms as agreed with the Chairman in the previous agreement with linkage to the CPI only and without an increment in real terms. According to the renewed agreement, the Chairman of the Board is entitled to an annual salary (plus incentive included in the annual salary) whose cost to the Company shall not exceed NIS 1,383 thousand (linked to the Israeli CPI of January 2007) ("the annual salary") and social benefits as generally accepted for executives at his rank. Each of the parties may terminate the agreement by providing an advance written notice of 60 days. The renewed agreement came into effect on January 1, 2007 for a five-year period. According to the decision of the Company's board and audit committee, on October 28, 2010, the Company's general meeting approved an amendment to the employment agreement with the Chairman of the Board for defining his position as Chairman of the Board, discontinuing his term as CEO and extending the employment agreement to be terminated at the end of five years from the date of approval of said general meeting.

2) Employment agreement with the Company's CEO who also acts as Chairman of the Board of Menorah Insurance:

The employment agreement with the Company's CEO is for a period of 15 years starting from August 2003 with an advance 12-month notice. Following said date, the agreement will be renewed for one year each time unless either of the parties announces its wish to terminate it. Simultaneously and in addition to the employment agreement, a share plan was approved for allocating 4% of the shares of Menorah Insurance that are convertible into the Company's shares (see Note 34b above). In July 2011, the authorized entities of the Company and of Menorah Insurance approved participation in the additional tax liability of the Company's CEO in respect of the dividend distributed in 2003 and 2004 in the amount of Menorah Insurance's tax saving only, while committing to the Tax Authority that the Company and/or Menorah Insurance have not claimed and will not claim the deduction of the dividend payments as above as an expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)**

According to the employment agreement, in addition to his monthly salary, the Company's CEO is entitled to a fixed annual bonus of NIS 561 thousand (linked to the CPI) and to social benefits as generally accepted for executives in his rank. Furthermore, in the event of termination of employer-employee (not under exempting circumstances), the CEO will be entitled to an additional 50% of the severance accrued to his credit in his executive insurance policies and to a grant in an amount equivalent to the amount of the dividend accumulated in respect of the shares to which he is entitled according to the plan, less applicable tax.

- 3) Remuneration policy for senior officers in the Company, in Menorah Insurance and in Mivtachim Pension:

In December 2010, the boards of directors of Menorah Insurance and Mivtachim Pension approved a benefit plan for officers in the Company, in Menorah Insurance and in Mivtachim Pension, after receiving the recommendations of 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) ("the overall remuneration policy") (for additional details see Note 34 above). The remuneration policy shall apply to officers who were defined by the Company's board of directors and the boards of directors of Menorah Insurance and Mivtachim Pension and does not include the Company's CEO, directors of the Company or officers who are a related party of the controlling shareholders in 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 ("the bonus budget") and the second stage is to divide the bonus budget between the officers.

- a) Stage A - determination of the bonus budget:

Each year, Menorah Insurance and Mivtachim Pension's average profit target before tax, will be determined ("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.

- b) Stage B - distribution of the bonus to officers:

In order to divide the bonus basket among the officers, a bonus potential will be determined for each officer ("the target bonus") for a precise compliance (100%) with the targets in connection with the specific officer as detailed below, and a maximum bonus, that officer as detailed below, and a maximum bonus, at a derivative of the number of salaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

The officers will be measured according to their performance in various levels - the Company, the Division, the Unit and personal performance, based on an executive evaluation.

For each officer 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 officer 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 officer 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 officers, will be presented.

d. Benefits to related parties and other interested parties:

	Year ended December 31,					
	2011		2010		2009	
	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands	Number of people	Amount NIS in thousands
Management fees for those who are not employed by the Company or on its behalf	8	1,986	7	1,653	6	1,294

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, 2011, 2010 and 2009, the Company did not record any allowance for doubtful accounts in respect of amounts receivable from related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

f. Directors' and officers' liability insurance:

On July 10, 2007, the Company's general meeting approved a master agreement regarding an insurance policy covering directors' and officers' liability. The insurance policy's liability limit is \$ 15 million for each of the Group's business divisions as follows: the Company and its subsidiaries (which are not considered divisions in themselves); Menorah Insurance and its subsidiaries which are not considered divisions in themselves; Menorah Mivtachim Pension; and Menorah Mivtachim Finances and its subsidiaries ("the business divisions"). In addition, joint coverage was purchased for the Group's entire business divisions within a liability limit of \$ 30 million. In keeping with the audit committee's approval of March 22, 2011, the Company's board approved on March 24, 2011 the expansion of the joint umbrella policy in the context of said master agreement to all of the Group's business divisions within another liability limit of \$ 30 million.

On October 10, 2011, following the approval of the Company's audit committee and board on August 25, 2011 and August 28, 2011, respectively, the Company's general meeting approved the renewal of the directors' and officers' liability insurance policy in the Company and the subsidiaries within a liability limit of \$ 15 million for each business division in the Group, plus joint coverage under a first umbrella policy for the Group's entire business divisions of up to \$ 30 million and joint coverage under another umbrella policy for the Group's entire business divisions of up to another \$ 30 million. In addition, a master agreement was approved according to which an advance approval was received for the Company's renewal of said policies for the Company and the other business divisions in the Group, which will apply to officers and directors as they will serve in the Company and the various Group companies from time to time, including officers and directors who are the controlling shareholders or their relatives (under the same conditions as the conditions of the policy for the entire officers). The renewal of said policies will be done annually over a period of three years from the beginning of the "base year" (2011-2012) and provided that the overall annual premium in each year of renewal of the base policy and the first and second umbrella policies the aggregate premium will represent an annual addition of up to 20% per annum on the overall premium for the Group's entire business divisions. The Company's audit committee and board must approve that the renewal of said policies each year meets said condition.

g. Liability for indemnification of officers and directors:

On November 24, 2005 and January 27, 2007, following the approval of the Company's audit committee and board, the Company's general meeting approved the grant of a letter of indemnity and quittance to directors and officers in the Company, including the Chairman of the Board and his relatives employed in Group companies. The letter of indemnity and quittance granted by the Company is in accordance with the limitations prescribed in the Companies Law and is limited to \$ 25 million per officer and \$ 30 million for the entire indemnity recipients in a single event. In any event, the indemnity shall not exceed 25% of the Company's shareholders' equity based on its financial statements issued prior to the grant of the letter of indemnity and quittance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

After the reporting date, on January 5, 2012, following the approval of the Company's audit committee on November 21, 2011 and of the Company's board on November 24 and December 29, 2011, the Company's general meeting approved the grant of a new letter of indemnity to the Company's Chairman of the Board and the controlling shareholder in the Company ("the new letter of indemnity"). According to the new letter of indemnity, the Company's aggregate overall indemnity liability for a single event, combined with any indemnity amount by virtue of letters of indemnity of the Group companies in respect of the same event regarding the entire officers, will not exceed \$ 30 million. Moreover, the Company's indemnity liability towards a single officer in respect of a single event, combined with any indemnity amount which the officer is entitled to receive from any of the companies in the Menorah Mivtachim group by virtue of letters of indemnity for the same event, will not exceed \$ 25 million. In any event, the net indemnity amount after subtracting insurance rewards paid in respect of said event according to the officers' insurance policy which the Company had acquired, at its discretion, if at all, or the indemnity amount paid by the Company for the same event by virtue of former letters of indemnity granted to the Chairman of the Board and/or his relatives, will not exceed 25% of the Company's shareholders' equity based on its financial statements issued prior to the grant of the letter of indemnity. It should be noted that the new letter of indemnity is intended to add to any former letter of indemnity, if and to the extent granted, provided that the indemnity total does not exceed the limitations detailed above.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

- a. Contingent liabilities and requests to approve claims as class actions:

During the last few years there was an increase in the number of requests to approve class actions that were filed against the Company and there was also an increase in the number of claims that were approved as class actions. This is also part of the general increase in requests for approving claims as class actions as a whole, and also against companies which operate in the same lines of operation as the Company, which is mainly due to the legislation of the Class Actions Law, 2006. This trend significantly increases the Company's potential exposure to losses in the event that a class action against the Company is approved.

Requests to approve claims as class actions are filed via the procedural apparatus as prescribed pursuant to the Class Actions Law, 2006 ("the Class Actions Law"). The deliberation process regarding the requests to approve claims as class actions is divided into two main stages: first, the stage of deliberating the request to approve the claim as a class action ("the request for approval" and "the approval stage", respectively). If the request for approval is absolutely rejected - the deliberation stage at the class action level is concluded. A request for permission to appeal against the decision at the stage of approval can be filed with the appellate instances. At the second stage, in the event that the request for approval is approved, the class action will be deliberated according to the subject of the matter ("the class action stage").

An appeal can be filed against a ruling at the stage of request for approval of a claims as a class action, with the appellate instances. In the framework of the apparatus pursuant to the Class Actions Law, there are, among others, specific arrangements with respect to compromise agreements, both at the stage of approval and at the stage of the claim as a class action, as well as arrangements regarding the plaintiff's resignation from the request for approval or from the class action.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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 1-20 below in respect of which management of the Company, Menorah Insurance and management of Shomera Insurance (regarding claims in paragraphs 5, 11 and 19 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 the companies' defense 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 these companies.

According to the companies management's estimate, based, among others, on the legal opinion they received, wherever provisions were required, sufficient provisions were included for covering the exposure estimated by them.

In respect of the motions for approving claims as a class actions, as well as against Mivtachim Pension, Menorah Finances and other subsidiaries, as detailed in paragraph 21 to 23 below, which were filed recently, it is impossible at this preliminary stage to assess the chances of the motions. Therefore, no provision was included in their 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

The argument presented by the plaintiff in the claim filed with the Commissioner was found to be justified and according to the decision of the Vice Commissioner 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 as 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.

2. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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 plaintiff's request for the motion to appeal.

3. 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 or for the "policy factor" payment) and from the collection of said component in non-life insurance policies, all in contrast to the Commissioner's directives. The principal grounds of the claim are: violation of the provisions of the Supervision Law, the Supervision regulations and the Commissioner'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 filed its response to the motion.
4. 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 motion" and/or "the request"). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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.

On February 23, 2011, and following the hearing that was held regarding the plea, the insurance companies issued an announcement regarding the withdrawal of the plea so that the claim will be deliberated in the Tel Aviv Regional Labor Court. Menorah Insurance filed its response to the request. On January 3, 2012, the defendants filed a request to dismiss the claim in limine on account of the statute of limitation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

5. 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 Commissioner 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. On December 8, 2011, the Commissioner's opinion regarding this case was submitted stating that he agrees to the main arguments of the defendants.

6. 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.

7. A claim similar in nature to the claim discussed in paragraph 5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

8. On April 1, 2009, a claim and a request to approve the claim as a class action pursuant to the Class Action Law, 2006 ("the claim" and "the request for approval", respectively) 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 seven years prior to filing the claim, and alternatively, during the three years prior to filing the claim ("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.

9. On September 8, 2009, a claim and a request to approve the claim as a class action pursuant to the Class Action Law, 2006 ("the claim" and "the request for approval", respectively) 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 main 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 favor in respect of the above loans if they would not have been granted to its customers. Menorah Insurance submitted its response to the request. On February 28, 2011, the court rejected the request to approve the claim as a class action.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

10. On February 13, 2011, 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 and in Menorah Insurance's offices ("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 69 million (the amount of allowance for doubtful accounts in respect of the above loans). The Company and Menorah Insurance submitted their response to the request for approval. On February 6, 2011, and following the court's comments, the court ruled to strike-off a previous similar "request for approval" that was filed by the same petitioner. On February 19, 2012, the parties filed an agreed upon notification to the court, together with a request to give the consents that the parties came to - the validity of a ruling, among others, on the basis of the court's recommendations ("the compromise arrangement"), whereby, for the purpose of compromise only, and that none of the parties will admit to any of the other party's allegations, the parties agree for the purpose of the final, complete and absolute settlement of the request and the derivative claim, that the sum of NIS 13.8 million will be transferred to Menorah Insurance, in order to reduce its alleged damages (and the denied ones) and the compromise amount will be financed by the Company's resources and from the resources of the insurers of the officeholders against whom the derivative claim is aimed at, at an amount that will be agreed upon between the parties. On February 20, 2012, the court ordered to publish a press notice in two newspapers regarding the request to approve the compromise arrangement and that the press notice will include the full details of the arrangement and also to make it possible to file objections within 21 days. In addition, the court ordered to transfer a copy of the compromise arrangement to the Securities Authority and to the Commissioner in order to get their opinion before it is filed.
11. A claim similar to the one detailed in paragraph 6 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

12. On April 11, 2010, a claim was filed against Menorah Insurance, as well as three other insurance companies ("the defendants"), together with a request to approve the claim as a class action ("the request"). The grounds for the claim is the allegation according to which the defendants hold funds that were not claimed by the rightful holders of the funds (policyholders, beneficiaries and/or heirs), they allegedly breach their duty to locate those rightful holders and they also do not transfer the funds to the administrator general on the due date, as well as unlawful enrichment due to overcharging management fees or from yields generated by unclaimed funds. 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 Commissioner 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 Commissioner of Insurance in respect of locating the aforementioned rightful owners, refund of funds that were collected unlawfully, and appointment of a functionary for the purpose of enforcing the aforementioned requested decrees, or to provide another remedy for the group. The amount of the claim according to the lawsuit cannot be estimated. Menorah Insurance submitted its response to the request.

13. On April 19, 2010, a claim was filed against Menorah Insurance, as well as four other insurance companies ("the defendants"), together with a request to approve the claim as a class action ("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 submitted its response to the request.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

14. 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 ("the claim"). As contended in the claim, Menorah Insurance deducted, unlawfully, funds 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 funds that were deposited with Menorah Insurance ("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 amount claimed personally by the plaintiff is NIS 5,784 and the alleged damage to the group, as estimated by the plaintiff, amounts to about NIS 110 million. Menorah Insurance submitted its response to the request.

15. 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 ("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 ("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 Menorah Insurance), wherein the actual accrual does not match the accrual that should have been" ("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 about NIS 70 thousand, whereas the alleged aggregate damage to the entire represented group was estimated by the plaintiff at about 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 submitted its response to the request.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

16. On April 21, 2011, a claim was filed against Menorah Insurance and against three other insurance companies ("the defendants"), together with a request to approve the claim as a class action ("the request"). The grounds for the claim is the allegation regarding the collection of sums of money which as contended by the plaintiffs are substantially higher than the premium paid by the policyholder and described as "the policy factor" and/or "other management fees", without anchoring this in the agreement between the parties. In order to provide a background to the issue, the plaintiffs state that the insurance companies were permitted in principle to collect, under certain conditions, a payment called "the policy factor", based on the circulars of the Commissioner of Insurance. However, the plaintiffs contend that the collection of this commission was never agreed upon with them and they were not informed that they will be charged for any sum of money in respect of other management fees and/or the policy factor. The plaintiffs also note that in the year 2010 they filed a claim, together with a request to approve the claim as a class action, against the defendants, on the grounds of the manner of calculation of the policy factor that was collected from them ("the previous claim") and this previous claim was stricken-off following the plaintiffs' resignation from the claim. It was also noted that in the plaintiffs' reply to the previous claim, the defendants admitted, as alleged by the plaintiffs, that they collected the policy factor. The plaintiffs also noted that on April 12, 2011 the District Court (Central) approved a request to approve a claim as a class action which was filed against another insurance company and is the same as the claim in this case. The group the plaintiffs wish to represent, as detailed in the request, is whoever is and/or was insured by the defendants or any of them, and any sum of money was collected from them as "the policy factor" and/or as "other management fees" ("the represented group"). The main grounds for the claim according to the request are: misleading the customers, both at the pre-contract stage and at the contract stage; violation of the provisions of the law and particularly the Supervision of Financial Services (Insurance) Law, 1981 and the Regulations by its virtue; mala fide; unlawful enrichment; violation of an agreement; violation of legislated duty; and the reliance on the provisions of the agreements, as far as this reliance is exercised, forms a reliance on a deprivation condition in a standard contract.

The personal damage of the entire plaintiffs that was calculated for the purpose of convenience with respect to one specific year was estimated at NIS 1,522 nominal value and the overall damage of the total represented group members, during the period of seven years, was estimated based on various assumptions in relation to the collection of the policy factor and the relevant annual yields, in the overall amount of about NIS 2.3 billion, out of which the plaintiffs attributes to Menorah Insurance, based on publications regarding its market share, the sum of about NIS 253 million. The remedies demanded by the plaintiff are: the payment of an amount of compensation/refund equal to the sum of the policy factor that was collected from the group members that are actually represented, plus 85% of the yield that was deprived from them in relation to this amount since it was deducted from the premium and was not invested in their favor, and in view of the insurance company's entitlement to 15% of the yield. In addition, a remedy is requested for issuing a mandatory injunction ordering the defendants to change their manner of collection of the "other management fees" and/or the "policy factor". Menorah Insurance submitted its response to the request.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

17. On June 1, 2011, a claim was filed against Menorah Insurance and against nine other insurance companies ("the defendants"), together with a request to approve the claim as a class action pursuant to the Class Actions Law, 2006 ("the request"). The grounds for the claim is the allegation that the defendants pay insurance fees and the payment of these fees was delayed due to a foreclosure or receivership orders or other rights whatsoever of third parties, in nominal values without revaluation and without refunding the policyholders who are entitled to insurance benefits the yields that were generated from those funds. The group the plaintiffs wish to represent are all the policyholders of the defendants, as well as those who suffered damages and sued the defendants by virtue of Section 68 to the Insurance Contract Law, 1981, that insurance benefits or funds they were entitled to from the defendants were delayed as mentioned, also due to the misconception of the defendants as though there are foreclosure orders or receivership orders or third party rights, and they eventually received from the defendants insurance benefits or other funds only at nominal value or with the addition of linkage differences only, without any interest ("the group members"). The main grounds for the claim according to the request are: the violation of the Guardians Law, Insurance Contract Law, Civil Wrongs Ordinance, violation of legislated duty, unlawful enrichment and violation of the duty of fidelity. The personal damage that was caused as alleged, to one plaintiff against Menorah Insurance amounts to about NIS 4,598, whereas the damage caused, as estimated, to the total plaintiffs amounts to about NIS 350 million, and the damage caused to the group which is allegedly against Menorah Insurance was estimated at about NIS 43 million. The remedies requested by the plaintiffs are, among others, to order the defendants to refund the group members for all the yields they earned by virtue of their holding insurance benefits (or other funds) that are delayed, or the linkage differences and the interest in respect of holding the funds throughout the period of the delay, at the higher of the two, with the addition of linkage differences and interest; to order the defendants to pay another special compensation at the court's discretion; to declare that the defendants owe insurance benefits or compensation to those who suffered damages, lawfully revaluated as of the actual date of payment, while these benefits were paid after the determined date, either if the delay in payment was legal or it was illegal; to order the respondents to determine internal procedures regarding the approval of foreclosures or the approval of "notifications to the holders", in order to make sure that the funds of the policyholders or other beneficiaries will not be delayed by the defendants unlawfully. Menorah Insurance replied to the request.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

18. On July 7, 2011, a claim was filed against Menorah Insurance ("the defendant"), together with a request to approve the claim as a class action. The allegation regarding this case is the collection of credit fees from the policyholders of Menorah Insurance, in general insurance, at the rate which is higher than the annual maximum ceiling interest that Menorah Insurance is entitled to collect, or at an interest rate that is higher than it presents to the policyholder. The group the plaintiff wishes to represent, as detailed in the request, are all the policyholders and/or the beneficiaries and/or the policyholders who were insured by the defendants by insurance policies in the general insurance branches and who paid the defendant credit fees and/or collection fees and/or payment arrangement fees while deviating from the provisions of the law and/or while deviating from the interest rates that were presented to the policyholders under the policies, commencing from May 1, 1984 ("the group members"). The main grounds for the claim based on the request are: misleading of the policyholders at the pre-contract stage and at the contract stage, the violation of the provisions of the law including, the provisions of the Supervision of Financial Services Law (Insurance), 1981 and the Supervision of Insurance Business Regulations (Setting a Uniform Currency for Insurance Contracts and Insurance Fees under Credit), 1984; violation of legislated duty, violation of contract; violation of the reinforced disclosure duty and mala fide during negotiations and fulfillment of contracts, negligence, unlawful enrichment and violation of the directives of the Commissioner of Insurance. The petitioner's personal damage, as revaluated as at the date of filing the request, was NIS 18.16, whereas the estimated damage to the entire group members beginning from May 1984, revaluated as of the date of filing the request, is between the sum of about NIS 162 million and the sum of about NIS 266 million. The main remedies that the petitioner demands are: the refund of funds that were overcharged (allegedly) unlawfully, with the addition of linkage differences and interest, including the addition of special interest as stated in the Insurance Contract Law, beginning from each payment date and until the sums of money are actually repaid; compensation in respect of the yields that were accrued from the funds that were collected unlawfully, as well as the remedy of ordering a mandatory injunction regarding the collection of credit fees and/or collection fees and/or payment arrangement fees for each existing policy. Menorah Insurance has not yet responded to the request.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

19. On July 24, 2011, a claim was filed against Menorah Insurance, Shomera Insurance and against eight other insurance companies (collectively - "the defendants"), together with a request to approve the claim as a class action ("the request" and/or "the claim"). The claim was filed due to the allegation that the defendants collect, in the absence of specific provisions of the law and/or secondary law provision and/or a decision by a certified authority, "a loading component" and/or "motorcycle tax", which constitute an addition of 4.3% each year from the total cost of the acquisition of the motor act insurance policy, and according to the allegation, their objective is to subsidize the losses of the insurance company "the Pool" ("the Pool"), which are mainly caused by the policyholders of motorcycles, that are insured by residual insurance by the Pool. Namely, policyholders who could not obtain an insurance coverage with an insurer. The request is mainly based on the reports of State Comptroller for the years 2001 and 2009. The group the plaintiffs wish to represent, as detailed in the request, are all the purchasers and/or holders of a motor act insurance policy, who had engaged with the defendants beginning from the year 2004 and up to the date the request was filed, who were charged, according to the allegation, an unlawful payment when purchasing a motor act insurance policy ("the group members"). The main grounds for the claim according to the request are: the violation of the provisions of the Supervision of Financial Services (Insurance) Law, 1981 and the provisions of the Insurance Contract Law, 1981, the violation of a legislated duty, violation of contract, misrepresentation, misleading, violation of the duty of disclosure, mala fide, violation of the Civil Wrongs Ordinance, unlawful enrichment and violation of the Consumer Protection Law, 1981. The personal damage of petitioner No. 3 alleged against Menorah Insurance amounts to NIS 58.87 and the personal damage of petitioner No. 7 alleged against Menorah Insurance is NIS 57.58 and against Shomera Insurance (for 3 years of insurance) is NIS 170.58, whereas the estimated damage to all of the policyholders of Menorah Insurance and Shomera Insurance with respect to the years 2004 - 2010 and on the basis of the multiplication of 4.3% of the motor act insurance that was collected ("the calculation") amounted to about NIS 114 million and about NIS 50 million, respectively. The damage to the total group members, on the basis of the aforementioned calculation, amounted to about NIS 901 million. The plaintiffs reserved the right to add at a later stage, the estimate of the damage for the year 2011, if necessary. The main remedies that the plaintiffs appeal for are the refund of funds that were overcharged (allegedly) and to order a remuneration and lawyers' fees for the plaintiffs. Menorah Insurance responded to the request. On January 15, 2012, and following a preliminary hearing regarding the request, the parties came to an agreement whereby the request to approve the claim as a class action will be rejected without ordering expenses. This agreement was validated by a ruling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

20. On August 14, 2011, a claim was filed against the Company and against Menorah Mivtachim Finance Ltd., Menorah Mivtachim Mutual Funds Ltd. (subsidiaries of the Company) and against Mr. Avigdor, the CEO of Menorah Mutual Funds and formerly Menorah Finances ("the defendants"), together with a request to approve the claim as a class action pursuant to the Class Actions Law, 2006 ("the request" and/or "the claim"). The grounds for the claim and the request is that the alleged severe and criminal actions of the CEO of Menorah Mutual Funds and the manner of operation of the other defendants in their respect, caused, as contended, a decline in the value of the Company's shares as well as a loss and monetary damage to the plaintiffs. The group the plaintiffs wish to represent, as detailed in the request, is whoever held the Company's shares at any given time between July 26, 2011 and August 4, 2011, except for the respondents ("the group members"). The main grounds for the claim according to the request are: the violation of various provisions of the law including, the Corporate Law; the Securities Law; the Joint Investment in Trust Law; the Investment Consultation Law and amendments, whose violation, allegedly, grants the right to sue, pursuant to the Civil Wrongs Ordinance, against the violation of a legislated duty, the injustice of negligence and the injustice of deceit. Furthermore, there was an alleged violation of the provisions of Sections 12 and 39 to the Contracts Law and also the plaintiffs' autonomous will was offended. The personal damage of the plaintiffs was estimated by them at NIS 2,243 and the aggregate damage to the entire group members amounted to NIS 217 million. The main remedies the petitioners demand are a compensation for the group members in the above amount of damage, as well as ordering a remuneration and lawyers fees in favor of the plaintiffs and their attorneys. The Company submitted its response to the request.
21. On December 19, 2011, a claim was filed against Menorah Mivtachim Pension Ltd., (a subsidiary of Menorah Insurance) ("the defendant") with the Tel Aviv District Court, together with a request to approve the claim as a class action ("the request" and/or "the claim"). The claim was filed according to the allegation that the defendant collected, allegedly unlawfully, payments in respect of insurance coverage for survivors, from bachelors and widowers who had no survivors and were included in the default option track of the pension fund it managed, while this insurance coverage was irrelevant to them and they did not receive any explanation regarding the meaning of this issue. The plaintiff is a member of the pension fund who joined the "New Mivtachim" fund (formerly - Mivtachim Yoter) in 2001. The plaintiff is a bachelor with no children, who was added to the default track (the basic track) and pays insurance premiums for survivors' insurance coverage. The group the plaintiff wishes to represent is all the fund members who are: (i) bachelors without children or (ii) widowers (without children below the age of 21), who were charged for the last seven years for survivors insurance coverage, although they actually had no survivors ("the group members"). The plaintiff estimates that the group members comprise about 10% of the members of the New Mivtachim, and the plaintiff estimates that New Mivtachim has about 850 thousand members and therefore he estimates that the group members amount to about 85 thousand. The allegations in this claim are among others, the violation of a legislated duty, prohibition of misleading and unlawful enrichment. The alleged damage estimated by the plaintiff is an overpayment of about NIS 300 per year by each group member. The remedies demanded by the plaintiff are, among others, (i) issuing an order to the defendant to stop collecting payments from members who do not have any survivors, (ii) the refund of insurance premium payments for survivors' coverage that were collected from the group members, which according to the plaintiff's estimate amount to about NIS 178.5 million, (iii) to order a special compensation ruling for the plaintiff and fees for the representing lawyers. The defendant has not yet replied to the request.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

22. On January 24, 2012, a claim was filed with the Jerusalem District Court, against the State of Israel and against Menorah Mivtachim and the Engineers Association Provident funds Management Ltd. (a sub-subsidiary of the Company) ("the defendants"), together with a request to approve the claim as a class action ("the claim" or "the request"). The allegation in this case is that the consideration that the State of Israel received from Menorah Mivtachim Finances Ltd. (a subsidiary of the Company) ("Menorah Finances") in respect of 50% of the shares of the defendant, should be regarded as the yields that the assets of the educational fund managed by the defendant had generated and therefore it belongs to the members of the educational fund managed by the defendant. The plaintiffs are members of the "Omega" educational fund (formerly - the engineers' educational fund) ("the educational fund") during the period relevant to the sale. Up to the date the transaction was completed, September 25, 2008, the educational fund was a designated fund (a fund that all the following applies to it: (i) only a limited group of people can join the fund according to its articles of association; (ii) the fund's managing company is an entity whose activities are not for the purpose of making profits; and (iii) at least half of the Directors in the fund's managing company are appointed by the members). On September 25, 2008, Menorah Finances purchased 50% of the defendant's share capital from the State of Israel and another 10% of the defendant's share capital from the engineers' association, in return for the sum of NIS 20,050,487 to the State of Israel and NIS 4,010,098 to the Engineers' Association, and at the same time and as part of the sale, some provisions from the articles of association of the defendant and the educational fund were removed, and the educational fund ceased to be a designated fund and became a regular educational fund.

The plaintiffs contend that the consideration from the sale should be paid to the fund members as a compensation, among others, due to the anticipated increase in the management fees. The plaintiffs rely, among others, on the opinion of the Commissioner of the Capital Market, Insurance and Savings dated January 17, 2012 which determined that "Upon the sale of a designated provident fund, either if the management of the fund is transferred to another managing entity, or if following the sale of the means of control in the managing company the consideration of the sale should be attributed to the members, and not to the owners of the fund". The group the plaintiffs wish to represent is whoever was a member of the educational fund at the time of engagement with Menorah Finances (the plaintiffs contend - June 30, 2008), according to their estimate about 24,790 members ("the group members"). The allegations against the State of Israel in this claim are, among others, unlawful enrichment, mala fide, negligence, plunder and deceit and the allegations against the defendant are, among others, the violation of the duty of fidelity and the violation of a legislated duty. The damage contended by the plaintiff is the sum of consideration from the sale that was paid to the State of Israel (NIS 20,050,487) ("the sale consideration") which should have been paid to the educational fund. The remedies demanded by the plaintiff are, among others: (i) payment of the sale consideration to the group members and/or to compensate the group members at the sum equal to the sale consideration, (ii) disclosure of documents and/or accounts, (iii) to order special compensation for the plaintiff and fees for the representing lawyers. It should be noted that as mentioned above the claim for refunding the sale consideration is against the State of Israel and not against Menorah Mivtachim Finances. No response to the request was submitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

23. On February 22, 2012, a claim was filed against Menorah Insurance ("the defendant"), together with a request to approve the claim as a class action ("the claim" or "the request"). The allegation in this case is that the defendant sold an insufficient construction insurance policy that does not cover the entire value of the apartment (including the value of the land) and in the event of extensive destruction-damage to the building, it will not be possible to reconstruct the building without the consent of all the landlords of the condominium. The group the plaintiff wishes to represent, as detailed in the request, are all the policyholders of the defendant who were insured by "private dwelling insurance", who have rights and/or own apartment/s in the condominium or in a building that is eligible to be registered as a condominium ("the group members"). The main allegations under this claim according to the request are: misleading, violation of the duty of disclosure and taking advantage of ignorance, in contradiction to the Consumer Protection Law, 1981 and Sections 55 and 58 to the Supervision Law; violation of the bona fide duty in contradiction to Section 39 to the Contracts Law, the injustice of negligence and deceit pursuant to Sections 35, 36 and 56 to the Civil Wrongs Ordinance, violation of the duty to emphasize limitations pursuant to the Insurance Contract Law and harming property in contradiction to Section 3 to the Basic Law: A Man's Honor and Freedom. The personal damage of the petitioner that was defined as the total payment of the private dwelling insurance premium paid by him - was not quantified, whereas the estimate of the damage to the entire group members was estimated by the petitioner (as an estimate only) at about NIS 20 million. The main remedies that the petitioner demands are: the refund of the insurance premium that was collected from him and from the group members in respect of the private dwelling insurance during the period from the issue of the policy up to the filing of the claim, with the addition of linkage differences and interest; a payment to the plaintiff and to each of the group members in the sum of NIS 10,000 as a non-monetary damage; granting a declarative and/or any other remedy that the court will decide that it will be just and right under these circumstances; payment of appropriate remuneration and lawyers fees to the plaintiff and his attorney.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

Summary table

	<u>December 31, 2011</u>	
	<u>Number</u>	<u>Claimed</u>
	<u>of claims</u>	<u>amount</u>
		<u>NIS in</u>
		<u>thousands</u>
<u>Claims approved as class actions</u>		
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	-
<u>Pending requests to approve claims as class actions</u>		
Amount related to the Company was stated	15	1,557,554
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 **)	1	-

As at the reporting date the accumulated provision for claims that were filed against the Company, Menorah Insurance, Shomera Insurance and Mivtachim Pension as detailed above, amounts to about NIS 15 million (previous year NIS 20 million).

*) One of the claims was estimated at hundreds of millions without stating any amount of money.

**) Derivative claim (see paragraph 10 above).

In addition to the requests to approve claims as class actions that were filed against the group and the legal and other proceedings, there is a general exposure, which cannot be estimated and/or quantified, and it derives, among others, from the complexity of the services provided by the group to its policyholders. The complexity of these services includes, among others, a potential for interpretation arguments and others between the group and the third parties to the insurance contracts which relate to a long list of commercial and regulatory conditions. This exposure is intensified in the areas of pension savings and long-term insurance, including health insurance, areas in which the group operates. In these areas the policies are examined over the years in which there are changes in the policy, regulation and legislation trends, including court rulings. Therefore, in these areas accepting new interpretation to the insurance policies and long-term pension products might at times affect the group's future profitability in respect of the existing portfolio, in addition to the exposure involved in the demands to compensate customers for past activities. It is not possible to anticipate the types of arguments that will be raised in this area and the exposure as a result of all sorts of arguments in relation to insurance contracts, that are raised, among others, by the formal deliberations pursuant to the Class Actions Law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

Furthermore, there is an exposure which at this stage cannot be estimated or quantified, to failures in the manner of operating products in the fields of long-term savings and in the health field, which are characterized, as mentioned, by a long life expectancy and are subject to often and complex regulatory and other changes, changes and additions to the versions of the products and many other changes that are performed over the product's term, including by the policyholders and/or the employers and/or anyone on their behalf, regarding the insurance coverage and/or regarding the deposits to the savings component. The complexity and these changes related, among others, to the volumes of the deposits and their percentages, the components of the various products, the manner of ascribing the funds to the policyholders and/or to the various components of the product, at the time of their allocation, the identification of arrears in deposits and their treatment. This complexity is enhanced in view of the many factors that are involved in the management of the products and their operation and at times while providing contradicting instructions by them or on their behalf.

The Group's institutional entities are regularly engaged in studying, locating, monitoring and handling issues that are raised as a result of the aforementioned complexities, while attending to public applications, employers and pension advisors, directly or via the Commissioner, both in respect of individual cases and in respect of types of products and/or customers. In addition, and following the provisions of the circular (No. 2011-9-10) regarding the improvement of the data regarding the members rights in institutional entities that the Commissioner published in December 2011, which deals in the duty of an institutional entity to perform various improvement activities in relation to the customers' data and rights. The Group's institutional entities are preparing to perform a thorough procedure of examination and improvement of the data in the systems in the area of long-term savings in order to achieve the targets of the circular. At this stage, the Group's institutional entities are not able to estimate the volume and the cost of the aforementioned treatment and improvement proceedings and their possible implications, also in respect of product that were sold in the past. In addition, it is not possible to anticipate the types of arguments that will be raised in this respect and/or the consequent exposure that might be raised, among others, by the formal deliberations of the class actions.

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 4,512 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 152 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (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 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 with the above supplier for developing a pension and provident management system (Topaz Pension and Providence) (Topaz Life and Topaz Pension and Providence collectively, "the Topaz system"). The Topaz Life system is at a stage that enables the issue and production of new policies that are sold by Menorah Insurance. The Topaz Pension and Provident System is at a fully operational stage. In addition, ongoing upkeep of the systems is being performed, including occasional necessary updates. In the year 2011 the Group paid Sapiens the sum of about NIS 46.7 million and the sum of about NIS 62.5 million in the year 2010.

Following the aforementioned, in October 2011 the Group entered into an agreement which anchors and regulates the many years agreement with Sapiens, with respect to the Topaz system and other software systems that were supplied to the group, among others, in the fields of life assurance, pension reinsurance and health ("the systems") and services that were supplied to the Menorah Group in connection with those systems (in this section - "the agreement").

The agreement anchors the Menorah Group's licenses to use the systems, as well as Menorah Group' using rights of the systems' original programs and also the moral asset with respect to certain unique components in systems that were developed in the past and insofar as they will be developed in the future by Sapiens for the Menorah Group. In view of the collaboration of the professional knowledge of the group employees in the framework of the system development process, the rights to royalties for the sale of Topaz and reinsurance to third parties for an unlimited period up to the ceiling of investment in the product, were also anchored in the agreement.

Furthermore, the agreement creates a framework to continue to supply the Group with various services regarding the aforementioned systems, including development services, examinations, repairs of failures, support supply of versions and editions and maintenance services for the systems, in accordance with agreed upon annual working plans.

The agreement is for the period of 48 months beginning from January 1, 2011 up to December 31, 2014, and the minimum volume of the transaction for this period amounts to about NIS 110 million. After the end of the above period, the validity of the agreement will be extended automatically for additional periods of 12 months each time, as long as none of the parties had informed each other that they are not extending and/or ending the agreement in accordance to the provisions specified in the agreement.

2. The Group has the following future investment commitments:
 - a) Commitments to invest in investment funds totaling approximately NIS 341,246 thousand, as of December 31, 2011, of which the sum of NIS 230,144 thousand is in respect of yield-dependent contracts (the sum of NIS 323,403 thousand as of December 31, 2010, of which an amount of NIS 255,136 thousand in respect of yield-dependent contracts),

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

- b) Commitments to extend loans to various companies in a total of NIS 99,153 thousand as of December 31, 2011, of which NIS 57,060 thousand are in respect of yield-dependent contracts (as of December 31, 2010 - NIS 99,427 thousand of which NIS 53,280 thousand are in respect of yield-dependent contracts).
3. On July 27, 2010, a sub-subsidiary, Menorah Mivtachim Provident Ltd. - a managing company ("Mivtachim Provident") signed an agreement with Lehava Educational Fund Management Ltd. and Lahav Self-Employed and Business Bureau in Israel ("the sellers"), for the acquisition of the management rights in the educational fund "Lehava Educational Fund for Self-Employed and Employees" ("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.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

Hereunder are the future minimum lease fees to be paid for operating lease agreements under non-cancelable terms as of December 31:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
First year	16,370	13,743	10,882
Second to fifth years	23,774	22,794	16,678
More than five years	-	-	1,389
	<u>40,144</u>	<u>36,537</u>	<u>28,949</u>

The amounts carried to the statement of income:

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
Minimum lease fees	<u>18,065</u>	<u>12,610</u>	<u>10,740</u>

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:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
First year	5,859	4,105	3,055
Second to fifth years	6,809	3,304	2,129
	<u>12,668</u>	<u>7,409</u>	<u>5,184</u>

For additional details regarding income recognized in respect of investment property, see Note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 40:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

- a. On March 24, 2011, the Company's board approved entering into negotiations with Direct Insurance Financial Investments Ltd. ("Direct Insurance") for joining a venture to establish a direct insurance company in Brazil ("the venture" and/or "the joint company"). The expected scope of investment in the joint venture was approximately BRL 400 million (Brazilian Real) (approximately NIS 890 million). The Company was offered to joint at a holding rate of 15% of the joint venture's share capital. On August 30, 2011, the Company announced that the negotiations regarding the venture had ended without signing a binding agreement.
- b. On March 29, 2011, Menorah Insurance signed an agreement for the acquisition of the entire issued and outstanding shares (100%) of the Industrial Development Bank of Israel Ltd. ("the Bank"). On March 4, 2012, after all the prerequisites prescribed in the agreement had been met, the transaction was completed. The consideration paid by Menorah Insurance for the Bank's shares approximated NIS 323 million, of which an amount of approximately NIS 238 million was paid against the cash that was in the Bank's fund on the date of completion of the transaction, less the Bank's entire liabilities as of that date.

Simultaneously with the completion of the acquisition of the Bank's shares by Menorah Insurance, the Bank was merged into Menorah Insurance through a statutory merger in accordance with the provisions of Section 103c to the Israeli Tax Ordinance (Revised), 1961 and based on a court order according to the provisions of Sections 350 and 351 to the Israeli Companies Law, 1999, which had been granted on June 15, 2011 at the request of Menorah Insurance and the Bank, stating that Menorah Insurance is the receiving company and the Bank is the target company.

Based on an initial estimate made by Menorah Insurance, the gain from the transaction that Menorah Insurance is expected to record in the first quarter of 2012 approximates NIS 52 million.

- c. In July 2011, the CEO of Menorah Mivtachim Mutual Funds Ltd., a sub-subsiary of the Company ("Menorah Mutual Funds") was arrested and interrogated by the Israel Securities Authority ("the ISA") for suspected criminal offenses in the capital market. According to the information provided by Menorah Mutual Funds, it is unaware of any damage sustained to the holders of units in the funds and in any event, Menorah Mutual Funds will make sure that the holders of units will not sustain any damage. In addition, to the best of the Company's knowledge, the interrogation has no bearing on other insurance, pension or provident companies in the Group. On August 15, 2011, the CEO of Menorah Mutual Funds resigned from office as CEO of Menorah Mutual Funds and from all of his other positions in the Group. Effective from September 18, 2011, Mr. Ziv Shemesh serves as the CEO of Menorah Mutual Funds as well as the CEO of Menorah Mivtachim Finances Ltd. (the parent company of Menorah Mutual Funds). On August 22, 2011, the Company received a claim and motion for approval of the claim as a class action in connection with the above events. See Note 39(20) above.
- d. In the reporting period, decreases were recorded in the Israeli and global capital markets, among others, due to the lowering of the U.S. Government's credit rating and the continuing crisis in the European Union.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 40:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

The Group is affected by the rate decreases in the capital markets both directly in its nostro portfolio and through the fluctuations in the variable management fees that it collects for the management of the profit sharing policies (by not being able to collect variable management fees and/or by having to credit the members for the variable management fees which had been charged to them). In addition, the decrease in the scope of the managed assets (in the yield-dependent life assurance, provident, pension and mutual fund branches) adversely affects the scope of the management fees calculated as a percentage of the managed assets.

In the reporting period, a negative real yield was recorded in the yield-dependent policy portfolios which led to loss of potential income due to the non-collection of variable management fees in a total of approximately NIS 102 million as of the reporting date and approximately NIS 40 million through the date of the publication of the financial statements.

NOTE 41:- SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- a. After the reporting date, on February 14, 2012, the board of directors of Menorah Insurance decided to distribute the entire shares of Menorah Mivtachim Pension as a dividend in kind to the Company. On February 15, 2012, the distribution was executed.
- b. After the reporting date, on February 27, 2012, the Regulations for the Supervision of Financial Services (Provident Funds) (Management Fees), 2012 ("the Regulations") were approved, which determine maximum management fees that institutional entities are entitled to collect in respect of provident funds and insurance funds managed by them as follows:
 1. In provident funds - effective from 2013, the rate of management fees shall not exceed 1.1% of the accrual and 4% of the current contributions. Effective from 2014, the rate of management fees shall not exceed 1.05% of the accrual and 4% of the current contributions. Management fees from the recipients of pension and survivor annuities may be collected at a rate that does not exceed 0.6% of the accrual.
 2. In insurance funds (life assurance policies) - new policies issued from January 1, 2013 will apply the rates described in 1 above regarding provident funds. As for policies that had become effective prior to said date, there will be no change in the management fee maximum.

As of the date of the publication of the financial statements, the final version of the Regulations has not yet been issued. Furthermore, in view of the new provisions in the Regulations, there may be a change in the behavior of the Group's consumers and customers which own valid policies and are not subject to the Regulations. Accordingly, at this stage, it is impossible to assess the aggregate implications of the mix of the final provisions that will apply. Without derogating from the aforesaid, it seems that the Regulations will have an effect on the financial results of both Menorah Insurance and Menorah Provident and therefore also on the Group's results. The adoption of these legislative amendments, if applicable, is also expected to affect the value inherent in the sale of new life assurance policies approved in the future.

The Group will continue to examine the possible effects of the Regulations on its operating results and study ways of dealing with these effects.

APPENDIX - DETAILS OF OTHER FINANCIAL INVESTMENTS OF THE INSURANCE SUBSIDIARY

a. Quoted debt assets

	December 31, 2011	
	Carrying amount	Amortized cost
	NIS in thousands	
<u>Government bonds</u>		
Measured at fair value through profit and loss:		
Designated at the time of initial recognition	410,126	403,959
Available for sale	1,523,517	1,466,446
Total Government bonds	1,933,643	1,870,405
<u>Other debt assets</u>		
<u>Unconvertible</u>		
Measured at fair value through profit and loss:		
Designated at the time of initial recognition	116,257	115,968
Available for sale	1,625,942	1,679,685
Total other unconvertible debt assets	1,742,199	1,795,653
<u>Other convertible debt assets</u>		
Measured at fair value through profit and loss:		
Designated at the time of initial recognition	3,671	4,393
Total quoted debt assets	3,679,513	3,670,451
Fixed impairments allocated to profit and loss (accumulated)	67,050	
	December 31, 2010	
	Carrying amount	Amortized cost
	NIS in thousands	
<u>Government bonds</u>		
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
<u>Other debt assets</u>		
<u>Unconvertible</u>		
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
<u>Other convertible debt assets</u>		
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	

APPENDIX - DETAILS OF OTHER FINANCIAL INVESTMENTS OF THE INSURANCE SUBSIDIARY

APPENDIX - DETAILS OF OTHER FINANCIAL INVESTMENTS OF THE INSURANCE SUBSIDIARY

b. Shares

	December 31, 2011	
	Carrying amount	Cost
	NIS in thousands	
<u>Quoted</u>		
Measured at fair value through profit and loss designated at the time of initial recognition	22,462	25,662
Available for sale	229,629	271,536
Total quoted shares	252,091	297,198
<u>Unquoted</u>		
Available for sale	10,079	6,803
Total shares	262,170	304,001
Fixed impairments allocated to profit and loss (accumulated)	72,331	
	December 31, 2010	
	Carrying amount	Cost
	NIS in thousands	
<u>Quoted</u>		
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
<u>Unquoted</u>		
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	

APPENDIX - DETAILS OF OTHER FINANCIAL INVESTMENTS OF THE INSURANCE SUBSIDIARY

c. Other financial investments

	December 31, 2011	
	Carrying amount	Cost
	NIS in thousands	
<u>Quoted</u>		
Measured at fair value through profit and loss designated at the time of initial recognition	156,740	158,386
Available for sale	69,315	69,029
Derivative instruments	428	-
Total other quoted financial investments	<u>226,483</u>	<u>227,415</u>
<u>Unquoted</u>		
Measured at fair value through profit and loss designated at the time of initial recognition	40,001	51,553
Available for sale	117,726	118,093
Derivative instruments	7,843	-
Total other unquoted financial investments	<u>165,570</u>	<u>169,646</u>
Total other financial investments	<u>392,053</u>	<u>397,061</u>
Fixed impairments allocated to profit and loss (accumulated)	<u>27,615</u>	
	December 31, 2010	
	Carrying amount	Cost
	NIS in thousands	
<u>Quoted</u>		
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	<u>289,962</u>	<u>266,913</u>
<u>Unquoted</u>		
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	<u>127,240</u>	<u>136,482</u>
Total other financial investments	<u>417,202</u>	<u>403,395</u>
Fixed impairments allocated to profit and loss (accumulated)	<u>16,294</u>	

**Translated
from the
Hebrew original**

MENORAH MIVTACHIM HOLDINGS LTD.

**SEPARATE FINANCIAL DATA OF THE COMPANY FROM THE
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2011**

REGULATION 9C

MENORAH MIVTACHIM HOLDINGS LTD.

**SEPARATE FINANCIAL DATA OF THE COMPANY FROM THE
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2011**

REGULATION 9C

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To:
The shareholders of Menorah Mivtachim Holdings Ltd.

Dear Sirs,

Subject: Special auditors' report on separate financial data pursuant to Regulation 9C to the Securities Regulations (Periodic and Immediate Reports) – 1970

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, 2011 and 2010 for each of the years ended as at December 31, 2011, 2010 and 2009, 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 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, 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 29, 2012

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Additional information	December 31,	
		2011	2010
NIS in thousands			
CURRENT ASSETS			
Cash and cash equivalents	b	16,786	8,551
Financial investments	c	358,791	279,641
Current taxes receivable		3,281	1,545
Debtors and receivables		467	715
Current balance with investee	f(1)	12,033	11,942
Total current assets		<u>391,358</u>	<u>302,394</u>
NON-CURRENT ASSETS			
Loans and debtors	c	16,005	9,581
Investments in investees		1,970,285	2,103,566
Loans to investees	f(1)	682,258	664,504
Investment property		118,842	102,856
Total non-current assets		<u>2,787,390</u>	<u>2,880,507</u>
		<u>3,178,748</u>	<u>3,182,901</u>
CURRENT LIABILITIES			
Current maturities of loan from banking institution	d	-	3,972
Current maturities of debentures	d	83,453	69,526
Future contracts		2,640	-
Creditors and payables	d(1)	20,576	20,266
Total current liabilities		<u>106,669</u>	<u>93,764</u>
NON-CURRENT LIABILITIES			
Bonds	d	848,671	813,331
Liabilities for employee benefits, net		906	798
Deferred taxes	e	22,211	22,369
Total non-current liabilities		<u>871,788</u>	<u>836,498</u>
Equity attributable to shareholders of the Company			
Share capital		99,429	99,429
Share premium		332,985	332,985
Capital reserves		102,342	192,506
Retained earnings		1,665,535	1,627,719
Total equity		<u>2,200,291</u>	<u>2,252,639</u>
		<u>3,178,748</u>	<u>3,182,901</u>

The accompanying additional information constitutes an integral part of the Company's separate financial information.

March 29, 2012

Date of approval of
the financial
statements

Menahem Gurevitch
Chairman of the Board

Ari Kalman
General Manager

Shai Kompel
Chief Financial Officer

MENORAH MIVTACHIM HOLDINGS LTD.
FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	Additional information	Year ended December 31,		
		2011	2010	2009
				NIS in thousands
INCOME				
Income from investees		57,637	257,428	323,004
Income (losses) from investments and finance		(16,301)	56,067	115,703
Finance income in respect of loans to investees	f(3)	45,204	10,896	15,894
Increase in value investment property		15,986	14,167	16,224
Income from lease of assets		852	669	664
Income from management fees and others		-	(283)	1,967
Income from management fees from investees	f(2)	2,390	2,083	2,655
Total income		105,768	341,027	476,111
EXPENSES				
Finance expenses		61,707	51,617	50,068
Administration and general expenses		4,837	3,404	3,703
Total expenses		66,544	55,021	53,771
Income before taxes on income		39,224	286,006	422,340
Taxes on income	e	1,408	4,390	19,542
Net income		37,816	281,616	402,798

The accompanying additional information constitutes an integral part of the Company's separate financial information.

MENORAH MIVTACHIM HOLDINGS LTD.
FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Net income attributed to the Company	<u>37,816</u>	<u>281,616</u>	<u>402,798</u>
Other comprehensive income (loss) attributed to investees, net	<u>(91,492)</u>	<u>19,109</u>	<u>269,577</u>
Total comprehensive income (loss) attributed to the Company	<u><u>(53,676)</u></u>	<u><u>300,725</u></u>	<u><u>672,375</u></u>

The accompanying additional information constitutes an integral part of the Company's separate financial information.

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	37,816	281,616	402,798
Adjustments required to present the cash flows from current activities:			
Adjustment to profit and loss items:			
Net finance expense (income)	78,427	(10,049)	(66,253)
Increase in the fair value of investment property	(15,986)	(14,167)	(16,224)
Income in respect of investees	(57,637)	(257,428)	(323,004)
Taxes on income	1,408	4,390	19,542
	6,212	(277,254)	(385,939)
Changes in assets and liabilities items:			
Change in liabilities for employee benefits, net	108	134	664
Decrease (increase) in debtors and receivables	248	3,509	(3,857)
Increase (decrease) in creditors and payables	(796)	7,487	(7,205)
	(440)	11,130	(10,398)
Cash paid and received during the year for:			
Interest paid	(39,269)	(26,671)	(26,208)
Interest received	15,202	17,988	13,331
Taxes paid	(5,404)	(7,617)	(2,566)
Taxes received	2,090	1,830	2,139
Dividend received	100,027	376	636
	72,646	(14,094)	(12,668)
Net cash provided by (used in) current activities attributed to the Company as a parent company	116,234	1,398	(6,207)
Net cash used in current activities in respect of transactions with investees	(31,129)	(10,309)	(17,978)
Net cash provided by (used in) current activities	85,105	(8,911)	(24,185)

The accompanying additional information constitutes an integral part of the Company's separate financial information.

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Acquisition of investment property	-	(270)	(3,845)
Proceeds from realization (acquisition) of securities measured at fair value through profit and loss, net	(106,582)	(18,097)	54,810
Grant (refund) of long term loans	(8,298)	(2,055)	520
Net cash provided by (used in) investment activities attributed to the Company as a parent company	(114,880)	(20,422)	51,485
Net cash provided by (used in) investment activities in respect of transactions with investees	14,011	(259,104)	(88,584)
Net cash used in investment activities	(100,869)	(279,526)	(37,099)
CASH FLOWS FROM FINANCE ACTIVITIES			
Issue of bonds (net of issue expenses)	99,507	253,820	-
Settlement of long term loan from banking institution	(75,098)	(3,957)	(3,865)
Net cash provided by (used in) finance activities	24,409	249,863	(3,865)
Exchange rate differences in respect of balances of cash and cash equivalents	(410)	(18)	271
Increase (decrease) in cash and cash equivalents	8,235	(38,592)	(64,878)
Balance of cash and cash equivalents as at beginning of the year	8,551	47,143	112,021
Balance of cash and cash equivalents as at end of the year	16,786	8,551	47,143

The accompanying additional information constitutes an integral part of the Company's separate financial information.

ADDITIONAL INFORMATION

A – MANNER OF PREPARATION OF THE FINANCIAL DATA FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR 20111. 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 separate financial information on an equity basis.
Israeli CPI	- The Consumer Price Index published by the Central Bureau of Statistics in Israel.
Dollar	- U.S. Dollar

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. Presentation of the financial data1) Assets and liabilities included in the consolidated statements of the financial position 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.

ADDITIONAL INFORMATION

A – MANNER OF PREPARATION OF THE FINANCIAL DATA FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR 2011 (Cont.)2) Manner of preparation of the financial data (Cont.)a. Presentation of the financial data (Cont.)2) Income and expenses included in the consolidated statements of comprehensive income 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 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.

3) Cash flows included in the consolidated statements of cash flows 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 financing activities while specifying their composition. This data was classified in accordance with Regulation 9C

b. Transactions between the Company and investees1) Presentation

Intra-group balances and income and expenses arising from intercompany transactions which were eliminated in the framework of the consolidated financial statements, were presented separately from the balance in respect of investees and income in respect of investees, along with similar balances with third parties.

Profits and losses which have yet to be realized, resulting from transactions between the Company and its investees, have been presented in the framework of the balance in respect of investees and in the framework of profit in respect of investees.

2) Measurement

Transactions performed between the Company and its subsidiaries were measured in accordance with the recognition and measurement principles, prescribed in the International Financial Reporting Standards, outlining the accounting treatment of such transactions conducted with third parties

ADDITIONAL INFORMATION**B – CASH AND CASH EQUIVALENTS**As at December 31, 2011

	In foreign currency or linked thereto		Unlinked	Total
	USD	Euro		
NIS in thousands				
Cash	1,201	6,684	8,901	16,786

As at December 31, 2010

	In foreign currency or linked thereto		Unlinked	Total
	USD	Euro		
NIS in thousands				
Cash	4	2	8,543	8,549
Cash equivalents	-	-	2	2
	4	2	8,545	8,551

C – FINANCIAL ASSETS

- Details of the significant investments in the financial assets groups in accordance with Standard IAS 39:

	December 31	
	2011	2010
NIS in thousands		
Financial assets measured at fair value through profit and loss:		
Shares	11,089	15,198
Bonds	327,621	252,433
Derivatives and structured products	20,081	12,010
	358,791	279,641
Loans and debtors – measured at amortized cost	16,005	9,581
	374,796	289,222

ADDITIONAL INFORMATION

C – FINANCIAL 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, 2011

	<u>Up to 1 year</u>	<u>From 1 year up to 2 years</u>	<u>From 2 years up to 3 years</u>	<u>From 3 years up to 4 years</u>	<u>From 4 years up to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	NIS in thousands						
Financial assets measured at fair value through profit and loss:							
Shares	3,696	7,393	-	-	-	-	11,089
Bonds	110,793	39,706	45,510	45,809	19,344	66,459	327,621
Derivates and structured products	20,081	-	-	-	-	-	20,081
Loans and debtors – measured at amortized cost	3,641	3,138	2,869	2,769	1,517	2,071	16,005
	<u>138,211</u>	<u>50,237</u>	<u>48,379</u>	<u>48,578</u>	<u>20,861</u>	<u>68,530</u>	<u>374,796</u>

ADDITIONAL INFORMATION

C – FINANCIAL 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, 2010

	<u>Up to 1 year</u>	<u>From 1 year up to 2 years</u>	<u>From 2 years up to 3 years</u>	<u>From 3 years up to 4 years</u>	<u>From 4 years up to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	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	12,010	-	-	-	-	-	12,010
Loans and debtors – measured at amortized cost	2,311	1,680	2,390	1,053	883	1,264	9,581
	<u>28,030</u>	<u>47,323</u>	<u>127,194</u>	<u>30,710</u>	<u>16,438</u>	<u>39,527</u>	<u>289,222</u>

ADDITIONAL INFORMATION

C – FINANCIAL 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, 2011

	In foreign currency or linked thereto		Linked to CPI	Unlinked	Total
	USD	Euro			
	NIS in thousands				
Financial assets measured at fair value through profit and loss	5,302	2,171	252,807	98,511	358,791
Loans and debtors – measured at amortized cost	-	-	6,730	9,275	16,005
	<u>5,302</u>	<u>2,171</u>	<u>259,537</u>	<u>107,786</u>	<u>374,796</u>

As at December 31, 2010

	In foreign currency or linked thereto		Linked to CPI	Unlinked	Total
	USD	Euro			
	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
	<u>6,973</u>	<u>340</u>	<u>176,415</u>	<u>105,494</u>	<u>289,222</u>

D – FINANCIAL LIABILITIES

1. Creditors and payables *)

	December 31	
	2011	2010
	NIS in thousands	
Investees	-	1,466
Expenses payable (including interest payable in respect of bonds)	20,232	18,662
Liabilities to employees and other liabilities in respect of salary and wages	129	42
Institutions	98	88
Others	117	8
	<u>20,576</u>	<u>20,266</u>

*) The creditors balances are unlinked except for interest payable in respect of bonds.

ADDITIONAL INFORMATION

D – FINANCIAL 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, 2011

	<u>Up to 1 year</u>	<u>From 1 year up to 2 years</u>	<u>From 2 years up to 3 years</u>	<u>From 3 years up to 4 years</u>	<u>From 4 years up to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	NIS in thousands						
Creditors and payables	1,231	-	-	-	-	-	1,231
Future contracts	2,574	66	-	-	-	-	2,640
Bonds	123,782	120,210	116,639	113,067	109,495	580,041	1,163,234
	<u>127,587</u>	<u>120,276</u>	<u>116,639</u>	<u>113,067</u>	<u>109,495</u>	<u>580,041</u>	<u>1,167,105</u>

As at December 31, 2010

	<u>Up to 1 year</u>	<u>From 1 year up to 2 years</u>	<u>From 2 years up to 3 years</u>	<u>From 3 years up to 4 years</u>	<u>From 4 years up to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	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
	<u>113,965</u>	<u>104,860</u>	<u>101,819</u>	<u>98,843</u>	<u>95,868</u>	<u>619,946</u>	<u>1,135,301</u>

ADDITIONAL INFORMATION

D – FINANCIAL LIABILITIES

3. Linkage conditions of the financial liabilities according to the financial instruments groups in accordance with Standard IAS 39

As at December 31, 2011

	In foreign currency or linked thereto		Linked to CPI	Unlinked	Total
	USD	Euro			
NIS in thousands					
Financial liabilities measured at amortized cost	-	-	951,469	1,231	952,700
Financial liabilities measured at fair value through profit and loss	2,601	39	-	-	2,640
	<u>2,601</u>	<u>39</u>	<u>951,469</u>	<u>1,231</u>	<u>955,340</u>

As at December 31, 2010

	Linked to the CPI	Unlinked	Total
	NIS in thousands		
Financial liabilities measured at amortized cost	<u>906,534</u>	<u>561</u>	<u>907,095</u>

4. Issue of bonds during the reporting year

In October 2011 the Company recruited a debt in the amount of NIS 100 million through private issue of bonds to institutional entities by way of expansion of Series A traded on the Stock Exchange. Prior to the issue, Midroog published a rating report which determined that the rating of the Company's bonds remained unchanged at Aa3 with a stable outlook. The rating report was based, among others, that there will be a structural change that includes the transfer of the shares of Mivtachim Pension Ltd. – Managing Company (hereunder – Mivtachim Pension) from Menorah Mivtachim Insurance Ltd. (hereunder – Menorah Insurance) to the Company within one year from the date of the rating (see paragraph g below). In addition, the Company announced its intention to maintain liquid assets and credit lines at the rate of 125% of the loan repayments (principal plus interest), one year in advance, in accordance with the repayment schedule of the bonds.

ADDITIONAL INFORMATION**E – BALANCEES OF DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES
BALANCES AND TAX INCOME OR TAX EXPENSES**Taxes on income1. Tax laws applicable to the CompanyIncome 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 law 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

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 (hereunder - the Law) which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate as mentioned above, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

Hereunder are the statutory tax rates applicable to the Company:

	<u>Corporate tax rate</u>
2009	26
2010	25
2011	24
2012 and thereafter	25

The effect of the said change on the deferred tax balances resulted in an increase in the liabilities balances in respect of deferred taxes and a decrease in the net profit in the amount of about NIS 6,122 thousand in the year 2011.

3. Tax assessments

The Company received final tax assessments up to and including the tax year 2006.

ADDITIONAL INFORMATION

**E – BALANCEES OF DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES
BALANCES AND TAX INCOME OR TAX EXPENSES (Cont.)**

4. Deferred taxes

The composition

	Financial data from the consolidated statements of the financial position		Financial data from the consolidated statements of the profit and loss		
	December 31		Year ended as at December 31		
	2011	2010	2011	2010	2009
	NIS in thousands				
Deferred tax liabilities					
Investment property measured at fair value	23,527	12,864	(10,663)	(2,531)	(388)
Securities measured at fair value through profit and loss	1,081	10,865	9,784	8,642	(20,303)
	<u>24,608</u>	<u>23,729</u>			
Deferred tax assets					
Losses carried forward for tax purposes	-	-	-	(2,289)	901
Provision for doubtful debts	2,148	1,208	940	58	121
Benefits to employees	249	152	97	26	126
	<u>2,397</u>	<u>1,360</u>			
Deferred taxes income (expenses)			<u>158</u>	<u>3,906</u>	<u>(19,543)</u>
Deferred tax liabilities	<u>(22,211)</u>	<u>(22,369)</u>			

The deferred taxes are reported in the financial information from the consolidated statements of the financial position as follows:

	December 31	
	2011	2010
	NIS in thousands	
Non-current liabilities	<u>22,211</u>	<u>22,369</u>

The deferred taxes are calculated according to the tax rate of 25% (2010 – 19.3%) based on the anticipated tax rates applicable at the time of realization.

5. Taxes on income included in the financial data taken from the consolidated statements of profit and loss

	Year ended as at December 31		
	2011	2010	2009
	NIS in thousands		
Current taxes	3,460	8,296	-
Deferred taxes	(7,376)	(3,906)	24,159
Taxes in respect of previous years (current and deferred)	133	-	(24)
Adjustment of the deferred tax balances following change in the tax rates	5,191	-	(4,593)
	<u>1,408</u>	<u>4,390</u>	<u>19,542</u>

ADDITIONAL INFORMATION**E – BALANCEES OF DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES
BALANCES AND 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 allocated from the consolidated statements of profit and loss:

	Year ended December 31		
	2011	2010	2009
	NIS in thousands		
Profit before taxes on income	39,224	286,006	422,340
Profit from investees	<u>57,637</u>	<u>257,428</u>	<u>323,004</u>
Profit (loss) before taxes on income (tax benefit) without results of investees	<u>(18,413)</u>	<u>28,578</u>	<u>99,336</u>
Statutory tax rate	<u>24%</u>	<u>25%</u>	<u>26%</u>
Tax (tax saving) computed at the statutory tax rate	(4,419)	7,145	25,827
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses	119	-	1
Exempt income	(46)	(82)	(61)
Differences in measurement basis	(790)	(2,158)	(1,433)
Temporary differences for which no deferred taxes were allocated	289	86	(97)
Utilization of losses for tax purposes from previous years, for which no deferred taxes were recognized in the past	-	-	(78)
Update of deferred taxes in respect of changes in legislation	5,191	-	(4,593)
Current updates of deferred tax balances in respect of changes in the tax rates	931	(601)	-
Taxes in respect of previous years (current and deferred)	<u>133</u>	<u>-</u>	<u>(24)</u>
Taxes on income	<u>1,408</u>	<u>4,390</u>	<u>19,542</u>
Average effective tax rate	<u>-</u>	<u>15.36%</u>	<u>19.67%</u>

ADDITIONAL INFORMATION

F – LOANS, BALANCES AND SIGNIFICANT ENGAGEMENTS WITH INVESTEEES

1. Balances with investees

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
	<u>NIS in thousands</u>	
Current assets		
Current balance with investee	<u>12,033</u>	<u>11,942</u>
Non-current assets		
Loans and capital notes to investees - see paragraph 5 below	<u>682,258</u>	<u>664,504</u>

2. Transactions with investees

	<u>Year ended December 31</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
Income from management fees from investee (see paragraph 4 below)	<u>2,390</u>	<u>2,083</u>	<u>2,655</u>

3. Finance income from investees

	<u>Year ended December 31</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	<u>NIS in thousands</u>		
Finance income	<u>45,204</u>	<u>10,896</u>	<u>15,894</u>

4. Agreements

The Company entered into an agreement with a subsidiary – 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.

Beginning from January 1, 2012, the activity of granting loans to Menorah Insurance was transferred and hence the said engagement was discontinued. In addition senior managers, as well as the Chairman of the Board of Directors and the Company's CEO, who were employed by Menorah Insurance were transferred to the Company. In return for the services that will be provided by those senior managers to Menorah Insurance, Menorah Insurance will pay management fees in accordance with the cost plus a margin of 10%.

ADDITIONAL INFORMATION**F – LOANS, BALANCES AND MATERIAL COMMITMENTS WITH INVESTEEES (Cont.)**5. Loans and capital notesa. 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.

b. Loans to a subsidiary – Menorah Mivtachim Real Estate Ltd.

	<u>Interest rate</u>	<u>December 31</u>	
		<u>2011</u>	<u>2010</u>
<u>NIS in thousands</u>			
	Libor for 3 months +		
Dollar	2%	83,644	76,032
	Euribor for 3 months +		
Euro	2%	126,916	119,182
Shekel Linked to the CPI	-	-	5,337
Shekel unlinked	3.8% (last year – 3%)	13,946	6,878
		<u>224,506</u>	<u>207,429</u>

The above loans are expected to be settled between 3 – 8 years from the financial statements date.

ADDITIONAL INFORMATION

F – LOANS, BALANCES AND MATERIAL COMMITMENTS WITH INVESTEES (Cont.)

1. Commitments (Cont.)

c. Loans and capital notes to a subsidiary – Menorah Mivtachim Finance Ltd.

	Interest rate %	December 31	
		2011	2010
		NIS in thousands	
Loans:			
Linked to the CPI	4.3% (previous year 5%)	54,689	52,843
Unlinked	Prime – 0.10%	3,700	-
Unlinked	Prime – 0.75%	4,673	19,970
Unlinked	Prime + 0.25%	119,542	115,253
		<u>182,604</u>	<u>188,066</u>
Capital notes:			
Unlinked	-	<u>10,470</u>	<u>10,613</u>
		<u>193,074</u>	<u>198,679</u>

The settlement date for the loans was not determined.

The settlement dates for the capital notes will be not before December 31, 2012. After the said date, the capital notes will automatically renewed for the period of one year each time.

G – SIGNIFICANT EVENT AFTER THE REPORTING DATE

After the reporting date, on February 14, 2012 the Board of Directors of Menorah Insurance decided on a distribution of the entire shares of Mivtachim Pension as a dividend in kind to the Company. On February 15, 2012 the distribution was performed.

Menora Mivtachim
Holdings Ltd.

Chapter F:
Additional information about the
corporation

Menora Mivtachim

Experts in Insurance * Pension * Finance

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1. Summary of statements of total profit of the corporation for each quarter in 2011 (regulation 10a)

Summary of statements of total profit of the corporation for each quarter in 2011 (in thousand ILS):

	January - March	April - June	July – September	October - December	2011 year
Gross earned premiums	1,060,331	1,060,023	1,097,825	1,100,515	4,318,694
Premiums earned by reinsurers	230,605	224,447	216,157	207,224	878,433
Premiums earned in retention	829,726	835,576	881,668	893,291	3,440,261
Earnings (losses) from investments, net and financing income	402,981	(3,139)	(587,822)	454,074	266,093
Revenues from management fees	145,007	148,051	143,237	147,919	584,214
Revenues from fees	56,081	56,130	50,197	43,984	206,392
Other revenues	473	(107)	527	542	1,435
Total revenues	1,434,268	1,036,511	487,807	1,539,810	4,498,395
Payments and change of liabilities for insurance contracts and gross investment contracts	1,080,457	687,427	258,880	1,213,063	3,239,827
The share of reinsurers in payments and change of liabilities for insurance contracts and investment contracts in retention	(163,513)	(104,255)	(140,846)	(162,086)	(570,700)
Payments and change of liabilities for insurance contracts and investment contract in retention	916,944	583,172	118,034	1,050,977	2,669,127
Fees, marketing expenses and other acquisition expenses	238,484	224,840	237,196	228,814	929,334
Administration and general expenses	151,441	167,573	164,565	166,841	650,419
Other expenses	8,276	8,916	7,775	6,191	31,158
Financing expenses	38,844	45,358	31,446	28,258	143,906
Total expenses	1,353,989	1,029,858	559,016	1,481,080	4,423,943
Share in earnings of held companies handled according to book value method	325	2,237	7,157	6,814	16,533
Earnings (loss) before taxes on income	80,604	8,889	(64,052)	65,544	90,985
Taxes on income	28,341	4,897	(13,673)	33,120	52,685
Earnings (loss) for period	52,263	3,992	(50,379)	32,424	38,300
Attributed to:					
Company shareholders	52,147	3,886	(50,538)	32,321	37,816
Minority rights	116	106	159	103	484

Earnings (loss) for period	52,263	3,992	(50,379)	32,424	38,300
	January - March	April - June	July – September	October - December	2011 year
Earnings (loss) per period	52,263	3,992	(50,379)	32,424	38,300
Other general earnings (loss):					
Adjustments from translation of financial statements of overseas activities	899	1,326	5,483	56	7,764
Net change in the fair value of financial assets classified as available for sale attributed to capital reserve	(18,900)	(85,054)	(115,842)	21,132	(198,664)
Net earnings (loss) from realization of financial assets classified as available for sale transferred to profit and loss statement	(18,077)	(0)	19,399	6,613	7,935
Loss from depreciation of financial assets classified as available for sale transferred to profit and loss statement	5,103	12,142	25,670	4,270	47,185
Tax benefit (taxes on income) relating to other earnings (loss) components	10,937	24,172	22,000	(12,821)	44,288
Other total earnings for the period, net from tax	(20,038)	(47,414)	(43,290)	19,250	(91,492)
Total earnings (loss) for period	32,225	(43,421)	(93,669)	51,674	(53,192)
Total earnings attributed to:					
Company shareholders	32,109	(43,527)	(93,828)	51,571	(53,676)
Minority interest	116	106	159	103	484
Total earnings (loss) for period	32,225	(43,421)	(93,669)	51,674	(53,192)

2. Using securities proceeds while including proceeds' objectives according to prospectus (Regulation 10c)

The net proceeds the company received for appropriation of bonds (class A) registered for trade according to the prospectus dated 27 February 2008, including the proceeds for appropriation of bonds within the expansion of the series (as detailed in article 7 below) has served and continues to serve 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 chart is accurate as of the date of balance sheet

The company	Class of share	No. of shares	Total nominal value (ILS)	Value in separate financial statement of the corporation (thousand ILS)	Rate of holding * (%)	Loans and bonds				
						Balance on the date of balance sheet (thousand ILS)	Maturity date	Rate of interest	Basis of linkage	Notes
Menora Mivtachim Insurance Ltd.	Regular	230,868,288	230,868,288	1,917,366	100	270,358	2059 ¹	5.30%	Consumer price index	Capital note renewable once a year with the parties' consent
Menora Mivtachim Finance Ltd.	Regular	1,000	1,000	45,021	100	119,542	No maturity date	Prime + 0.25%	No linkage	shareholders' loan payable at all times with the parties' consent
						3,700	No maturity date	Prime - 0.1%	No linkage	shareholders' loan payable at all times with the parties' consent
						4,673	No maturity date	Prime – 0.75%	No linkage	shareholders' loan payable at all times with the parties' consent
						54,689	No maturity date	5%	No linkage	shareholders' loan payable at all times with the parties' consent
						10,469	No maturity date	No interest	No linkage	Capital note renewable once a year with the parties' consent
Menora Mivtachim Real Estate Ltd.	Regular	1,000	1,000	8,453	100	126,916	No maturity date	EURIBOR + 2.00%	Euro	---
						83,644	No maturity date	LIBOR + 2.00%	USD	---

¹There is a possibility of early maturity in 2020 pending approval of the insurance supervisor.

						13,946	No maturity date	3.8%	No linkage	---
Menora Agents Services (1994) Ltd.**	Regular	100	100	0	100	---	---	---	---	---
Menora Provident Fund Management Ltd.**	Regular	2,000,000	2,000,000	0	100	---	---	---	---	---
Dorot Customer Relations Management Company Ltd.**	Regular	180,001	180,001	1,237	100	---	---	---	---	---
Menora Capital Markets Ltd.**	Regular	1,000	1,000	0	100	---	---	---	---	---
Nachlat Menora Housing and Development Company (1950) Ltd.	Regular	1,700	0.17 ²	0	100	---	---	---	---	---
Menora Mivtachim Meshalemet Ltd.³	Regular	1,000	1,000	(1,250)	100	1,299	No maturity date	Prime – 0.5%	No linkage	The higher of the aforesaid interest to the linkage to the consumer price index

²The nominal value of the Company's shares is 0.0001 ILS (old).

³ Holds 100% of Menora Mivtachim Investments US LLC which is the general partner.

3.2. Subsidiary companies and related companies of Menora Mivtachim Insurance Ltd.

The company	Class of share	No. of shares	Total nominal value (ILS)	Value in separate financial statement of the corporation (thousand ILS)	Rate of holding * (%)	Loans and bonds				
						Balance on the date of balance sheet (thousand ILS)	Maturity date	Rate of interest	Basis of linkage	Notes
Menora Mivtachim Pensions Ltd.	Regular	328,000	328,000	105,645	100	30,000	2021	4.65%	Consumer price index	Capital note
Menora Mivtachim Capital Raising Ltd.	Regular	1,000	1,000	1	100	---	---	---	---	---
Orot Life Insurance Agency (2005) Ltd.	Regular	1,000	1,000	4,293	80	---	---	---	---	---
Shomera Insurance Company LTD.	Regular	73,941,016	73,941,016	203,667	100	5,469	1.2013	---	Consumer price index	Capital note
						10,537	9.2014	---	Consumer price index	Capital note
						4,983	10.2014	---	Consumer price index	Capital note
						5,215	1.2014	---	Consumer price index	Capital note
						10,522	4.2014	---	Consumer price index	Capital note
Menora Assets and Investments Ltd	Regular	14,001	14,001	23,261	100	117,368	Last date of maturity – October 2031	2.00%	Consumer price index	The higher of the aforesaid interest and the interest

										determined in income tax regulations
Menora surrey street company 1 ltd.	Regular	100	589	11,041	50.31	---	---	---	---	---
Menora surrey street company (nostro) ltd.	Regular	100	589	2,404	100	---	---	---	---	---
Menora surrey street company 2 ltd.	Regular	100	589	1,922	100	---	---	---	---	---
Sienna Bay Finance LP	Foreign partnership ⁴	---	---	3,994	39	---	---	---	---	---
Treybrooke Equity LP	Foreign partnership	---	---	3,324	39	---	---	---	---	---
Landmark at Maple Glen LP	Foreign partnership	---	---	6,791	39	---	---	---	---	---
Gaia Jurnal Square LLC	Foreign partnership	---	---	37,888	38.3	---	---	---	---	---
Sunshen Properties LP	Foreign partnership	---	---	10,860	34.1	---	---	---	---	---
Boulder Texas Holdings LLC	Foreign partnership	---	---	5,524	30.1	---	---	---	---	---
Baltimore Portfolio Finance LP	Foreign partnership	---	---	25,045	23.2	---	---	---	---	---

⁴ Apart from the partnerships listed above, as part of the company’s investment policy, as detailed in article 9.3.3 of the chapter describing the corporation’s business, the company invest the member’s money in real estate through investment in partnerships owned by companies in the group.

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:

The company	Class of share	No. of shares	Total nominal value (ILS)	Value in separate financial statement of the corporation (thousand ILS)	Rate of holding * (%)	Loans and bonds				
						Balance on the date of balance sheet (thousand ILS)	Maturity date	Rate of interest	Basis of linkage	Notes
Mivtachim Pension services Ltd.**	Regular	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 balance sheet:

The company	Class of share	No. of shares	Total nominal value (ILS)	Value in separate financial statement of the corporation (thousand ILS)	Rate of holding * (%)	Loans and bonds				
						Balance on the date of balance sheet (thousand ILS)	Maturity date	Rate of interest	Basis of linkage	Notes
Shomera Real Estate LTD.	Regular	204	204	7,032	100	22,635	---	---	---	---
Sinai Insurance Agency Ltd.	Regular	4,000	4 ⁵	12,576	100	---	---	---	---	---
	Regular A	990	0.99		100					
	Management	10	0.01		100					
Arnon & Weinstock Insurance Agency (1989) Ltd.	Regular	11,600	11,600	(6,592)	100	9,801	No maturity date	Prime + 0.25%	No linkage	Loan with grace without maturity date (granted by Menora insurance)
						19,229	26/01/2026	4%	Index	Maturity for all of January and July by 2026.

⁵ The nominal value of the Company's shares is 0.001 ILS (old).

3.5. Subsidiary companies and related companies of Menora Assets and Investments Ltd.

Data in the table is correct as of the date of balance sheet:

The company	Class of share	No. of shares	Total nominal value (ILS)	Value in separate financial statement of the corporation (thousand ILS)	Rate of holding * (%)	Loans and bonds				
						Balance on the date of balance sheet (thousand ILS)	Maturity date	Rate of interest	Basis of linkage	Notes
Chetzron Investment Company Ltd.	Regular	1,005,000	100,500 ⁶	0	66.6	---	---	---	---	---
Allenby 115 Parking Lot Ltd.	Regular	100	0.1 ⁷	0	58	---	---	---	---	---
Buildings for Lease Ltd.	Regular a	2,502	0.2502 ⁸	0	0	---	---	---	---	---
	Regular	8	0.0008							

⁶ The nominal value of the Company's shares is 0.1 ILS.

⁷ The nominal value of the Company's shares is 0.001 ILS (old).

⁸ The nominal value of the Company's shares is 0.0001 ILS (old).

3.6. Subsidiary companies and related companies of Menora Mivtachim Finance Ltd.

Data in the table is correct as of the date of balance sheet:

The company	Class of share	No. of shares	Total nominal value (ILS)	Value in separate financial statement of the corporation (thousand ILS)	Rate of holding * (%)	Loans and bonds				
						Balance on the date of balance sheet (thousand ILS)	Maturity date	Rate of interest	Basis of linkage	Notes
Menora Mivtachim Gemel Ltd.	Regular	26,550,001	26,550,001	62,112	100	---	---	---	---	---
Menora Mivtachim Mutual Funds Ltd.		30,400,000	30,400,000	26,542	100	83,160	No maturity date	5%	Consumer price index	shareholders loan payable at all times with the parties' consent
						5,000	No maturity	No interest	No linkage	Perpetual capital note no maturity date
						17,511	No maturity date	Prime + 0.5%	No linkage	shareholders loan payable at all times with the parties' consent
Menora Mivtachim Investment Portfolio Management Ltd.	Regular	2,250,000	2,250,000	266	100	3,700	For a year	Prime – 0.1%	No linkage	shareholders loan payable at all times with the parties' consent
Menora Mivtachim	Regular	1,000	1,000	12,052	100	2,300	No maturity	No interest	No linkage	Perpetual capital note

Underwriting and Management Ltd.										no maturity date
Menora Mivtachim Financial Products (2006) Ltd.**	Regular	10,000	10,000	0	100	---	---	---	---	---
Menora Mivtachim and Engineers Union Provident Fund management Ltd.	Management Regular Deferred	120 5 1	0.011 ⁹ 0.0005 0.0001	2,823	60 0 0	---	---	---	---	---

⁹ The nominal value of the Company's shares is 0.0001 ILS (old).

3.7. Subsidiary companies and related companies of Menora Mivtachim Real Estate Ltd.

The company	Class of share	No. of shares	Total nominal value (ILS)	Value in separate financial statement of the corporation (thousand ILS)	Rate of holding* (%)	Loans and bonds				
						Balance on the date of balance sheet (thousand ILS)	Maturity date	Rate of interest	Basis of linkage	Notes
Belltrend Menora Enterprises LTD.	Regular	1,000	8,444	(4,243)	50	13,963	At a range of up to 5 years	3%	Euro	---
Yatelsis Development LTD.	Regular	2,000	10,699	2,472	60	58,668	At a range of 3 to 5 years	6%	Dollar	---
Yatelsis River Development LTD.	Regular	2,000	9,876	(924)	60	69,449	At a range of 3 to 5 years	EURIBOR for 6 months + 3%	Euro	---
Mxr Development LTD.	Regular	2,000	10,554	198	50	---	---	---	---	---
Solangia LTD	Regular	4,166	20,572	972	42	50,858	At a range of 3 to 8 years	EURIBOR for 6 months + 4.5%	Euro	---
						12,875	Within one year	EURIBOR for 6 months + 8%	Euro	
Bruseco Holding LTD	Regular	2,084	10,291	1,343	42	---	---	---	---	---
Pellariway Holdings LTD	Regular	12,498	61,716	(42)	42	---	---	---	---	---

Index of marks in article 3: * Rate of holding in securities, capital, voting rights and authority to appoint directors.
 ** Inactive company.
 *** Inactive company that transferred to “voluntary liquidation” status during report year.

4. Changes in investments in subsidiary companies and related companies in the period of the report (Regulation 12)

4.1. Menora Mivtachim Finance Ltd.

Nature of change: Redeeming shareholders' loan in the total amount of 12 million ILS.

Date of change: various dates throughout 2011.

4.2. Menora Mivtachim Real Estate Ltd.

Nature of change: Redeeming net shareholders' loan from Menora Real Estate in the total amount of 0.5 million ILS.

Date of change: various dates throughout 2011

5. Revenues of subsidiary companies and related companies and revenues from them (Regulation 13)

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	53,313	(86,663)	(33,350)	100,000	(****)	20,382	-	2,390	-
Menora Mivtachim Finance Ltd	3,892		3,892	-	-	7,214	-	-	-
Menora Mivtachim Real Estate Ltd. (*)	(1,939)	(1,615)	(3,554)	-	-	17,612	-	-	-
Dorot Customer Relations Management Company Ltd. (**)	32		32	-	-	-	-	-	-
Menora Agents Services (1994) Ltd.(***) -voluntary liquidation	(1)	-	(1)	-	-	-	-	-	-
Menora Mivtachim Meshalemet Ltd.	(45)		(45)	-	-	48	-	-	-
Menora Provident Funds Management Ltd.(***) -voluntary liquidation	2	-	2	-	-	-	-	-	-
Menora Capital Markets Ltd. (***) - voluntary liquidation	-	-	-	-	-	-	-	-	-
Nachlat Menora Housing and Development Company (1950) Ltd. (**)	-	-	-	-	-	-	-	-	-

(*) Including the Company's share in the net performance of held companies.

(**) Inactive companies.

(***) Inactive companies that transferred to "voluntary liquidation" status during report year.

(****) Balance of investment distributed as dividend after date of report.

6. List of 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)

<u>Amount in ILS</u>		<u>No. of Borrowers</u>		
From	0	To	50,000	
From	50,001	To	100,000	
From	100,001	To	250,000	1
From	250,001	To	500,000	1
From	500,001	To	1,000,000	
From	1,000,001	To	2,000,000	1
From	2,000,001	To	10,000,000	3
From	10,000,001	To	15,000,000	
From	15,000,001	To	40,000,000	
From	40,000,001	To	70,000,000	
From	70,000,001	To	150,000,000	
From	150,000,001	To	300,000,000	3

7. Trade in stock exchange – securities registered for trade – dates and reasons for termination of trade (Regulation 20)

On 9 October 2011 the company allocated 83,333,400 ILS nominal value company bonds (series A) for a total of 100,000,000 ILS, in private allocation to institutional investors, by way of expanding a trade series (hereinafter: “the additional bonds”). The additional bonds were registered for trade in the stock exchange and constitute a part of the company’s bonds (series A) for all intents and purposes. No termination of trade occurred during the period of the report.

8. Benefits to stakeholders and senior office holders (Regulation 21a)

The following chart specifies the benefits paid to senior office holders in the Company and the corporations under its control in the year 2011 as specified in the financial statements of 2011 (in thousand ILS)

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
Menahem Gurevitch	Chairman of board of directors	Full	61.86%	1,793	-	-	-	-	-	-	-	-	-	1,793
Ari Kalman	CEO	Full	2.72%	2,652	670	1,310	-	-	-	275	-	-	-	4,907
Motti Rozen	CEO of subsidiary company	Full	None	-	-	988	3,128	-	-	1,081	-	-	-	5,197
Yehuda Ben Assayag	CEO of sub subsidiary Company	Full	None	1,737	578	154	-	-	-	-	-	-	-	2,469
Menahem Harpaz	Deputy CEO of subsidiary	Full	None	3,603	-	-	-	-	-	-	-	-	-	3,603
Yoni Tal	Chief Investments Manager	Full	None	1,770	-	187	-	-	-	200	-	-	-	2,157

* Amounts of benefits in terms of corporate cost. The aforementioned amounts do not include salary tax and/or VAT as the case may be.

** The salary component specified above 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 various expenses including living expenses, stationary and mobile phone, as well as vacation, sick leave, and convalescence.

*** The value of the wrapped in benefit in the phantom units allocated in 2010 excluding the case of the company's CEO who received an actual allocation of the corporation's shares (as distinct from the options above).

- (1) Mr. Gurevitch serves as the chairman of the board of directors of the company. His employment contract was recently renewed in October 2010 for 5 years (see additional information in section 11 below (Regulation 22)). The salary of Mr. Gurevitch was paid by Menora Mivtachim Insurance. Holding of the company's shares in the rate specified above is by foreign corporations held in trust for him as sole beneficiary.
- (2) Mr. Kalman serves as the Company's CEO and as chairman of the board of directors 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 in every instance unless either party notified the other of non-renewal. Mr. Kalman's salary was paid by Menora Mivtachim Insurance. Concurrently, and in addition to his 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 over a period of 10 years in equal annual 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 Menora Insurance to the Company's stock, see note 32 to the financial statements as well as the immediate report published by the Company on 31.07.08. In July 2011 the authorized organs of the company and of Menora Insurance approved the participation of Menora Insurance in Mr. Kalman's additional tax liability for the dividend distributed in the years 2003 and 2004 (the value of the benefit as detailed in the table above under the heading "other") and this for the sum of the tax savings only of Menora Mivtachim Insurance and with warranty to the tax authorities that the company and/or Menora insurance did not demand, and will not demand in the future, the deduction of said dividend payments as an expense. See immediate report published by the company on 21.07.11. The share based payment registered in the chart above as an expense in the year of the report expresses the relative portion of the shares maturing 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 ILS (linked to the consumer price index), reimbursement of expenditures while abroad 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 as well as 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.

- (3) Mr. Rozen serves from the middle of October as the CEO of Menora Mivtachim Insurance Ltd. (a subsidiary of the company) and employed through a company in his control (hereinafter: "the Service Provider"). The service provision agreement is for an undetermined period of time where the termination of contact is subject to 6 (six) months prior notice and an adaptation period (concurrent with the prior notice) of 12 (twelve) months (not under exempting circumstances) along with the CEO's assurance not to engage in "counter employment" as defined in the agreement. His salary is paid by Menora Mivtachim Insurance as management fees for said company and also includes the social allocations component and entitlement to 24 days paid vacation and 30 days sick leave. Menora Mivtachim Insurance has placed a vehicle at the disposal of the CEO as is customary for managers of his rank. In addition, the CEO is entitled to return of expenses in Israel and abroad as is customary, as well as a home phone line, computer and mobile phone. The service provider, due to Mr. Rozen, is entitled to a bonus of between 720 thousand ILS (target bonus) and 1,080 thousand ILS (maximum bonus) in accordance with the office holder benefits program approved by the directorate in December 2010 (hereinafter: "the benefits program") and 621,404 long term benefit units (phantom options) allocated to him as part of said program, as a long term bonus, spread over 4 years and in accordance with the terms of the program and realization established within it. See expansion regarding the benefit program in article 9.3.9 in the chapter detailing the corporation's businesses. In addition to the salary above, a one-time bonus of 1,081 thousand ILS was granted, paid in 10 concurrent monthly installments starting on January 2011. The CEO and the company owned by him were obligated within the service agreement to confidentiality (for an unlimited period of time) and non competition (for a period of one year) as is customary.
- (4) Mr. Ben Assayag serves as CEO of Menora Mivtachim Pensions (a sub-subsiary¹⁰ of the company) from January 2011. His salary is paid by Menora Mivtachim Pensions. According to his employment contract Mr. Ben Assayag is entitled to receive, beyond the salary specified in the table above, an annual bonus of between 5.5 and 8.25 monthly salaries within the framework of, and 100,823 long term benefit units (phantom options) in accordance with, "the benefits program" approved by the Menora Mivtachim Pensions directorate. Mr. Ben Assayag is entitled to receive 60 days prior notice and an adaptation grant of 6 months in the event of dismissal (not under exempting circumstances).
- (5) 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, beyond the salary specified in the table above, an annual bonus of between 4 and 6 monthly salaries within the framework of, and in accordance with, "the benefits program". Mr. Harpaz is entitled to receive an adaptation grant of 6 months in the event of dismissal.

¹⁰ It should be mentioned that on 15.02.12 Menora Insurance transferred all of its shares (100%) in Menora Mivtachim Pensions Ltd. to the company as dividend in kind and as of this date Menora Mivtachim Pensions is a subsidiary wholly owned by the company.

- (6) Mr. Tal 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 above, of between 6 and 9 monthly salaries, and 117,650 long term benefit units (phantom options) within the framework of, and in accordance with, the benefits program as well as a 1 million ILS conservation bonus, starting from 2011. In the event of dismissal (not under exempting circumstances), Mr. Tal is entitled to receive 5 months of adaptation.
- (7) 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 in 2011 to 745 thousand ILS.

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 21b)

None.

The company estimates that the payment to office holders as detailed in article 8 above (regulation 21) and for Mr. Gurevitch (chairman of the board of directors) and his relatives as detailed in article 11 below (regulation 22) are a fair and reasonable compensation in comparison to the complexity of their position and the responsibility it involves.

10. Holder of controlling interest in the corporation (Regulation 21a)

Holders of controlling interest in the company are Najaden Establishment and Palamas Establishment, foreign corporations held in trust for Mr. Menahem Gurevitch as sole beneficiary, and which hold 61.86% of the company's shares

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 listed under article 270(4) of the Companies Law, 5759 – 1999

11.1.1. 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 1,383 thousand ILS (linked to the index published on January 2007) (“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 28 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's salary in 2011 amounted to 1,793 thousand ILS. 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 2010 and 28 October 2010 (respectively).

- 11.1.2. Menora Insurance (a subsidiary of the company), employs Mr. Gershon 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, sick leave, convalescence and annual leave. In addition, he is entitled to a 3 months advance notice. Mr. Gurevitch's terms of employment as specified above 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 40,000 ILS gross (instead of 29,000 ILS, 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 above. 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 2011 amounted to 923 thousand ILS. For additional information see immediate report of the company dated May 5 2010.
- 11.1.3. On 5 January 2012 (after receiving approval of the audit committee and the board of directors on 21 and 24 of November 2011 respectively) the general meeting of the company approved an update of the employment contract of Mr. Eran Griffel, relative of the holder of controlling interest and head of the board of directors, as CEO of the subsidiary Menora Real Estate (a subsidiary of the company), for a period of 3 years starting from 15 November 2011 (that is, until 15 November 2014). The main terms of employment approved as stated above are: a monthly salary of 65,000 ILS gross (linked to the index)¹¹ with the addition of a 13th salary; 4 months advance notice. social benefits, study fund and worker's compensation as customary¹²; reimbursement of various expenses¹³ including – vehicle¹⁴, living expenses, cellular phone and two

¹¹ Currently stands at 72 thousand ILS.

¹² Mr. Griffel will be permitted to notify the company, in writing, that the sum allocated for bonuses and study fund exceeding the tax exemption ceiling according to the provisions of the income tax code, as the case may be, will be paid to him through his salary (without deduction on his side) instead of being deposited in manager's insurance or study fund.

¹³ Professional literature, daily newspaper and periodic health examination.

¹⁴ The company will carry the costs of operating and maintaining the vehicle owned by Mr. Griffel (including the grossing up of tax obligated by the payment of these expenses by the company). The company will not carry Mr. Griffel's financing and/or depreciation expenses for his vehicle.

landline telephones as well as paid vacation (24 days a year), sick leave (30 days a year), and convalescence (14 days a year). Likewise Mr. Griffel will be entitled to a yearly bonus at the rate of 5% of the annual earnings of Menora Real Estate¹⁵ before tax – with deduction of the previous year's losses (LCF), so long as said profit is at a rate which reflects a yield of at least 10% on equity (not including shareholders' loan), and this up to a maximum of 4 monthly salaries (hereinafter: "**the annual bonus**"). The annual bonus mentioned above will first apply for 2012¹⁶. The holder of controlling interest Mr. Gurevitch has personal interest in the transaction due to the personal interest of Mr. Griffel's relative who is a party to the transaction. The cost of Mr. Griffel's salary in 2011 amounted to 1,291 thousand ILS. For additional information see immediate report of the company dated 29 December 2010.

- 11.1.4. On 24 November 2005, and on 22 January 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 per office holder and \$30 million 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.
- 11.1.5. On 5 January 2012 the general meeting of the company approved (after receiving approval of the audit committee on 21 November 2011 and the approval of the board of directors on 24 November 2011 and 29 December 2011) granting a new written undertaking to indemnify for the chairman of the company's board of directors and holder of controlling interest Mr. Menahem Gurevitch (hereinafter in this article: "**the new written undertaking to indemnify**"). In accordance with the new written undertaking to indemnify, the overall and cumulative amount of indemnification which the company is liable for due to a single event, together with any sum by virtue of a written undertaking to indemnify owed by any of the companies included in the Menora group, for the same event for all office holders will not exceed \$30 million. Likewise,

¹⁵ Including profits from activities or companies purchased in the future by Menora Real Estate, if any are purchased.

¹⁶ The terms of granting the bonus which Mr. Griffel is entitled to have been changed as part of the approval by the aforementioned general meeting of the company, where in relation to the year 2011 Mr. Griffel will be entitled to an annual bonus according to the terms following said amendment which are: an annual bonus at a rate of 5% of Menora Real Estate's profits before tax (with deduction of the cumulative loss from previous years) and no less than 4 monthly salaries, subject to Menora Real Estate's profitability in that year, according to its periodic report.

the amount of indemnification owed by the company towards one office holder for one event, together with the sum he is entitled to receive from any of the companies included in the Menora group by virtue of a written undertakings to indemnify, for the same event, will not exceed \$25 million. In any case, the amount of indemnification (net) following the subtraction of insurance benefits paid for the same event according to the office holders insurance policy purchased by the company, at its discretion, if such a policy was purchased, or for the sum of indemnification paid by the company for the same event by virtue of previous written undertakings to indemnify granted to Mr. Menahem Gurevitch will not exceed, in any case, 25% of the company's equity according to its financial report, on the eve of providing the indemnification. The new written undertaking to indemnify is intended to add on to rather than subtract from any previous written undertaking to indemnify granted to Mr. Menahem Gurevitch, and all in accordance with what is allowable by law and while the company's total undertakings to indemnify will not exceed what is stated in the new written undertaking to indemnify. The holder of controlling interest Mr. M. Gurevitch has personal interest in the decision due to the nature of the new written undertaking to indemnify and in light of the fact that it grants him a benefit (indemnification). For further information regarding the new written undertaking to indemnify see the company's immediate report dated 29 December 2011.

- 11.1.6. On 5 January 2012 the general meeting of the company approved (after receiving approval of the audit committee on 21 November 2011 and the approval of the board of directors on 24 November 2011 and 29 December 2011, as well as the approval of the authorized Menora Insurance organs) granting a new written undertaking to indemnify, by Menora Insurance, a wholly owned subsidiary of the company, to Eran Griffel and Gershon Gurevitch, relatives of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, for their tenure as director and deputy CEO in Menora Insurance, respectively (hereinafter in this article: **“the new written undertaking to indemnify”**). In accordance with the new written undertaking to indemnify, the amount of indemnification which the company is liable for is limited to a total of \$25 million per office holder and \$30 million for all indemnified due to a single event, and in any case, cumulatively for different events, the indemnification will not exceed 25% of Menora Insurance's equity according to its financial report, on the eve of providing the indemnification. The new written undertaking to indemnify is intended to add on to rather than subtract from any previous written undertaking to indemnify granted to Eran Griffel and Gershon Gurevitch, and all in accordance with what is allowable by law and while Menora Insurance's total undertakings to indemnify will not exceed what is stated in the new written undertaking to indemnify. The holder of controlling interest has personal interest in said connection due to the nature of the new written undertaking to indemnify and in light of the fact that it grants benefits to his relatives. For further information regarding the new written undertaking to indemnify see the company's immediate report dated 29 December 2011.
- 11.1.7. On 5 January 2012 the general meeting of the company approved (after receiving approval of the audit committee on 21 November 2011 and the approval of the board of

directors on 24 November 2011 and 29 December 2011) granting a new written undertaking to indemnify for Mr. Eran Griffel, relative of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, for his tenure as CEO of Menora Mivtachim Real Estate Ltd. (hereinafter: “**Menora Real Estate**”), a wholly owned subsidiary of the company, (hereinafter in this article: “**the new written undertaking to indemnify**”). In accordance with the new written undertaking to indemnify, the overall and cumulative amount of indemnification which the company is liable for toward Mr. Griffel due to a single event, together with any sum he is entitled to receive by virtue of a written undertaking to indemnify from any of the companies included in the Menora group for the same event, will not exceed \$3 million. Likewise, the overall and cumulative amount of indemnification owed by the company to all indemnification holders following the subtraction of insurance benefits and/or third party indemnification amounts paid to Mr. Griffel and/or to all indemnified parties and/or which may be paid to Mr. Griffel and/or to all indemnified parties will not exceed in any case, either for a single event and/or cumulatively for different events, 25% of the company’s equity according to its financial report, on the eve of providing the indemnification. The new written undertaking to indemnify is intended to add on to rather than subtract from any previous written undertaking to indemnify granted (if granted) to Mr. Griffel, and all in accordance with what is allowable by law and while the company’s total undertakings to indemnify will not exceed what is stated in the new written undertaking to indemnify. The holder of controlling interest has personal interest in said connection due to the nature of the new written undertaking to indemnify and in light of the fact that it grants a benefit (indemnification) to his relative (Mr. Eran Griffel, The holder of controlling interest’s son in law). For further information regarding the new written undertaking to indemnify see the company's immediate report dated 29 December 2011.

- 11.1.8. On 5 January 2012 the general meeting of the company approved (after receiving approval of the audit committee on 21 November 2011 and the approval of the board of directors on 24 November 2011 and 29 December 2011) granting a new written undertaking to indemnify for Mr. Eran Griffel, relative of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, for his tenure as a director in Menora Mivtachim Finances Ltd., a wholly owned subsidiary of the company, (hereinafter in this article: “**the new written undertaking to indemnify**”). In accordance with the new written undertaking to indemnify, the overall and cumulative amount of indemnification which the company is liable for due to a single event, together with any sum owed by any of the companies included in the Menora group by virtue of a written undertaking to indemnify, for the same event for all office holders, will not exceed \$30 million. The amount of indemnification which the company is liable for toward Mr. Griffel due to a single event, together with any sum he is entitled to receive by virtue of a written undertaking to indemnify from any of the companies included in the Menora group for the same event, will not exceed \$3 million. Likewise, the overall and cumulative amount of indemnification owed by the company to all indemnification holders following the subtraction of insurance benefits and/or third party indemnification amounts paid to Mr. Griffel and/or to all indemnified parties

and/or which may be paid to Mr. Griffel and/or to all indemnified parties will not exceed in any case, either for a single event and/or cumulatively for different events, 25% of the company's equity according to its financial report, on the eve of providing the indemnification. The new written undertaking to indemnify is intended to add on to rather than subtract from any previous written undertaking to indemnify granted (if granted) to Mr. Griffel, and all in accordance with what is allowable by law and while the company's total undertakings to indemnify will not exceed what is stated in the new written undertaking to indemnify. The holder of controlling interest has personal interest in said connection due to the nature of the new written undertaking to indemnify and in light of the fact that it grants a benefit (indemnification) to his relative (Mr. Eran Griffel, The holder of controlling interest's son in law). For further information regarding the new written undertaking to indemnify see the company's immediate report dated 29 December 2011.

- 11.1.9. On 5 January 2012 the general meeting of the company approved (after receiving approval of the audit committee on 21 November 2011 and the approval of the board of directors on 24 November 2011 and 29 December 2011, as well as the approval of the authorized Menora Insurance and Menora Pensions organs) granting a written undertaking to indemnify by Menora Mivtachim Pensions Ltd. (hereinafter: "**Menora Pensions**") to Mr. Eran Griffel, relative of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, for his tenure as the chairman of the board of directors of Menora Pensions (hereinafter in this article: "**the new written undertaking to indemnify**"). In accordance with the new written undertaking to indemnify, the amount of indemnification granted to all office holders in Menora Pensions will not exceed \$20 million, and in any case will not exceed 25% of the Menora Pensions' equity according to its financial report, on the eve of providing the indemnification. The new written undertaking to indemnify cancels any previous or other written undertaking to indemnify granted by Menora Pensions to Mr. Griffel. The holder of controlling interest has personal interest in said connection due to the nature of the new written undertaking to indemnify and in light of the fact that it grants a benefit (indemnification) to his relative (Mr. Eran Griffel, The holder of controlling interest's son in law). For further information regarding the new written undertaking to indemnify see the company's immediate report dated 29 December 2011.
- 11.1.10. Following the decision by the audit committee of 29 August 2010, the board of directors of the company approved on 29 August 2010 the renewal of directors and officers insurance policy for 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, Menahem Gurevitch, Gershon Gurevitch, and Eran Griffel, as the case may be, (above and hereinafter: "**the holder of controlling interest and his relatives**") with a liability limit of \$15 million (hereinafter: "**the basic policy**") as well as joint coverage with an umbrella policy with a liability limit of \$30 million (hereinafter: "**the umbrella policy**"). In addition the audit committee and the board of directors approved renewal of the aforementioned policies for the holder of controlling interest and his relatives in the

different divisions of the subsidiaries – the Menora Mivtachim Insurance Ltd. division, the Menora Mivtachim Finance Ltd. division, and the Menora Mivtachim Pensions Ltd. division – with the liability limits detailed for the Menora Mivtachim Holdings division. The insurance conditions for the holder of controlling interest and his relatives are identical to the insurance conditions of the other office holders in the group. The audit committee and the board of directors established that the renewal of said policies was done under renewal conditions (“**framework transaction**”) established in the general meeting of the company on 10 July 2007. For further information see the company's immediate report dated 29 August, 2011.

- 11.1.11. Following the approval of the audit committee on 22 March 2011, the board of directors of the company ratified on 24 March 2011 the purchase of an additional directors and officers insurance policy, with a liability limit of an additional \$30 million, for the period between 22.02.2011 and 21.02.2012, in exchange for an annual premium of \$50 thousand (hereinafter and above: “**the additional umbrella policy**”) for the company and its subsidiaries which are not independent units, including for the holder of controlling interest and his relatives, Menahem Gurevitch, Gershon Gurevitch, and Eran Griffel, as the case may be, (above and hereinafter: “**the holder of controlling interest and his relatives**”) as well as renewal of the aforementioned policies in additional departments for director and office holders, including the holder of controlling interest and his relatives, as the case may be, in the different divisions of the subsidiaries where they serve – the Menora Mivtachim Insurance Ltd. division, the Menora Mivtachim Finance Ltd. division, and the Menora Mivtachim Pensions Ltd. division. The portion of each company in the premium will be determined by its relative portion in the group. The insurance conditions for the holder of controlling interest and his relatives are identical to the insurance conditions of the other office holders in the group. The audit committee and the board of directors established that the renewal of said policies was done under renewal conditions (“**framework transaction**”) established in the general meeting of the company on 10 July 2007. For further information see the company's immediate report dated 27 March, 2011.
- 11.1.12. On 10 October 2011 the general meeting of the company approved (after receiving approval of the audit committee and the board of directors on 25 and 28 of August 2011 respectively) the renewal of the directors and office holders insurance policy in the company and its subsidiaries, including for the holder of controlling interest and his relatives, for the period between 1 August 2011 and 31 July 2012 (hereinafter: “**the base year**”) with a liability limit of \$15 Million (hereinafter: “**the base policy**”) with additional joint coverage of a first umbrella policy for all the departments in the group with a liability limit of \$30 million in exchange for an annual premium with an overall total of \$100 thousand for all the departments in the group (hereinafter: “**the first umbrella policy**”) and with the addition of another joint coverage umbrella policy, for all the departments in the group, with a liability limit of \$30 million, in exchange for an annual premium with an overall total of about \$50 thousand, for all the departments in the group (hereinafter: “**the second umbrella policy**”). In addition a frame deal was approved according to which prior approval was granted for the company's

communication in order to renew said policies for the company and its subsidiaries following the end of the base year, which will apply to the office holders and directors, as they serve in the company and in the different companies from time to time, including directors and office holders who are the holders of the controlling interest or who are their relatives. The renewal of policies will take place every year, for a period of 3 years from the starting date of the base year and subject to the condition that the overall annual premium for each year where the base policy and the first and second umbrella policies are renewed will be the of the aggregate premium of the base year, which stands at a total of \$422 thousand, with an annual addition of up to 20% a year of the overall premium during the base year and given that the company's audit committee and board of directors have approved for each year where the insurance policies will be renewed that they are in accordance with the aforementioned terms (hereinafter: "**the frame deal**"). The holder of controlling interest has a personal interest in renewing the directors and office holders' insurance policy for the holder of controlling interest and his relatives for the base year as well as in the frame deal since as chairman of the board of directors he would be entitled to the insurance coverage. The holder of controlling interest also has a personal interest due to the personal interest of his relatives, Mr. Eran Griffel and Mr. Gershon Gurevitch, who as office holders in the company and subsidiaries will also be entitled to the insurance coverage. For further information see the company's immediate reports dated 4 October 2011 and 11 October 2011.

11.2. Other transactions which are not listed under article 270(4) of the Companies Law, 5759 – 1999

- 11.2.1. During 2011 various insurance deals were conducted in Menora Insurance for office holders, including for Mr. Gurevitch and his relatives. All the aforementioned deals were conducted during the usual course of business and under the customary market conditions relating to the group's employees and constitute "negligible deals" in accordance with the criteria established by the directorate for this matter, and as detailed in article 5.9 ("negligible deals") of the directorate report attached to the financial reports. It should be mentioned that on 20 July 2011, in accordance with the provisions of articles 117(1a) of the Companies Law, 5759-1999, and in accordance with the company's bylaws, the Menora Insurance audit committee approved, for a period of one year, that deals as above, being deals during the usual course of business and under "direct" conditions (conditions generally granted to Menora Insurance employees) constitute deals which are not unusual and whose handling will be done in accordance with the procedure for Menora Insurance interest holders deals without requiring specific approval, and this for a period of one year.
- 11.2.2. On 10 October 2011 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 4 October 2011 and 11 October 2011. For details concerning the salary paid to Mr. Gurevitch for his office see section 11.1.1 above.

11.2.3. On 5 January 2012 the general meeting of the company approved (after receiving approval of the audit committee and the board of directors on 21 and 24 of November 2011, respectively) amending the company's bylaws in order to adjust it to fit the provisions of the Companies Law (amendment 16), 5771-2011, in relation to various corporate governance provisions as well as in relation to expanding the liabilities and/or expenses for which the company would be entitled to grant indemnification and/or director's and office holder's insurance regarding various administrative processes in accordance with the provisions of the Securities Authority Efficiency of Enforcement Processes Law (legislative amendments), 5771-2011 and the Capital Market Increase of Enforcement Law (legislative amendments), 5771-2011. The personal interest of the holder of the controlling interest in the amendment of the bylaws is that by virtue of this amendment the liabilities and/or expenses for which the company would be entitled to grant him indemnification and/or insurance. The holder of the controlling interest also has a personal interest due to the issue of his relative, Mr. Eran Griffel, who following the amendment is entitled to a new written undertaking to indemnify from the company due to his position as director in Menora Mivtachim Finances Ltd. For additional details regarding the amendment of the bylaws see the immediate report by the company dated 29 December 2011.

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 ILS 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 29 March, 2011.

** Foreign corporations that are holder of controlling interest, held in trust for Mr. Menahem Gurevitch as 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 31.12.2011 amounts to 88,000,000 ILS that are comprised of 88,000,000 regular shares of 1 ILS each.

The company's issued stock as of 31.12.2011 amounts to NIS 63,271,931 that are comprised of 63,271,931 regular shares of 1 NIS each.

The company does not have any convertible securities.

14. Corporation stockholder register (regulation 24b)

Name of registered stockholder	Identification type and number	Address	Class of stock	Amount of Stock
David Hirschfeld	Passport 701878806	Yefe Nof 2, Tel Aviv	regular share nominal value 1 ILS	740.00
David Reiner	ID No. 50521467	Nitzanim 18 d Haifa 34354	regular share nominal value 1 ILS	560.00
Ruth Givoni	Passport 70118880	HaMaagal 32, Savion	regular share nominal value 1 ILS	290.00
Yehuda Bar-Lev	ID No. 64837123	Bergson 18, Tel Aviv	regular share nominal value 1 ILS	34.00
Shomron Insurance and Investments Ltd.	Private company no. 510050362	Allenby 115, Tel Aviv	regular share nominal value 1 ILS	12.00
Yehuda Rotenberg	---	Unknown	regular share nominal value 1 ILS	468.00
Others (unknown)	---	---	regular share nominal value 1 ILS	114.00
Bank Leumi Le-Israel Ltd Nominee Company	Private Company 510098064	Lilienblum 4 Tel Aviv	regular share nominal value 1 ILS	63,269,713.00
Total according to stock register				63,271,931.00

15. Registered address (Regulation 25a)

The registered address of the corporation is: Allenby 115 Street, Tel Aviv.

E-mail address: mokedsherut@menora.co.il

Telephone no.: 03-7107801

Fax no: 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 / professional qualification	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. Served as CEO of the company from 1998 until 19.9.2010, served as chairman of the board of directors in Menora Mivtachim Insurance Ltd., Menora Mivtachim Pensions Ltd. and Menora Mivtachim Real Estate Ltd. and as director in Menora Assets & Investments 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
Address	Uri 4, Tel Aviv.
Nationality	Israeli.
Membership in board of directors committees	Balance committee. ¹⁷
External director/independent/With financial and accounting expertise / professional qualification	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

¹⁷ Completed his tenure (retired) as a member of the balance committee on 10.3.2011.

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. Served as chairman of the board of directors¹⁸ as well as director in subsidiary companies Menora Mivtachim Pensions Ltd., Menora Mivtachim Insurance Ltd., 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 (chairman), balance committee (chairman).
External director/independent/With financial and accounting expertise / professional qualification	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	10.7.2007 (appointed to a second term as external director on 23.8.2010)
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 / professional qualification	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

¹⁸ Between 1.1.2009 until 19.9.2010.

Education and activities in the past five years and description of corporations where he serves as director: MBA in industrial engineering from the Technion. A director in the company as well as director in the subsidiary Menora Mivtachim Insurance Ltd. Serves as CEO of TailWind group. 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 Ltd. (public).

Is he a family member of another stakeholder in the corporation No.

Is he a director with accounting and financial expertise Yes.

or professional skills in order to meet the minimal number set by the board of directors

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 / professional qualification	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. Serves as director in the company as well as director in the subsidiary Menora Mivtachim Insurance Ltd. Serves as director in Peninsula Finance Ltd., Mey Eden Ltd. (external director), Plasto-Sac Ltd. (external director), Amot Investments Ltd., and BioCancell Therapeutics, Inc. Served as CEO of IDI Israel Direct Insurance, former deputy CEO and Head of General Insurance and Health in Migdal Group.
Is he a family member of another stakeholder in the corporation	No.
Is he a director with accounting and financial expertise	Yes.
or professional skills in order to meet the minimal number set by the board of directors	

Name	Israel (Izzy) Tapuchi¹⁹
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 / professional qualification	External director with financial and accounting expertise.

¹⁹ Ended his tenure (retired) as external director in company following his appointment as president of the Bunds in the United States.

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. President of Bunds Organization, served as director (external director) in company, as well as external director in subsidiary Menora Mivtachim Insurance Ltd. (until his retirement), director in 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.

Name **Attorney Haim Aharon**
 ID No. 069716157
 Date of birth 16.1.1943
 Address Bar Yochai 18, Rishon LeTzion.
 Nationality Israeli.
 Membership in board of directors committees Audit committee, balance committee.
 External director/independent/With financial and accounting expertise / professional qualification External director with professional qualification.
 Employee of the corporation, subsidiary, related company or a stakeholder's No.
 Date of commencement of office as director 7.11.2011
 Education and activities in the past five years and description of corporations where he serves as director: LL. B. Hebrew University in Jerusalem, owner of private law practice; serves as honorary president of Tel Aviv Commercial Industrial Club; honorary chairman of Israel Latin America Chamber of Commerce; chairman of bi-national chambers of commerce umbrella organization; honorary counsel of Colombia to Israel; civilian attaché at Chile Embassy in Israel; member of Keshet Eilon friends circle; member of EMET prize committee.
 Served as director in Israel Aerospace Industries and member of directorate committees (chairman of finance committee, member of HR committee, strategy committee, prospectus committee, R&D committee).
 Serves as director (external director) in company as well as external director in Menora Mivtachim Insurance Ltd. serves as director in Latin Connection Ltd. the bi-national chambers of commerce umbrella organization (Coltel Israel Ltd. and Coltel Israel Investments Ltd. which are inactive)
 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.

17. Senior office holders in the corporation (Regulation 26a)

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 the board of directors in the subsidiary Menora Mivtachim Insurance Ltd. 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., ²⁰ served as deputy CEO from 7.1.2008 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. And as 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. ²¹
Date of commencement of office	7.1.2008
Name	Shai Koppel
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.
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.

²⁰ Serves as chairman of the board of directors of Menora Mivtachim Insurance Ltd. As of 17.10.2010.

²¹ Starting from the date of his appointment as CEO.

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 as internal auditor in the company and all 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 and head of General Insurance Division in subsidiary Menora Mivtachim Insurance Ltd. Also serves as director in other companies in the group and chairman of the board of directors of Shomera Insurance Company Ltd and subsidiaries of the company.
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 in subsidiary Menora Mivtachim Insurance 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	Yehuda Ben Assayag*
ID No.	057455081
Date of birth	20.3.1962

Office in the corporation, subsidiary, related company or stakeholder therein.	CEO of Menora Mivtachim Pensions Ltd. ²² Also serves as chairman of the board of directors of Menora Mivtachim Gemel Ltd. and Menora Mivtachim and the Engineers Association, Management of Provident Funds Ltd. and as director in other companies in the group.
Education	BA in Economics and Political Science from Tel Aviv University, MBA , Tel Aviv University, graduate AMP Program, Harvard University.
Business experience in the past five years	Deputy CEO and head of Life and Health Insurance in the subsidiary Menora Mivtachim Insurance Ltd. from 1.5.2009 to 31.12.2010. 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., and director in other companies in the group. Director in Dan - Public Transportation Ltd., director in Y.B.A. Finance and Investments, former Chairman of the board of directors of Menora Mivtachim Finance Ltd. and Menora Mivtachim Investment Portfolio Management 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
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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 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
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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 other companies in the group.
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
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²² Serves as CEO of Menora Mivtachim Pensions Ltd. from 1.1.2011.

Name	Eran Griffel*
ID No.	0058447137
Date of birth	20.11.1963
Office in the corporation, subsidiary, related company or stakeholder therein.	Chairman of the board of directors of Menora Mivtachim Pensions Ltd. ²³ , director in Menora Mivtachim Insurance Ltd., director in Menora Mivtachim Finance Ltd., and CEO of Menora Mivtachim Real Estate Ltd.
Education	Academic, BA in Political Science and law, Tel Aviv University
Business experience in the past five years	CEO of Menora Mivtachim Real Estate Ltd., Chairman of the board of directors of Menora Mivtachim Pensions Ltd., director in Menora Mivtachim Insurance Ltd. and in Menora Mivtachim Finance Ltd.. Served as director of the company until 15.11.2008 and as deputy Chairman of the board of directors of Menora Mivtachim Pensions Ltd. until 6.11.2010
Is he a stakeholder in a corporation or a family member of another senior office holder or another stakeholder in the corporation	Yes, son in law of company's controlling interest.
Date of commencement of office	4.1.2011

* Senior office holder in a controlled corporation with material influence on the corporation.

** Defined as senior office holder in the corporation as of 30.3.2009.

18. Corporate authorized signatories (Regulation 26b)

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)

On 5 January 2012 the general meeting of the company approved (after receiving approval of the audit committee and the board of directors on 21 and 24 of November 2011 respectively) changes to the company bylaws. For details see article 11.2.3 above.

21. Recommendations and resolutions by the directors (Regulation 29)

(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:** on 5 January 2012 the general meeting of the company approved (after receiving approval of the audit committee and the board of directors on 21 and 24 of November 2011 respectively) changes to the company bylaws. For details see article 11.2.3 above.
 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:
 - (1) On 30 March 2011 the company's board of directors decided (after receiving approval of the audit committee on 21 March 2011, as well as the approval of the authorized Menora Insurance organs) to approve the payment of a special bonus of 1 Million ILS to Mr. Ari Kalman, CEO of the company as of and chairman of Menora Mivtachim Insurance board of directors, in addition to the agreed upon bonus of 654 thousand ILS. The bonus was approved out of a great appreciation for Mr. Kalman's achievements as CEO of Menora Insurance for a period of 9 years, of them two years as the company's deputy CEO. Said bonus was paid by Menora Mivtachim Insurance. For details see the company's immediate report of 30 March 2011
 - (2) On 21 July 2011 the company's board of directors approved (after receiving approval of the audit committee on 21 July 2011, as well as the approval of the authorized Menora Insurance organs) the participation of Menora Insurance in Mr. Kalman's additional tax liability (as part of the stock plan approved for him in the past) for the dividend distributed in the years 2003 and 2004 and this for the sum of the tax savings only of Menora Insurance which stems from the permission of said dividend as an expense, as well as the company's and Menora Insurance's warranty to the tax authorities that they did not demand, and will not demand in the future, the deduction of dividend payments starting from 2005 as an expense. For details see immediate report of 21 July 2011.
- (b) **Resolutions of the general meeting concerning subjects specified above resolved contrary to the recommendations of the board of directors:** none.
- (c) **Special resolutions by the general meeting:**
1. On 10 October 2011 the company's general meeting approved, among others, the attachment by insurance policy of directors and office holders as specified in article 11.1.12 above. For additional details see immediate reports of 4 October 2011 and 11 October 2011.
 2. On 7 November 2011 the general meeting of the company approved the appointment of Attorney Aaron Haim as an external director of the company. For further information see the company's immediate report dated 27 September 2011.
 3. On 5 January 2012 the company's general meeting approved the following issues:
 - (1) Amendment of the company's bylaws, as specified in article 11.2.3 above.
 - (2) Granting new written undertakings to indemnify for the directors and office holders who have served, are currently serving or will serve, in the past,

present, or future, excluding Mr. Menahem Gurevitch, the controlling interest and chairman of the board of directors, and excluding directors or office holders among the controlling interests or relatives of the controlling interest (hereinafter: “**the new written undertaking to indemnify**”). In accordance with the new written undertaking to indemnify, the overall and cumulative amount of indemnification which the company is liable for due to a single event, together with any sum by virtue of a written undertaking to indemnify owed by any of the companies included in the Menora group, for the same event for all office holders will not exceed 30 million ILS. Likewise, the amount of indemnification owned by the company towards one office holder for one event, together with the sum he is entitled to receive from any of the companies included in the Menora group by virtue of a written undertakings to indemnify, for the same event, will not exceed 25 million ILS. In any case, the amount of indemnification (net) following the subtraction of insurance benefits paid for the same event according to the office holders insurance policy purchased by the company, at its discretion, if such a policy was purchased, or for the sum of indemnification paid by the company for the same event by virtue of previous written undertakings to indemnify will not exceed, in any case, 25% of the company’s equity according to its financial report, on the eve of providing the indemnification. The new written undertaking to indemnify is intended to add on to rather than subtract from any previous written undertaking to indemnify granted to an office holder (if granted) and all in accordance with what is allowable by law and while the company’s total undertakings to indemnify will not exceed what is stated in the new written undertaking to indemnify.

- (3) Granting a new written undertaking to indemnify for the chairman of the company’s board of directors and holder of controlling interest Mr. Menahem Gurevitch, as detailed in article 11.1.5 above.
- (4) Granting a new written undertaking to indemnify, by Menora Insurance, a wholly owned subsidiary of the company, to Eran Griffel and Gershon Gurevitch, relatives of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, for their tenure as director and deputy CEO in Menora Insurance, as detailed in article 11.1.6 above.
- (5) Granting a written undertaking to indemnify to Mr. Eran Griffel, relative of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, for his tenure as CEO of Menora Real Estate, as detailed in article 11.1.7 above.
- (6) Granting a written undertaking to indemnify to Mr. Eran Griffel, relative of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, for his tenure as a director in Menora Mivtachim Finance Ltd., a wholly owned subsidiary of the company, as detailed in article 11.1.8 above.
- (7) Granting a written undertaking to indemnify to Mr. Eran Griffel, relative of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, for his tenure as chairman of the board of directors in Menora Pensions, as detailed in article 11.1.9 above.

- (8) Renewal of the employment agreement with Mr. Eran Griffel, relative of the controlling interest and chairman of the board of directors, Mr. Menahem Gurevitch, as CEO of Menora Mivtachim Real Estate, for a period of 3 years from 15 November 2011, as detailed in article 11.1.3 above.

22. Company resolutions (Regulation 29a)

- (a) **Approval of actions pursuant to Section 255 of the Companies Law:** none.
- (b) **Action pursuant to Section 254(a) of the Companies Law that was not approved:** none.
- (c) **Exceptional transactions that require special approvals pursuant to Section 270(1) of the Companies Law:**
1. On 30 March 2011 the board of directors of the company made a resolution, after receiving the approval of the audit committee on 22 March 2010, to approve payment of bonuses to office holders in the company (serving at the same time as office holders in Menora Insurance) for the year 2010 that, for the sake of caution, were considered exceptional transactions with office holders. Pursuant to the approval granted by the board of directors and the audit committee as stated above, a grant in the amount of 1,654 thousand ILS was given to Mr. Ari Kalman and a grant in the amount of 750 thousand ILS was granted to Mr. Shai Kompel. These grants were paid by Menora Mivtachim Insurance Further information appears in the company's immediate report dated 30 March 2011.
 2. On 21 July 2011 the board of directors of the company approved (after receiving the approval of the audit committee on 21 July 2011, as well as the approval of the authorized Menora Insurance organs) the participation of Menora Insurance in Mr. Kalman's additional tax liability. For details see article 21(a)(6)(2) above.
- (d) **Exemption, insurance or undertaking of indemnification of an office holder in effect on the date of the report:**
1. On 29 August 2010 the company's board of directors approved the renewal of the directors and officers insurance for 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, as well as the renewal of such policies for the holder of controlling interest and his relatives, who are currently serving as office holders in the group or will serve as such, in additional divisions of the group. See article 11.1.10 above.
 2. On 24 March 2011 the company's board of directors ratified the purchase of an additional umbrella insurance policy with a liability limit of \$30 million additional dollars for the period between 22.02.2011 and 21.02.2012, for 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 stated in additional divisions in the group for directors and office holders, including for the holder of controlling interest and his relatives, who are currently serving as office holders in the group or will serve as such. For details see article 11.1.11 above.
 3. On 10 October 2011 the general meeting of the company approved (after receiving approval of the audit committee on 25 August 2011 and approval of the board of

directors on 28 August 2011) the renewal of the company and subsidiaries directors and office holders insurance policy, including for the holder of the controlling interest and his relatives (including the level detailed in article 22(d)(2) above, for the period between 1 August 2011 and 31 July 2012 (hereinafter: “**the base year**”) as well as a framework deal to renew the insurance policies for a period of 3 years from the base year’s start date. For details see article 11.1.12 above.

4. On 24 November 2005 the general meeting of the company approved granting, from time to time, 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 for different events shall not cumulatively exceed 25% of the company’s equity 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 1 November 2005.
5. On 5 January 2012 the general meeting of the company approved granting new 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 Mr. Menahem Gurevitch, chairman of the board of directors and the holder of controlling interest. For details see articles 11.1.5-11.1.9 above.

Menahem Gurevitch
Chairman of the board of director:

Ari Kalman
CEO

Tel Aviv, March 29 2012