CORPORATION BUSINESSES DESCRIPTION

Note regarding the implementation of the Securities Regulations provisions (Periodic and Immediate Reports) – 1970 ("Securities Regulations") in this report

According to regulation 8c of the Securities Regulations, the provisions of regulations 8 (b), 8a and 8b to the Securities Regulations do not apply to information in a periodic report of a corporation that consolidated an insurer or to which the insurer is an affiliated company, as far as this information is in respect of the insurer.

Most of Migdal Insurance and Financial Holdings Ltd.'s holdings are Migdal Insurance Company Ltd., which is an insurer, as defined in the Supervision Law of Insurance Businesses – 1981, and the main material company in the Group. The Group also includes companies which are active in the pension and provident area: Migdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for the Self Employed Ltd., which also hold an insurer license, and Migdal Makefet also holds a license of a provident funds' managing company.

This report is prepared in accordance with the circular of the Commissioner of the Capital Market, Insurance and Savings dated January 20th, 2014, regarding "Circular regarding the Update of Provisions in Insurance Companies' Periodic Report" ("**the Commissioner Circular**"), and also takes into account the Israel Securities Authority's position regarding abbreviating the Reports, as published by it.

Future forecasting information contained in this report

In this report, the Company included future forecasting information regarding itself and other companies held by it, as defined in the Securities Law – 1968 (henceforth, "**the Securities Law**"). This mentioned information includes, inter alia, forecasts, objectives, estimates and evaluations that relate to future events or matters, whose fulfillment is uncertain and outside the Group's control. Future forecasting information in this report will be usually identified by statements such as "the Group foresees", "the Group expects", "the Group estimates", "the Group believes", "the Group intends to", "the Group is examining", "the Group plans to" and similar expressions.

Future forecasting information is not an empirical fact and is only based on the Company management's subjective estimate, which, among other things, relies on assumptions based on an analysis of general information, which was available upon the preparation of this report, including public publications, studies and surveys, which did provide any assurance as to the correctness or completeness of the information contained therein, and whose preciseness was not independently examined by the Company's management.

Also, the fulfillment and/or non-fulfillment of this future forecasting information is uncertain and may be affected by factors which cannot be estimated in advance and cannot be controlled by the Group, including risk factors that characterize the Group's activity as detailed in this report, as well as developments in the general environment and the external factors that may affect the Company's activity, as detailed in this Report.

Therefore, although the Company management believes that its expectations, as described in this report, are reasonable, the readers of this report are hereby warned that the actual future results may be different than those displayed in the future forecasting information contained in this Report.

The future forecasting information contained in this report refers only to the date in which it was written, and the Company does not undertake to update or change this information, as additional information is brought to its attention regarding this information.

The amounts specified in this Chapter and in the Board of Directors Report are, usually, (unless specified otherwise) stated in NIS million.
The amounts stated in the Financial Statements are usually (unless specified otherwise) stated in NIS thousands.

The Group's businesses are in areas that require extensive professional knowledge, in which many professional terms are used, that are essential to the understanding of the Group's businesses. In order to present the Corporation's businesses as clearly as possible, the Group's businesses description includes the usage of these terms, whenever necessary, and explanation and clarifications. The description of insurance products and insurance coverages described in this chapter is only for the sake of this report, and the full binding conditions are the ones described in the insurance plan or in the Articles of Association of the relevant funds, and it shall not constitute providing advice and shall not serve for interpreting insurance plans or Articles of Association as mentioned.

CHAPTER 1 - CORPORATION BUSINESSES DESCRIPTION

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Introduction to the Corporation Businesses Description chapter

1. Glossary - Definitions

This report will use the definitions detailed henceforth for the reader's convenience:

Capital Markets Group and/or Migdal Capital Markets Group	Capital Markets Group and all the companies controlled by Migdal Capital Markets.
Capital Regulations	Supervision of Financial Services Regulations (Insurance) (Minimum Equity Required from an Insurer) – 1998.
Commissioner of Insurance and/or the Commissioner and/or the Commissioner of Capital Markets	The Commissioner of Capital Market, Insurance and Savings.
The Company and/or the Corporation and/or Migdal Holdings	Migdal Insurance and Financial Holdings Ltd.
Companies Law	The Companies Law – 1999.
Contributions	The amounts deposited by members (or deposited for them) in a pension or provident fund.
Designated Bonds	CPI-linked government bonds which the State issues to insurance companies and pension funds, with a fixed interest rate and for a period set in advance. In life assurance – Hetz bonds and in pension – Meiron and Arad bonds are issued.
Earned Premium	Premium with respect to the reported year.
Eliahu Insurance and/or Eliahu	Eliahu Insurance Company Ltd.
Fees	Amounts included in the insurance fees designated to cover the insurers' expenses.
Free Investments	The share of the assets which is not invested in designated bonds.
General Fund	A pension fund that may not invest in designated bonds.
Generali	Assicurazioni Generali S.p.A.
The Group and/or Migdal Group	Migdal Holdings and the companies held by it.
Income Tax Regulations	Income Tax Regulations (Rules for the Approval and Management of Provident Funds) – 1964.
Institutional Entity	An insurer and a managing company, as defined in the Law of Supervision.
Insurance contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.

Insurance Fund	An insurance fund which was approved as per the Provident Funds Law.
Insured and/or Members	A life assurance insured person and a pension or provident funds member.
Investment contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.
Investment Regulations and/or Regulations regarding Ways of Investment	Supervision of Financial Services (Provident Funds) (Investments Regulations Applying to Institutional Entities) - 2012 and/or the Regulations of Supervision on Insurance Businesses (Ways of Investment of Capital and Reserves of an Insurer and Management of Its Liabilities) – 2001, as relevant.
Law of Joint Investments Trust	The Joint Investments Trust Law – 1984.
Law of Supervision	The Law of Supervision on Financial Services (Insurance) – 1981.
Long Term Savings Assets	As defined in Clause 31 a to the Supervision Law.
Managing Company	A company that manages a pension fund or a provident fund.
Migdal Agencies	Migdal Holdings and Management of Insurance Agencies Ltd.
Migdal Capital Markets	Migdal Capital Markets (1965) Ltd.
Migdal Health	Migdal Health and Quality of Life Ltd.
Migdal Insurance and/or Migdal	Migdal Insurance Company Ltd.
Migdal Makefet and/or Makefet	Migdal Makefet Pension and Provident Funds Ltd.
New Plans	Life assurance policies that are marketed as from 1.1.2004.
New Pension Fund	A pension fund established after 1.1.1995.
Old Pension Fund	A pension fund established prior to 1.1.1995.
Premium	The insurance premiums, including fees.
Provident Fund	As defined in the Law of Supervision on Financial Services (Provident) (provident funds include educational funds).
Provident Fund Law	The Law of Supervision on Financial Services (Provident) – 2005.
Securities Law	The Securities Law - 1968.
Yield-dependent contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.
Yozma for Self-Employed	Yozma Pension Fund for Self-Employed Ltd.

Part A – Group Activity and the Description of its Business Development

2. Group activity and the description of its business development

Migdal Insurance and Financial Holdings Ltd. ("**the Company**" and/or "**Migdal Holdings**"), along with its subsidiaries, held partially or in full, whose Financial Statements are consolidated with the Company's Financial Statements, shall be referred to together as "**the Group**" and/or "**Migdal Group**" in this Periodic Report.

2.1 Company description

Migdal Holdings was incorporated in Israel on August 13th, 1974. The Company shares are traded in the Tel Aviv Stock Exchange ("TASE") since 1997.

The Group operates in the areas of insurance, pension and provident funds and in the area of capital market and financial services.

The Group's insurance, pension and provident activity is carried out via Migdal Insurance Company Ltd. ("**Migdal Insurance**" or "**Migdal**") and its subsidiaries. The Group's pension and provident activity is carried out via Migdal Insurance's subsidiaries: Migdal Makefet Pension and Provident Funds Ltd. ("**Migdal Makefet**" or "**Makefet"**), which manages the Group's new pension funds ("**Makefet Ishit**" and "**Makefet Complementary**"), and also manages all the Group's provident funds, as well as via Yozma Pension Fund for Self-Employeds Ltd. ("**Yozma for Self-Employeds**" or "**Yozma**"), which manages an old pension fund, Yozma Pension Fund for Self-Employeds.

The Group also has holdings in insurance agencies. The main holdings are through Migdal Holdings and Management of Insurance Agencies Ltd. ("Migdal Agencies"), which is fully controlled by Migdal Insurance.

The financial services activity is carried out via Migdal Capital Markets (1965) Ltd. ("**Migdal Capital Markets**") and its subsidiaries.

Eliahu Insurance Company Ltd. ("**Eliahu Insurance**" or "**Eliahu**") holds, as of the date of this Report, approx. 69% of the Company's issued and paid-up share capital. Eliahu Insurance acquired from Generali Group all the shares that Generali Group held in the Company, directly and indirectly (approx. 69.135% of the Company's issued and paid-up capital). The transfer of control shares in the Company from Generali Group to Eliahu Insurance was completed on October 29th, 2012. For additional details regarding the transaction for the completion of transfer of control in the Company, see the Company's Immediate Report dated October 29th, 2012, Reference No. 2012-01-266412.

For additional details regarding other transactions performed in the Company's shares, including transactions whereby Bank Leumi (which at December 31st, 2012 held about 9.8% of the Company's issued and paid up share capital) transferred shares in the Company, see Clause 4.3 below, "Transactions in Company shares".

Mr. Shlomo Eliahu and Ms. Haya Eliahu are the ultimate holders of the Company. To the Company's best knowledge, the holding is as follows:

Eliahu Insurance's shareholders are: Mr. Shlomo Eliahu, who holds 25.14% of the capital and 98% of the management shares, Ms. Haya Eliahu, who holds 0.02% of the capital and 2% of the management shares, Shlomo Eliahu Holdings Ltd., holds 61.7% of the capital, and Eliahu Brothers Trusteeship and Investments Company Ltd., holds 13.14% of the capital.

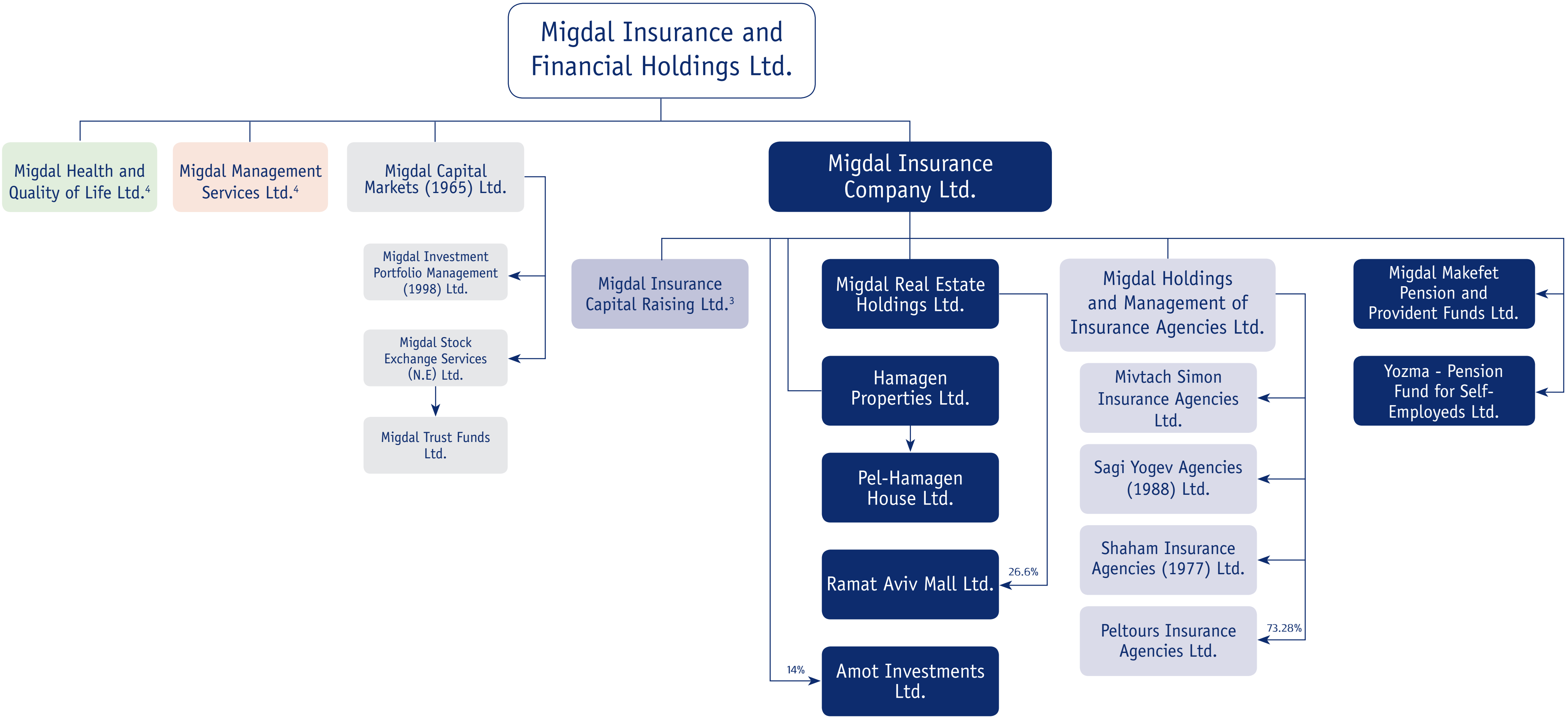
Shlomo Eliahu Holdings' shareholders are: Mr. Shlomo Eliahu, who holds 83.31% and Ms. Haya Eliahu, who holds 16.69%. The only shareholder of Eliahu Brothers Trusteeship and Investments Company Ltd. is Shlomo Eliahu Holdings Ltd., held by Mr. Shlomo Eliahu and Ms. Haya Eliahu, as detailed above.

2.2 The Group's holdings structure diagram

A schematic diagram of the Company's main holdings, just before the Report's publication[1] is presented below.

[1] The full list of the Company's subsidiaries and related companies that are active as of the date of the Report, is included in the Chapter of Additional Data on the Corporation, under Regulation 11.

Group Holdings Structure



Notes:

1. The holdings structure includes the main companies in the Group. For additional details regarding holdings in subsidiaries and affiliated companies, see also Regulation 11 to the Additional Data on the Corporation.
2. The companies described herewith are held at 100%, unless specified otherwise.
3. Most of the Company's activity is raising second-tier capital for Migdal Insurance, see Clause 4.2 hereinafter.
4. The activity of these companies, as well as that of the companies held by them, is related/interfaces with the Group's activities, and their activities, as of the date of this Report, are not material. For details on the held companies, see also Regulation 11 to the Additional Data on the Corporation

2.3 Key material developments during the reported period

2.3.1 The absorption of new business in general insurance from Eliahu Insurance

In the reported year, there was the "absorption of new business in general insurance" from Eliahu Insurance.

Pursuant to the absorption of new business in general insurance, there was an increase in gross premiums in the area of general insurance, reflected mainly in CMBI, casco and homeowners insurance, see Clause 14.2.2 below as well as Clause 3.6.2 to the BoD Report.

For the expansion of the Group's activity in the area of general insurance as a result of the absorption of new business as set forth above, and the Company's strategy for expanding its activity in this area, see also Clause 5 to the BoD Report.

In November 2012 an agreement was signed between Migdal Insurance and Eliahu Insurance, in which, inter alia, Eliahu Insurance undertook to do the utmost such that new policies to customers insured in Eliahu Insurance in the area of general insurance in which the insurance starts as of January 1st, 2013, will be performed in Migdal Insurance ("**the absorption of new business in general insurance**"). On September 30th, 2013 the Company's General Meeting approved the payment of a consideration to Eliahu for "the absorption of new business in general insurance", in the amount of NIS 260 million.

For details regarding the terms of the agreement between Migdal Insurance and Eliahu Insurance as far as "the absorption of new business in general insurance" is concerned, and the conditions upon which the consideration was set and the approvals received in this respect, see Clause 3.1 to Part A in the Corporation Businesses Description Chapter in the Company's Period Report for 2012, as well as the Company's Immediate Reports dated August 14th, 2013, Reference No. 2013-01-116766 and September 30th, 2013, Reference No. 2013-01-152673, as well as Note 38d 1 a) to the Financial Statements.

In Notes 4b and 4c to the Financial Statements additional details are provided regarding the accounting treatment of the above-mentioned agreement, including a reference to the issue of recoverability of intangible assets recognized upon the acquisition of the new insurance business in general insurance, which determined that there are no material deviations from the assumptions made in the original opinion of the value assessor, and that there was no impairment as of the date of the Report, with reference to the evaluation attached to the Company's Immediate Report dated September 30th, 2013.

2.3.2 The regulation regarding annuity coefficients and the management fees reform

In January 2013 legislative arrangements with a material impact on the area of life assurance and LTS came into effect. One of them - the reform in management fees, in which the management fees structure in some pensionary savings products was changed, and there was a reduction in the maximum management fees rate that may be collected, and the other – regulation regarding annuity coefficients, pursuant to which, inter alia, as of 2013 it is forbidden to market insurance plans that combine savings with annuity coefficients that embed a life expectancy guarantee ("**guaranteed annuity coefficients**") to anyone who is under the age of 60 at the time of sale. These developments are in addition to the update of the demographic assumptions for the calculation of reserves for annuity payment that was implemented in 2012.

Pursuant to the discontinuation of the marketing of insurance plans that combine savings with guaranteed annuity coefficients to whoever is under the age of 60, there was a change in the mix of products sold in the area – an increase in the weight of new sales of pension funds, with a significant decrease in the weight of new sales in life assurance, and at the same time, there was another acceleration in the competition on management fees on products in this area, regarding this issue see Clauses 6.2.6 and 6.3 below, as well as Clauses 3.4 and 4.3.1 to the BoD Report.

2.3.3 **Changes regarding Directors and Executive Senior Officers in the Group**

Pursuant to the change of control in the Company, in the reported period and up to the publication date of this Report, there were changes in the staffing of the following key positions:

From October 1st, 2013, Mr. Shlomo Eliahu serves as the Company's Chairman of the Board of Directors, replacing Mr. Aharon Fogel who terminated his office at that date. See the Company's Immediate Reports dated September 3rd, 2013, Reference No. 2013-01-137121 and November 12th, 2013, Reference No. 2013-01-189108.

From February 2014, Ms. Anath Levin serves as the Company's CEO, replacing Mr. Yonel Cohen, who terminated his office on December 31st, 2013, see the Company's Immediate Report dated November 25th, 2013, Reference No. 2013-01-202662.

From February 2014, Ms. Anath Levin also serves as the CoB of Migdal Insurance, replacing Mr. Aharon Fogel, who terminated his office on September 30th, 2013. The appointment took effect after the Commissioner informed that she has no objections to the said appointment. See the Company's Immediate Report dated February 11th, 2014, Reference No. 2014-01-037291.

On December 26th, 2013 the Company's BoD appointed Mr. Ofer Eliahu as the CEO of Migdal Insurance, Director in Migdal Makefet and Director in Yozma. On February 11th, 2014 the appointment of Mr. Ofer Eliahu as the CEO of Migdal Insurance came into effect, after the Commissioner of Insurance informed that she has no objections to the said appointment (see the Company's Immediate Reports dated December 26th, 2013, Reference No. 2013-01-109669 and February 11th, 2014, Reference No, 2014-01-037291, respectively)[2].

Mr. Yonel Cohen resigned from his positions as the Company's CEO and the CEO of Migdal Insurance on December 31st, 2013. As from January 1st, 2014, Mr. Ofer Eliahu served, as a result, as acting CEO of Migdal Insurance.

Mr. Israel Eliahu also serves, as from February 6th, 2014, as the CoB of Migdal Capital Markets, in addition to his office as Director in the Company.

For additional changes in the staffing of senior executive positions in the Company, see Regulation 26a in the Chapter of Additional Data on the Corporation.

For additional changes in the members of the BoD in the Company, see Regulation 26 in the Chapter of Additional Data on the Corporation.

[2] Before the appointment of Mr. Ofer Eliahu as Migdal Insurance's CEO, Mr. Ofer Eliahu served as of October 29th, 2012, as Deputy to Migdal Insurance CEO, first as the General Insurance and Reinsurance Businesses Division Manager, and then the Customers, Distribution Channels and Service Division Manager (see the Company's Immediate Reports dated January 29th, 2013, Reference No. 2013-01-024852 and July 15th, 2013, Reference No. 2013-01-093204).

For the terms of retirement / employment (as the case may be) of Mr. Aharon Fogel & Mr. Yonel Cohen, see Regulation 21 in the Chapter of Additional Data on the Corporation. For the terms of employment of Ms. Anath Levin & Mr. Ofer Eliahu, see Clause 32.9 and Notes 38d and 38j to the Financial Statements.

2.3.4 **Transaction for the acquisition of PHI reinsurance treaty from Generali and selling it to another reinsurer**

For details regarding the transaction in which the previous controlling shareholder of the Company, Generali, sold to Migdal its reinsurance portfolio regarding PHI policies for the period between January 1st, 1970 and up to December 31st, 2012, and the sale of this insurance portfolio to another reinsurer, and the profit recognized by Migdal Insurance in the amount of approx. NIS 52 million before tax, see Clause 31.2.1 below and Note 38 e 1 c to the Financial Statements.

2.3.5 **Employees' organization**

For details regarding the organization of employees and negotiations towards establishing a collective agreement in Migdal Insurance, see Clause 32.3 below.

2.3.6 **Special grant**

In November 2013 a special budget in the amount of approx. NIS 97 million was approved, for the payment of a special grant, see Clause 32.5 below.

3. The Group's areas of activity

The Group's key areas of activity, reported as business segments in the Company's consolidated Financial Statements, are detailed below (see also Note 3a to the Financial Statements):

3.1 **The area of life assurance and long term savings (area a)**

The area of life assurance and long term savings includes the Group's insurance activity in the lines of life assurance, as well as the Group's activity in the management of pension and provident funds. Activity in this area mainly focuses on savings for retirement (under various types of insurance policies, pension funds and provident funds including educational funds3) ("savings"), as well as on insurance coverages for various risks, such as: death, disability and PHI ("risk").

This area is the main area of activity in which the Group is engaged.

3.2 **The area of health insurance (area b)**

This area includes the Group's insurance activity in the following sub-lines: medical insurances (such as surgery, medications and transplants), dread diseases nsurance, long term care (LTC), dental insurance, travel insurance, etc., personal accidents insurance mean insurance policies in which the insurance period exceeds one year.

3.3 **The area of general insurance (area c)**

The area of general insurance includes all the other insurance lines in which the Group engages, other than insurance lines included under the area of life assurance and long term savings, and health insurances. This area includes the following sub-lines: CMBI, casco insurance, and other general insurance lines.

3.4 **The area of financial services (area d)**

An area that mainly includes financial asset management services (mutual funds management, portfolio management and hedge funds management) and investment

[3] Educational funds allow members to save monies for training purposes and are considered both a pensionary product and a financial product, and the amounts accrued may be withdrawn after a membership of six years.

marketing (marketing of structured products and hedge funds), execution services on the Stock Exchange and in regulated markets (brokerage) and custody, underwriting services and investment banking.

3.5 **Other**

It should be noted that in addition, there are other activities, included in the Company's consolidated Financial Statements under "other areas of activity" or "not attributed to areas of activity", which include mainly the holding of insurance agencies, investment activity performed not against various insurance reserves, but against equity required for insurance businesses and the capital surplus of companies in the Group, as well as related / interfacing activities to the Group's activity[4] (mainly in the area of quality of life and Third Age and providing services in the area of human resources, economic advising and the implementation of software systems). The activity of companies engaging in the above is non-material.

4. Investments in the Company's capital and transactions in its shares

4.1 **Investments in the Company's capital in the last two years until the publication date of this report**

In the last two years there were no investments in the Company's capital.

For additional details regarding the Company's options plan and movement therein during the year, including options forfeitures, see Notes 33 and 38j to the Financial Statements.

For the raising of second tier capital for Migdal Insurance, see Clause 4.2 below.

4.2 **Raising of second tier capital and financial rating of Migdal Insurance**

In 2012, Migdal Insurance Capital Raising Ltd. ("**Migdal Capital Raising**"), a subsidiary of Migdal Insurance, performed two private bond issues to classified investors, in the total amount of approx. NIS 825 million par value. The capital amounts raised were deposited in Migdal Insurance and serve as hybrid second tier capital in Migdal Insurance.

For details see Note 24e to the Financial Statements.

In November 2013 Midroog Ltd. kept Migdal Insurance's financial rating unchanged at Aaa, with a stable horizon, and rated the subordinated bonds at Aa2 with a stable horizon, see the Company's Immediate Report dated November 27th, 2013, Reference No. 2013-01-205488.

4.3 **Details of significant transactions in the Company's shares conducted by interested parties of the Company**

Details regarding significant transactions in the Company's shares by interested parties in 2012, 2013 and in 2014 until the publication of this Report are presented below:

[4] These activities are carried out mainly by Migdal Health and Quality of Life Ltd. and companies held by it, as well as by Migdal Management Services Ltd. and companies held by it. Their activities are non-material, and their results are not attributed to activity lines (except one company, whose activity is non-material and is attributed to the area of financial services). For the changes in the Group's holdings in the two companies included in this activity, see Regulation 12 in the Chapter of Additional Data on the Corporation.

Date of change	Security	Amount	Transaction description	Transac-tion price	Reference to Immediate Report (Reference)	Share of capital and in voting rights, in %
29.10.2012	Shares	727,057,341	Share acquisition by Eliahu Insurance from the Company's previous controlling shareholder, Generali	4.86	2012-01-266412 2012-01-266436 2012-01-266463 2012-01-266490	69.135
29.10.2012	Shares	315,496,828	Share transfer by Eliahu Insurance to Adad Trust Company Ltd. ("trustee")	-	2012-01-266412 2012-01-266511	30
1.1.2013	Shares	700,613	Share transfer to Harel Insurance Company Ltd.	(1)	2013-01-001815	-
3.1.2013	Shares	48,250,000	Share sale by Bank Leumi	5.72	2013-01-004302	4.6
8.1.2013	Shares	5,250,000	Share sale by Bank Leumi	5.72	2013-01-008235	0.5
30.9.2013	Shares	45,837,993	Share sale by Bank Leumi	5.9	2013-01-153039	4.35
22.1.2014	Shares	315,496,828	Share transfer from the trustee to Eliahu Insurance	-	2014-01-021985 2014-01-022003	30

(1) The Company was informed by Eliahu Insurance that Eliahu Insurance transferred 700,613 ordinary shares of NIS 0.01 par value of the Company. This share transfer took place as part of the completion of a transaction pursuant to which Eliahu Insurance sold all its activity in the area of life assurance and health insurance to Harel Insurance Company Ltd. ("**Harel**"), and within which the assets of the profit participating portfolio (that the Company shares were part thereof as described above) were also transferred from Eliahu Insurance to Harel.

5. Dividend distribution

For details regarding dividends paid / declared by the Company to its shareholders in the last two years and the Company's BoD recommendation to the General Meeting as to the distribution of a dividend, dated March 18th, 2014, and dividends distributed by Migdal Insurance and Migdal Capital Markets to the Company, as well as legal restrictions that might affect dividend distribution in the Company and in the Group's institutional entities, see Notes 7e, 14d & 40a to the Financial Statements.

Part B – Description and Information Regarding the Company's Areas of Activity

Area A – Life Assurance and Long Term Savings

6. Products and services

6.1 General

The area of life assurance and long term savings focuses mainly on savings for retirement ("**savings**") as well as insurance coverages for various risks such as death, disability and PHI ("**risk**").

The Group engages in all lines of life assurance and Long Term Savings ("LTS") – life assurance, various types of pension and provident funds, including educational funds[5].

As of September 30th, 2013, and on the basis of insurance liabilities in life assurance and assets managed in new pension funds and provident funds, the Group is the leading Group in this area.

The savings activity within life assurance, pension and provident funds is promoted by State authorities, mainly through tax incentives, various provisions in Labor Laws (including the requirement of employers to make contributions for mandatory pension), issuance of designated bonds to pension funds etc., which constitute an important consideration when customers choose this area's products.

The Income Tax Ordinance and Income Tax Regulations also define the contribution rates of employees, employers and self-employed insureds to provident funds, including insurance plans recognized as provident funds, and the tax benefits granted to pension saving, as well as withdrawal conditions. Changes in the tax regime also affect the products of this area.

The area is characterized with vast regulatory arrangement and strict supervision. The main entity supervising the Group's activity is the Commissioner of Capital Markets and Insurance. The legislative arrangements in this area are characterized by large and frequent changes, which are not performed in one move, and affect the area. They include measures for making the market more competitive, increasing consumers' awareness and increasing competition in the area.

Pursuant to the regulation regarding the annuity coefficients and the management fees reform, in the reported year there was a change in the mix of products sold in the area – an increase in the weight of new sales of pension funds, with a significant decrease in the weight of new sales in life assurance, and at the same time, there was another acceleration in the competition on management fees on products in this area. Regarding this issue see Clauses 6.2.6 and 6.3 below, as well as Clauses 3.4.4 and 4.3.1 to the BoD Report.

6.2 Key characteristics

6.2.1 In life assurance the products provide risk coverage or a combination of savings and risk depending on the insurance policies (contractual liability).

Pension plans combine coverage for risk and savings, and they are laid down in the Articles of Association. As from 2005 pension funds are yield pension funds, i.e., pension funds in which the component of old age pension is accrued from the contributions deposited in the fund, from which management fees and the cost of risk (for disability and dependents' annuity) are deducted, while adjusting the balance of accrued eligibility to the yield achieved on the fund's investments (less expenses and management fees) and through an actuarial balance mechanism.

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[5] Educational funds should be considered as medium-range savings before the age of retirement.

Provident funds[6] - offer a savings product, both for the long term and the short term (educational funds), are governed under Articles of Association, with no risk insurance coverage. Regarding the possibility of a provident fund managing company to offer insurance coverage as of January 2013, see Clause 6.2.9 below.

6.2.2 **Key differentiating characteristics** – presented below are the key differentiating characteristics between the various products:

	Life assurance	**Pension funds**	**Provident funds**
Type of engagement	Contract (insurance policy)	Articles of Association	Articles of Association
	The ability to change the contract's conditions is limited.	May be changed from time to time.	May be changed from time to time.
	Usually, the insurance company takes upon itself to pay insurance benefits when the risk event occurs, even if there were exogenous changes, good or bad, that were not taken into account when the engagement was made, including risk of increased life expectancy, if this risk is included in the plan's conversion coefficient.	A kind of mutual insurance between members. Actuarial assumptions, which are the basis for the members' rights, are examined from time to time as per the actual situation. If there was a change in them, good or bad, the members' rights are affected by these changes, and they bear, jointly, all the fund's actuarial surplus or deficit.	
	Flexibility in choosing the members and their shares.	The identity of dependents is set forth in the Articles of Association.	
Issuing designated bonds	**As from 1992**, the offered insurance plans do not guarantee yield, the savings monies are invested in free investments and the balance of accrued savings depends on the results recorded by the insurer's investments **("profit participating plan" or "yield dependent plans" or "yield-dependent insurance")**. As of that date, no designated bonds are issued to insurance companies. **Up to 1990 –** government designated bonds (Hetz bonds), guaranteeing linkage to CPI plus interest, were issued to insurance companies. Accordingly, most life assurance plans sold until then were guaranteed-yield plans (CPI-linked plus interest), and insurance companies invested most of the reserves in Hetz bonds and the balance in free investments as per the restrictions set forth in the legislative arrangements. These	**New pension fund** - A new pension fund that is not a general complementary pension fund is entitled to designated bonds. As of 2004, such funds are entitled to designated bonds of 30% of their assets. The effective interest rate guaranteed by these designated bonds is 4.86% (plus linking differences). The deposit cap in new pension funds that are not complementary funds is limited to 20.5% of twice the average wage. **New general complementary pension funds –** not entitled to designated bonds. **Old pension fund (closed**	From the mid-eighties no designated bonds are issued for provident funds

[6] It should be clarified that the term "provident fund" does not include insurance plans that are recognized as provident funds (insurance funds) nor pension funds that are annuity provident funds.

	Life assurance	Pension funds	Provident funds
	plans shall be called "**guaranteed-yield**" or "**non-profit participating**"[7]. In these policies, management fees were not determined, and insurance companies benefit from the difference between the obligations towards the insureds as set forth in insurance policies and investment gains (both from free investments and in Hetz bonds) ("**the spread**" and/or "**financial spread**"). In 1992, after a gradual reduction in the previous two years, the issue of designated bonds for new insurance plans ceased completely[8].	**for new members)** Old pension funds are entitled to designated bonds. As of 2004, the eligibility rate for designated bonds is 30% of their assets. The effective interest rate is similar to non-complementary new pension funds. Balanced old pension funds are also entitled to a safety cushion, under certain conditions as per the legislative arrangements.	

6.2.3 **Management fees reform – a unified model for management fees, management fees reduction**[9]

Within the plan aimed at increasing competition in the area, as of January 2013, there is a unified model for management fees collection in the three pensionary savings products (insurance policies recognized as provident funds, pension and provident funds). In the unified model, management fees are collected both from contributions (deposits) and from accruals. In addition, there was a change in the maximum management fees rate that may be collected in some savings products (mainly insurance plans).

Details about the maximum management fees rates that may be collected on the various products marketed as of January 2013 are provided below:

(a) Insurance plans

1) **Insurance plans recognized as provident funds (insurance funds)**

As from January 1st, 2014, the maximum management fees that insurance companies may collect in these plans shall not exceed 1.05% of accrual per year, and no more than 4% on current contributions (deposits). The maximum management fees rate from annuities shall not exceed 0.6% of accrual.

In the transition period, i.e. from January 1st, 2013 till December 31st, 2013 ("**the transition period**"), the maximum management fees that may be collected shall not exceed 1.1% of accrual per year, and no more than 4% on current contributions.

[7] Throughout the years, the Group redeemed, as per the MoF approval, some of the designated bonds in order to increase yield, and the reserves were invested in free investments. The Group may not acquire designated bonds in respect of some of the assets that were redeemed by it as set forth above, and as a result, the Group's exposure in its free investments increased.

[8] In respect of plans sold by then, the State continues to issue designated bonds also in respect of the monies, which, pursuant to the terms of the insurance plan, may be deposited in these policies after the change.

[9] It is clarified that the change in the structure or in the rate of management fees as described below applies to insurance plans as of January 2013, and does not apply to existing plans

2) **Insurance plans not recognized as provident funds**

As from January 1st, 2013, the maximum fixed management fees that insurance companies may collect for the management of the investment portfolio in these plans shall not exceed 1% of the investments' revalued value (accrual). The Commissioner may approve management fees exceeding these rates, provided they do not exceed 2% of the investments portfolio's revalued value. The Commissioner may approve higher management fees in respect of the investments portfolio management, provided that only management fees as a percent of the investments portfolio's revalued value are collected.

(b) Pension

New comprehensive fund – companies managing new comprehensive pension funds may collect management fees both from contributions – not exceeding 6%, and from accrual – not exceeding 0.5% per year, including from persons receiving a pension (unchanged compared with the existing situation).

New general fund – the maximum management fees rate is similar to that in insurance plans recognized as provident funds, i.e., as of January 2014, not more than 1.05% of accrual per year, and no more than 4% on current contributions and 0.6% of annuity payments, and in the transition period – not more than 1.1% of accrual and not more than 4% of contributions.

(c) Provident

In provident funds (which are not other provident funds as described below), as of January 2013 it is possible to collect management fees from deposits and from accrual, and the maximum management fees rate is similar to that in insurance plans recognized as provident funds, i.e., as of January 2014, not more than 1.05% of accrual per year, and no more than 4% on current contributions, and in the transition period – not more than 1.1% of accrual and not more than 4% of contributions.

Managing companies of educational funds, provident funds under personal management, central provident funds, sick leave provident funds, annual leave provident funds and provident funds for other purposes ("**other funds**"), may collect management fees from accrual at a rate that cannot exceed 2% per year (unchanged compared with the existing situation).

Furthermore, there are arrangements as to the reduction of management fees from accrual in the accounts of members with whom contact was lost and/or deceased members, during the period in which they were not located.

For details regarding the draft Regulation regarding Restrictions on Direct Expenditures on Transactions, see Clause 27.4.4 (a) below.

6.2.4 **Assignment of accrued savings (lump-sum / annuity)**

In policies recognized as provident funds, the legislator performed several reforms, mostly aimed at leaving the monies accrued in the pensionary savings for old age retirement annuity, thus increasing the amount of annuity after retirement. These reforms have not changed the rules regarding monies deposited to the policy before the reform came into effect, however, they changed the rules applying to money depositing in these plans from the moment the reform came into effect.

For example – as from 2000 it was decided that employees who deposit pensionary savings monies in an annuity policy, may receive the monies only as a monthly annuity upon retirement.

Between 2000 and 2007 the legislative arrangements set forth, from time to time, a cap on salaries / contributions in insurance plans, in which the savings may be withdrawn as a lump sum, and any contribution exceeding the cap is designated for annuity purposes.

As from January 2008, pursuant to **Amendment No.3 to the Provident Funds Law**, the possibility of depositing monies in lump-sum savings was cancelled, and it was decided that all the monies that will be deposited to pensionary savings as from that date, are aimed for annuity only as of the age of retirement. Accordingly, there are also two types of provident funds, funds paying to annuity (which pay annuities directly to those entitled to them), and funds non-paying to annuity (which do not pay annuities directly to those entitled, and money may be withdrawn from them, except for a few exceptions, only to a fund paying annuity).

Policies not recognized as provident funds – these policies, which include a savings component, do not grant any benefits to insureds in respect of deposits, and on the other hand, they do not include restrictions as of the date of withdrawal (up to the age of retirement), or the type of withdrawal (lump-sum or annuity). Annuity withdrawals are possible only in circumstances included in the insurance plan.

6.2.5 **Mandatory pension insurance -** as from January 2008, by virtue of an expansion order for comprehensive pension insurance in the market as per the Collective Agreement – 1957, it became mandatory to provide comprehensive pension insurance to all employees in the economy subject to the terms set in the Expansion Order[10].

6.2.6 **Annuity coefficients reform**

In the insurance plans that allow the withdrawal of monies as a monthly annuity, insurance companies used to specify the conversion coefficient that would constitute the basis for calculating the insureds' monthly annuity ("**guaranteed conversion coefficient**") in the policy terms. The conversion coefficient was determined upon joining the plan and it was anchored in the insurance policy as a contractual undertaking.

Pursuant to the increase in life expectancy, and the assigning of savings to annuity only, in 2012-2013 the following key changes were introduced, following the arrangement published by the Commissioner regarding this matter:

(a) Restrictions regarding the marketing of life assurance policies with guaranteed annuity coefficients

As described in Clause 9.2.9 to the Company's 2012 Periodic Report, as of January 2013 insurance companies may market insurance plans that combine savings, which include guaranteed annuity coefficients only to customers who completed 60 years of age upon the sale. Accordingly, insurance plans marketed by the Group as of that date do not include guaranteed conversion coefficients, and the conversion to annuity (except customers aged over 60) shall be determined upon retirement, just before receiving the first annuity, as per the terms set forth in the plan.

[10] It should be noted that as of January 2014, the provision rates to pension insurance as per the terms of the Expansion Order are: 5.5% of the salarieds' wage for the provident component, another 6% at the employers' expense to the provident component, as well as 6% of the wage at the employers' expense for payment instead of severance pay.

The regulation in this respect also set forth transition provisions with regard to marketing of insurance plans that include a guaranteed conversion coefficient in 2013. As of the date of publishing of this Report, these provisions were not extended for an additional period.

For changes in the mix of new sales in the area see Clauses 3.4 and 4.3.1 to the BoD Report, as well as Clause 7.1 below.

(b) Update of demographic assumptions

In insurance plans with guaranteed annuity coefficients, insurance companies are required to calculate insurance reserves for annuity payments, according to the updated assumptions. For the calculation of reserves for annuity and increasing the annuity reserves, see Note 37b3b5 to the Financial Statements.

In pension funds, managing companies were required to update the demographic assumptions on the basis of which the funds' actuarial balance and the coefficients in the Articles of Association are calculated.

For the draft of the regulation letter regarding the desire to introduce changes to the yield assumption in annuity conversion coefficients, see Clause 27.4.4 (d) below.

6.2.7 **Pensionary products mobility**

The Control of Financial Services Regulations (Provident Funds) (Money Transfers between Provident Funds) – 2008 regulate the rules regarding the mobility of pensionary savings monies in pensionary products, insurance, pension and provident funds, and between all institutional entities that manage pensionary savings, under the restrictions set forth in these Regulations and as per their conditions, all in order to increase competition in the area. For example, under the current restrictions, it is not possible to transfer monies to receiving provident funds that are closed provident funds, as per their definition in above mentioned Regulations (inter alia, insurance funds entitled to designated bonds and old pension funds). The reform in management fees also placed restrictions to the mobility of funds from insurance plans with guaranteed annuity coefficients in 2012-2013, see Clause 4.3.1 to the BoD Report.

6.2.8 **Establishing a pension clearing house and regulations for providing data in a "unified structure"**

As part of the trend of increasing competition in the pensionary savings market, the Commissioner promoted the establishment of a central pension clearing house. In 2H13 the clearing house started operating for the first time, and the first stage in its operation is handling requests for receiving / transmitting data. The stage that allows money deposits and mobility through the clearing house has not been completed yet.

Along with promoting the establishment of the clearing house, from time to time, the Commissioner issues instructions mandating institutional entities to use a "unified structure" for communications and transfer of data and information between the various entities in the market.

6.2.9 **Allowing managing companies to market insurance coverages that are ancillary to savings in provident funds**

In January 2013, the regulation regarding allowing the possibility of acquiring insurance coverages via provident fund managing companies came into effect, as described in Clause 9.2.10 to the Company's 2012 Periodic Report. Although the regulation came into effect in January 2013, to the best of the Company's knowledge, in 2013 provident funds' managing companies have not offered such ancillary insurance coverage as set forth above. The above mentioned regulation was aimed at increasing competition and unifying the products in the area.

6.3 Expected changes on markets / in the products mix

The Company estimates that the annuity coefficients reform and the management fees reform, and the fact that provident funds managing companies may offer insurance coverages, affect, inter alia, the configuration of pensionary savings products.

The guaranteed annuity coefficient, which is one of the characteristics differentiating between savings products, was cancelled, therefore one of the most important advantages for the insurance savings product, over other savings products in the area, was damaged.

In addition, in a market in which due to the fall in interest rates, the possibilities of achieving excess yields in asset management have declined, the issue of designated bonds to pension funds, which is one of the characteristics differentiating between savings products, has become even more important and may accelerate the continued growth in the pension line (with the restrictions on deposit caps as set forth above).

At the same time, and in addition, the Company estimates that two secondary markets may develop in the area, the market of active savers, to whom the pensionary savings products will be offered until the age of retirement, and the retirement age market – the **Third Age** market.

The products that will be offered to the active savers' market will include savings and similar insurance coverage, and the competition between the various producers shall focus mainly on the parameters of price, yield, insurance coverage and service quality.

In the retirement age market ("Third Age" market), products will be offered from retirement age, including other synergetic products from other areas, that may be offered to this population. Also, monies from other savings products (not necessarily monies accrued in pensionary savings products, but also from other savings origins) shall be mobilized for the acquisition of annuities. The competition between the various producers shall focus also on parameters such as annuity conversion coefficients, a variety of annuity tracks, the continued management of investments, management fees and service.

Regarding the Company's estimations as to other implications of these arrangements on the area, see Clause 4.3.1 to the BoD Report.

Information in this paragraph with respect to the Company's estimations is future-forecasting information as per its definition in the Securities Law – 1968, is based on the current legislative arrangements, and it is still unknown whether the Commissioner shall take additional or supplementary measures to the current arrangements. Furthermore, the aforesaid is based on assumptions and estimates regarding actions that will be taken by entities in the market, which might not be realized if the provisions are amended or updated or applied in a way that is different than that forecasted.

6.4 Description of key products / insurance coverages

6.4.1 **Life assurance**

(a) Insurance policies are divided into two main types:

(1) Insurance policies with risk components only. These insurances do not include a savings component and do not accrue surrender value. These insurances are offered both as individual insurance and within agreements for collective insurance.

(2) Insurance policies that combine insurance coverage with savings component, which are divided into two main types, those recognized as provident funds and are aimed for pensionary savings (usually designated for employees and self-employeds (insurance funds)), and policies not recognized as provident funds, and usually designated for individual saving (individual plans).

The main difference in designating policies for savings as provident funds is mainly expressed in tax benefits granted to savings in these plans, set forth in the legislative arrangement, vs. withdrawal rules that restrict the withdrawal of monies to only after the age of retirement, and under the conditions defined in the legislative arrangements.

The nature of the policies that include savings has changed throughout the years due to the reforms initiated from time to time by the Capital Market Division in the Ministry of Finance, as described above.

The uniqueness of collective insurance policies compared with individual insurance policies is in the following characteristics:

The policyholder: it may be the employer / corporation / service provider. Usually the insurance amounts are identical for all the group's insureds, or are set as per various parameters such as marital status, etc. Usually the tariffs are calculated as per the group's actuarial age, the term of the insurance agreement is for a short period agreed in advance between the policyholder and the insurance company. When the insureds leave the group, in most cases, there is a duty to offer the insureds the right to continue the insurance under an individual policy. Usually the premium collection is made in one payment for all group members.

(b) Details about the main insurance coverages / plans that include only a risk component are provided below:

Type of plan	Coverage description
Pure risk insurance	Life assurance in the event of death, without a savings component. This insurance provides members with a predetermined insurance amount should the insured pass away during the insurance period. The insurance amount may be a lump-sum, or a predetermined monthly amount for a predetermined period, depending on the relevant insurance plan. The insurance is provided against the payment of a fixed monthly premium, CPI-linked or a premium that changes once a year or once every five years. It is possible to add other extensions or riders such as accident-related deaths, accident-related disability, dread disease riders, etc. This coverage is also offered within the "mortgage insurance" plan, usually offered to the population that takes housing loans.
PHI disability insurance	A coverage that guarantees a monthly compensation that shall not exceed 75% of the wage in the event of occupational disability, and a release from premium payment. The compensation is paid as long as the insureds suffer from an occupational disability or up until the end of the insurance period. Employers and self-employeds receive tax benefits in respect of payments for this coverage, under certain restrictions.
Accident-related death insurance	An insurance that guarantees the payment of a lump-sum in the event of death caused by an accident.
Accident-related disability insurance	An insurance that guarantees the payment of a lump-sum in the event of disability caused by an accident

(c) Details about the main insurance plans in which savings may be combined with an insurance coverage for the event of death or PHI and/or savings only:

Type of plan	Coverage description
Migdalor for Life, 2013 series	The Migdalor for Life 2013 insurance plans, marketed as from January 2013, continue the series of policies marketed as from 2004 (Migdalor series) (which were adjusted to legislative arrangements from time to time). These plans were also adjusted to the annuity coefficients reform and the management fees reform which came into effect on January 2013. The offered insurance plans are divided into insurance plans recognized as provident funds and insurance plans not recognized as provident plans, and into annuity paying insurance plans and non-paying annuity plans. In these insurance plans, there are also investment tracks as per the insureds' choice.
New Life policies series	Insurance plans for the payment of an immediate annuity, CPI-linked, starting from the age of 60, are marketed. Furthermore, the Company writes policies designated for employers who would like to pay their employees lump-sums during the early retirement period, before receiving annuities.

Type of plan	Coverage description
	Plans marketed in the past
Classic (traditional) policies (mainly endowment, annuity and pure savings)	Endowment insurances include two components, savings and risk, at a predetermined amount as per the insureds' age and underwriting terms set forth when writing the insurance. The cost of the savings and risk coverage is mixed. The insurance amount is paid at the end of the period set forth in the policy as accrued savings or when a death event occurs before the end of the insurance period. The endowment insurance sold until the mid-nineties was usually CPI-linked, both the insurance amount and premiums. In these policies, since premiums were CPI-linked, if there were salary raises exceeding CPI, it was not possible to deposit additional amounts that reflected the salary raise. Annuity insurances are insurances in traditional policies, in which most premiums are designated to annuity payment upon retirement.
Adif policies (in the Group, these policies' brand name is Yoter)	The policy was developed in 1983 and was marketed up to the end of 2003. This policy was the main policy in life assurance that was sold in the sector. Its purpose was also to provide a solution to employers who deposited the pensionary insurance payments linked to wages (unlike CPI-linkage). The main characteristics of this product are: The policy terms included the division of the policy into two components: a certain percentage accrued as savings (including coverage for annuity payment, which includes "life expectancy" risk), and the balance of the premium is designated for the acquisition of risk for the event of death (risk) and operational and marketing expenses. The division of the premium between the components is determined by insureds. The insurance coverage component is calculated again every month, as per the ceded premium and the insureds' age in that month, while savings are accrued separately. As from October 2001, the Group allowed the choice between several investment tracks within this plan.
Migdalor series	As from 2004, the Company started marketing Migdalor series policies. In 2004 these policies were adjusted to the requirements of the Commissioner of Insurance, inter alia, regarding a separation into savings, risk and management fees components. Furthermore, as of 2004 the insurance policies that combine savings are also divided into insurance plans recognized as provident funds and insurance plans not recognized as provident plans, and into annuity paying insurance plans and non-paying annuity plans. In these insurance plans, there are also investment tracks as per the insureds' choice. Some insurance plans that were marketed guaranteed, as per the conditions set forth in the relevant insurance plans, a guaranteed interest or a minimal yield.

(d) For details regarding results as per types of policies, see Note 18 to the Financial Statements.

6.4.2 Pension products

Pension funds managed by the Group:

Old pension fund
The Group has an old pension fund, Yozma Pension Fund for Self-Employeds, managed by Yozma Pension Fund for Self-Employeds Ltd. This is an old pension fund based on a personal actuarial balance mechanism. The fund was closed to new insureds pursuant to the reform in pension fund from 1995.

New pension fund	
Migdal Makefet Ishit is a pension fund designated for current deposits of employees and self-employed members up to the allowed cap for deposits. The fund offers a variety of pension tracks that include insurance coverage in case of disability and death, as well as various investment tracks. The savings part in the fund is paid as old age pension as of retirement age. This fund is entitled for designated bonds.	**Migdal Makefet Complementary** is a general pension fund designated for current deposits, including deposits in amounts exceeding the allowed cap for new pension funds, and it also allows making one-time deposits. Starting from January 2008, in addition to saving for old age pension starting from age 60, this fund offers a variety of pension tracks that include insurance coverage in case of disability and death, and as of that date it also operates as a comprehensive pension fund. This fund is not entitled to designated bonds .

6.4.3 Provident products

Migdal Makefet is also the managing company of provident funds in the Group. Provident funds managed by the Group:

Type of fund	Description
Educational fund(1)	The fund is designated for salarieds and self-employeds. It allows members to accrue monies for educational purposes and enjoy tax benefits. The monies accrued in the fund may be withdrawn for educational purposes starting from three years' membership in the fund. After six years' membership in the fund, the monies may be withdrawn for any purpose.
Personal provident fund for provident benefits and severance pay(2)	The fund is designated for employees and self-employeds. Deposits to the fund are made on a monthly basis for employees. Self-employeds may deposit once in a while (this fund is considered as a non-paying fund to annuity).
Sick leave provident fund	It allows employers to accrue monies in the fund for the payment of sick leave.
Central provident fund for the participation in employer pension	The fund is designated for managing the sums deducted by employers, defined in The Economic Recovery Plan Act (Legislative Amendments for the Achievement of the 2003 and 2004 Economic Policy and Budgetary Objectives) - 2003, from the salary of employees employed by that employer, namely employers who pay annuities from their own funds. The deduction rate as of 2005 is 2% of the employee's salary.
Central Fund for Severance Pay	This fund is closed to new deposits since January 2011. The fund is designated for employers who would like to accrue monies in order to secure severance pay for their employees. Members are the employers and the money accrual is in the employers' name for their employees.

(1) As of January 1st, 2014, the merger of Migdal Kahal Educational fund (Fund No. 385), including its tracks, to Migdal Educational Fund for Salarieds and Self-Employeds (Fund No. 579), came into effect, and following this merger, Migdal Educational Fund for Salarieds and Self-Employeds became a track fund.

(2) As of January 1st, 2014, the merger of the provident fund Migdal Platinum for Benefit Payments and Severance Pay (Fund No. 858), including its tracks, to the provident fund Migdal for Benefit Payments and Severance Pay (Fund No. 744), came into effect, and following this merger, Migdal for Benefit Payments and Severance Pay became a track fund.

6.5 Details about the pension and provident funds managed by the Group

Presented below are key data for 2011-2013 (in NIS million)[11]:

Year	AuM	Contributions	Net accrual	Management fees rate to AuM	Management fees rate from contributions
New pension funds					
Migdal Makefet Ishit					
2013	37,298	4,650	3,421	0.34%	3.79%
2012	30,518	4,296	2,840	0.36%	3.97%
2011	25,582	3,835	2,971	0.37%	3.93%
Migdal Makefet Comprehensive					
2013	442	83	72	0.80%	0.32%
2012	339	65	54	1.11%	-
2011	264	56	51	1.09%	-
Old pension funds (Old Yozma)					
2013	1,557	24	(11)	9.13%	0.60%
2012	1,448	25	(10)	9.22%	0.60%
2011	1,327	27	(11)	9.32%	0.60%
Provident and educational funds					
Provident funds – Educational funds					
2013	13,275	1,690	(279)	0.95%	-
2012	12,633	1,682	(130)	1.00%	-
2011	11,863	1,616	(92)	1.04%	-
Provident funds – Provident funds for provident benefits and severance pay					
2013	1,767	77	(16)	0.83%	-
2012	1,651	80	59	0.98%	-
2011	1,467	66	12	1.11%	-
Provident funds - Other(1)					
2013	294	4	(3)	0.86%	-
2012	275	3	2	0.82%	-
2011	250	7	1	0.99%	-

Total pension and provident funds

Year	AuM	Contributions	Net accrual
2013	54,633	6,528	3,184
2012	46,864	6,151	2,815
2011	40,753	5,608	2,932

(1) Including: central provident fund for severance pay, central provident fund for the participation employer pension and sick leave provident fund.

In 2013, the data regarding management fees in new pension funds and in the educational fund are after recording a provision for the reimbursement of management fees as per a ruling in principle by the Commissioner regarding the increase of management fees without advance notice, see Note 39 1 e 39 a to the Financial Statements and Clause 3.4.4 to the BoD Report.

[11] "Net accrual" is defined as contributions plus members' transfers net and less surrenders and pension payments.

7. Competition

7.1 General

The area is characterized by harsh competition both between the various lines that are mainly insurance, pension and provident, as well as between the various producers within the lines, such that every institutional entity competes both against other institutional entities in the same sector and with institutional entities from other sectors, inter alia, due to the nature of pensionary products that are alterative products in the area. The products in the area are alternatives with certain emphases in each of them. The legislative arrangements in the area that existed in recent years are mainly aimed at removing barriers that prolong money transfers between institutional entities, increase transparency, and increase competition in the area.

The annuity coefficients reform that came into effect in 2013 and the management fees reform cancelled significant differentiating characteristics between the area's products, necessarily affecting the competition level, while diverting sales to pension products at the expense of declining life assurance products sales.

The competition in the area concentrates on yields, management fee rates, cost of insurance coverage, the absence or existence of differentiating characteristics between the area's products and service level.

For the Company's estimate regarding expected changes, see Clause 6.3 above as well as Clause 4.3.1 to the BoD Report.

7.2 Market data[12]

As of September 30th, 2013, on the basis of the size of insurance liabilities in life assurance and assets managed in new pension funds and provident funds, the Company is the largest entity operating in this area.

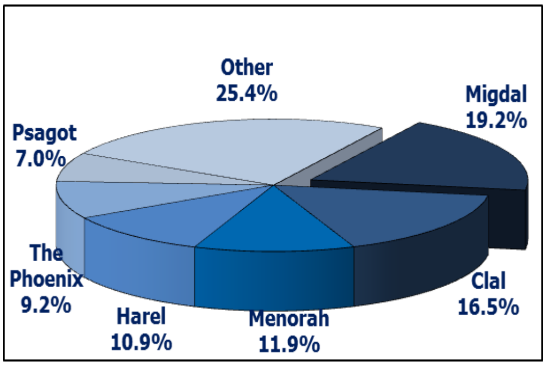
Due to the accelerated competition in the area, which was also affected by the recent reforms in the area, there was a certain decrease in total new sales of pensionary savings products in the Group (except provident funds), along with a significant decline in new sales of life assurance, and on the other hand, an increase in new sales of pension funds. The decline in sales is attributed both to the accelerated competition in the area, and the focus placed on customer segments in which the Group is interested.

[12] Unless specified otherwise, the data brought in this Clause regarding market data are based on the processing of MoF Reports published on the MoF's website ("**Managerial reports**", "**Pension-net**", "**Provident-net**"). Also, premiums in data published in the managerial reports do not include premiums in respect of investment contracts, as defined by the various insurance companies.

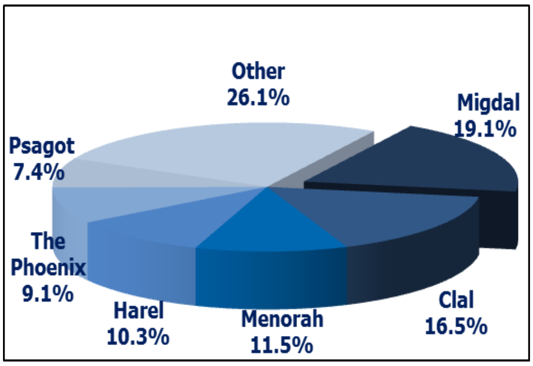
The entire area

Based on insurance liabilities in life assurance and assets managed in new pension funds and provident funds

As of September 30th, 2013



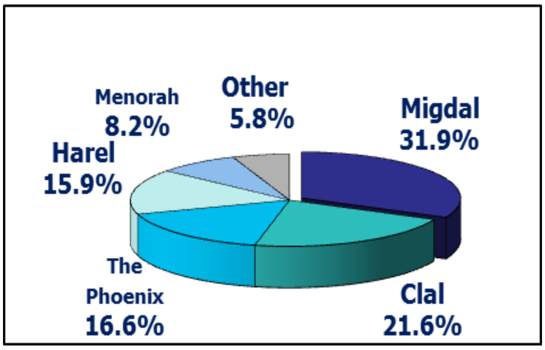
As of September 30th, 2012



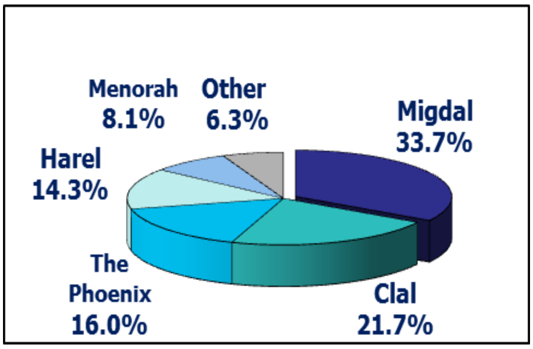
Life assurance

Premium breakdown

For 1-9/2013

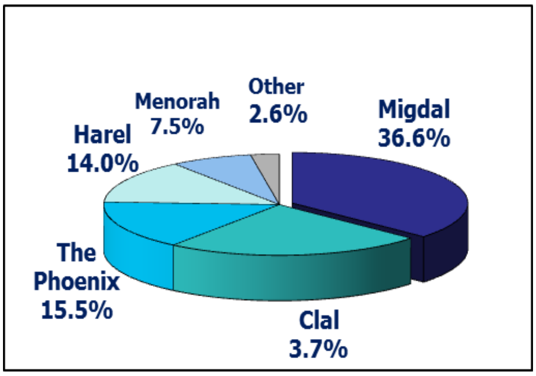


For 1-9/2012

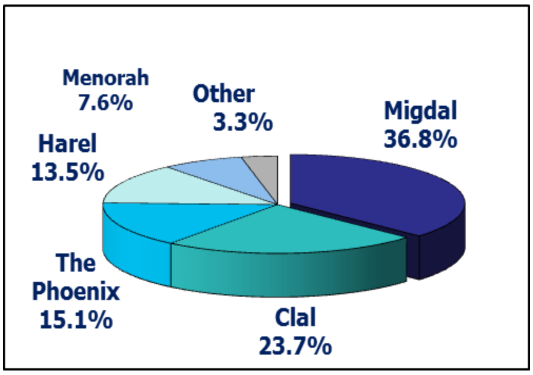


Insurance liabilities breakdown

As of September 30th, 2013



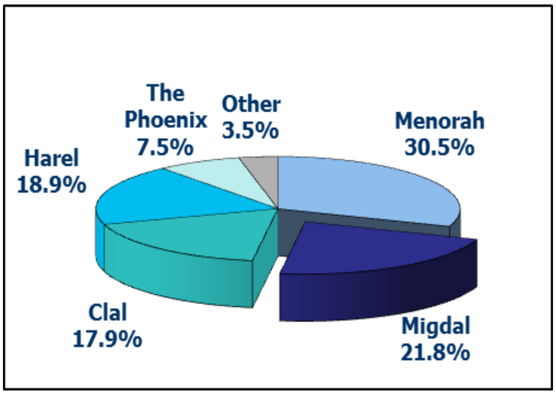
As of September 30th, 2012



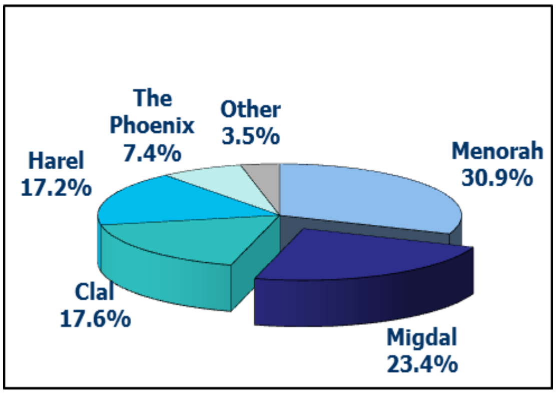
New pension funds

Contributions' breakdown

For 1-12/2013

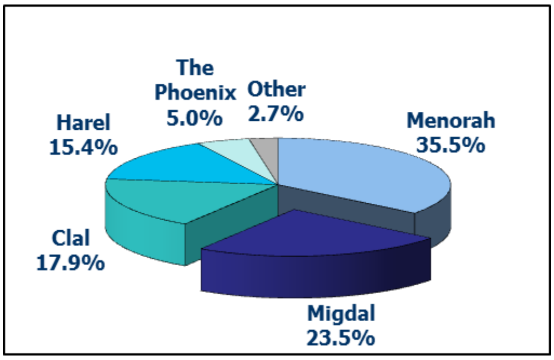


For 1-12/2012



AuM breakdown

31.12.2013



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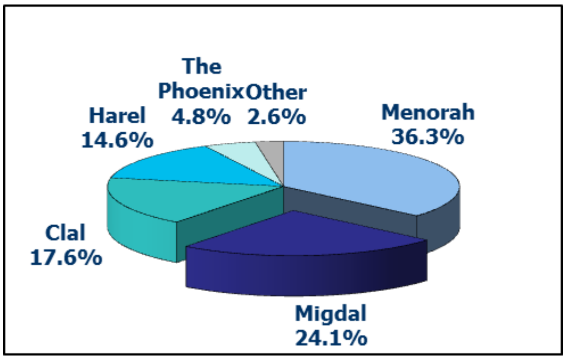
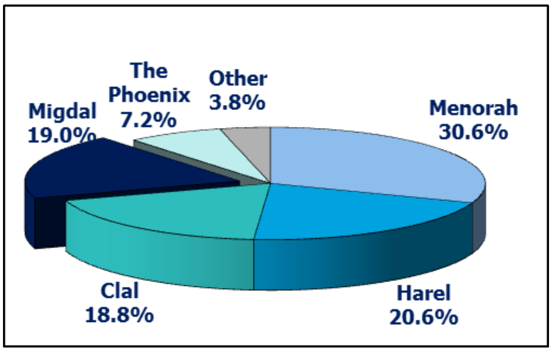
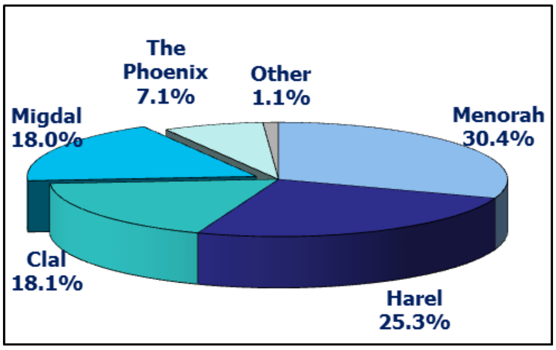


Net accrual breakdown

For 1-12/2013



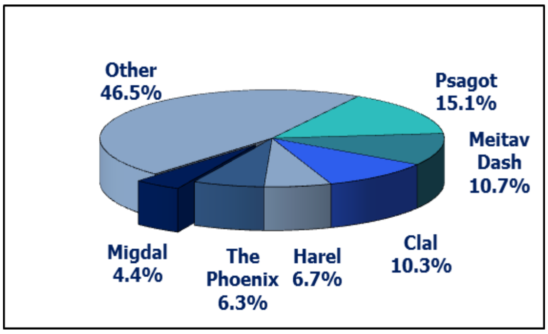
For 1-12/2012



Provident funds and educational funds[13], [14]

Provident funds' AuM breakdown

31.12.2013



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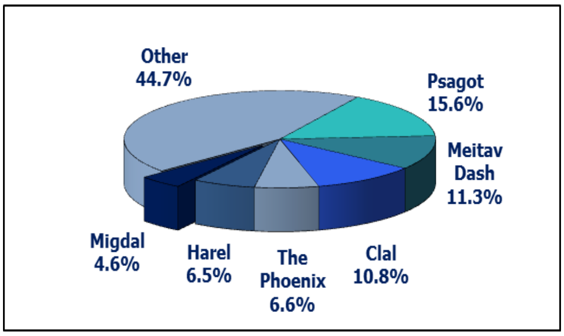
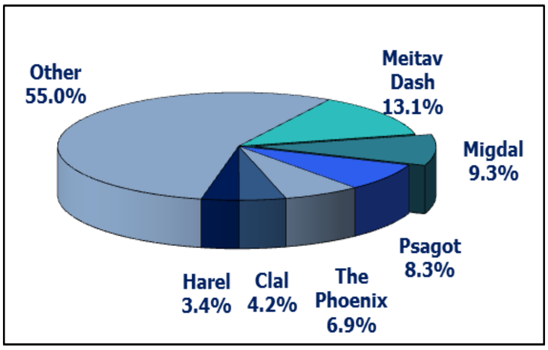
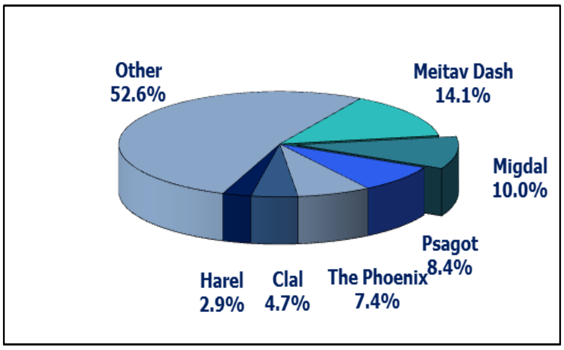


Educational funds' AuM breakdown

31.12.2013



31.12.2012



7.3 **The Group's main methods for coping with the competition**

The Company has experience, knowledge and a long term reputation in the area of life assurance and LTS, and as said above, it is the leading company in this area.

The Company deals with all the area's products, and it has a platform through which it offers customers an array of products in the area, including the integration of insurance products which are synergetic with the LTS products.

The Group's financial solidity and the advantages of economies of scale also affect its position in the area.

Since the Company has been active in the area of life assurance for many years, it has built a life assurance portfolio with relative advantages over products that may be marketed today and that should be taken into account when recommending the selection of a pensionary product, including its mobility. These relative advantages, as long as the legislative arrangements have not been changed, may contribute to the preservation the current portfolio and its differentiation.

The Company strives towards a constant improvement in customer loyalty and satisfaction, which, in its estimation, can be achieved via leadership in service and distribution channels and by increasing customer share, while creating a basis for long-term relations with the end customers. In order to increase customer share, the Group places an emphasis on the marketing processes, the development of appropriate products and services and taking advantage of the synergy between the Group's various activities and products.

[13] On March 19th, 2013 the transaction for the merger between Meitav and Dash Apex investment houses was completed. The share of Meitav and Dash Apex in the line of provident funds and educational funds as of the end of 2012 (prior to the merger) is presented jointly.

[14] The data of Excellence investment house are presented under The Phoenix Group.

This area, which is the main area of activity of the Company, is affected by frequent legislative arrangements in recent years, aimed at increasing competition, the last of which being the regulation regarding the annuity coefficients and management fees reform, which came into effect in the reported year. These recent changes are a "**destabilizing change**" that might change the area in a material manner. One of the measures taken by the Group in order to cope with these changes is changing the sales mix while increasing sales of the pension product, that has become the leading product in the area, and focusing on the sale of risk and individual savings products.

At the same time and in addition, and in light of the increasing competition, the Group acts towards adjusting the marketing and distribution systems by adjusting the remuneration method and integrating sales tools, which will be used in order to promote profitable businesses.

The Group continues to work on adjusting the products offered to its customers to their needs and to the new changing conditions in the market. The Group has identified the Third Age population as a developing market and it has expanded its activity in the area of Third Age and in developing products for this target population. In addition, the Group has experience in managing assets portfolios for the long term, via diversified investment activities, both in Israel and abroad, including investments in the areas of real estate and credit, in order to achieve good yields for insureds and members, in accordance with the risk level.

Along with all the above, the Group continues to focus on manpower and high quality human capital, while examining across-the-board processes and the cost structure, in order to improve operational efficiency.

8. Customers

8.1 Life assurance

Presented below are data regarding the gross premiums breakdown in life assurance in 2011-2013[15]:

	2013		2012		2011	
	NIS million	**Breakdown in %**	**NIS million**	**Breakdown in %**	**NIS million**	**Breakdown in %**
Salaried insureds	5,618	75	5,340	73	4,982	73
Individual and self-employed insureds	1,841	24	1,913	26	1,727	25
Collective insurance	86	1	105	1	13	2
Total	7,545	100	7,358	100	6,847	100

Regarding changes in the premiums mix, see Clause 3.4.4a to the BoD Report.

[15] It is hereby clarified that the data regarding premiums do not include premiums in respect of investment contracts.

8.2 **Pension funds**

Presented below are data as to the breakdown of contributions in pension funds (new and old) in 2011-2013:

	2013		2012		2011	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Salaried members (1)	4,527	95	4,151	95	3,775	96
Individual and self-employed members	230	5	235	5	144	4
Total	4,757	100	4,386	100	3,919	100

(1) In 2011 the data include a group of members belonging to an organization, whose contributions constituted about 5% of pension fund contributions, the engagement with which was discontinued in July 2012.

8.3 **Provident funds**

Presented below are data as to the breakdown of contributions in provident funds in 2011-2013:

	2013		2012		2011	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Salaried members	1,505	85	1,497	85	1,390	82
Individual and self-employed members	266	15	268	15	299	18
Total	1,771	100	1,765	100	1,689	100

8.4 **Surrender rates**[16]

In **life assurance**, surrenders to average reserves ratio was approx. 2.0% in 2013, vs. about 2.3% in 2012 and approx. 2.4% in 2011.

In **pension**, the surrender to average accrual ratio was approx. 4.1% in 2013, vs. about 5.8% in 2012 and approx. 3.9% in 2011. The high surrender rate in 2012 was affected, inter alia, by the discontinuation of the engagement with a group of members in one organization, mentioned in Clause 8.2 above.

In **provident**, the surrender to average accrual ratio was approx. 15.4% in 2013, vs. about 17.3% in 2012 and approx. 16.6% in 2011.

8.5 The Group does not have customers constituting 10% or more of total premiums and contributions in the area of life assurance and LTS.

[16] Surrender rate, including outgoing transfer to other entities.

Area B – Health Insurance

9. Key products and services

9.1 General

The area of health insurance includes the Group's insurance activity in the main following sub-lines: medical expenses insurance (such as surgery, medications and transplants), dread diseases insurance, LTC insurance, dental insurance, travel insurance etc.

This area is also characterized by vast regulations and strict supervision.

The legislative arrangements in this area are characterized by remarkable changes, part of which is also affected by the Government's health policy, including an expansion or reduction of services included within the health basket or the Shaban. The main changes that have occurred in this area in the reported period were in the LTC insurance market, see Clause 9.4.2 below.

In 2013, the Minister of Health announced the establishment of an advisory committee for the strengthening of the public health system ("**the Committee**"). The aim of the Committee is to examine the situation of the Israeli public health system, and recommend desired policy measures, including legislative amendments and operational measures. The Committee will deal mainly with the following issues: examination of the relationship between public health and private health, complementary health insurances and commercial health insurances, foreign patients, the status of the Ministry of Health as a service provider, an insured and a regulator. The Committee's work has not been completed, and the suggested arrangements in this area have not yet been determined. The Company is unable to estimate the implications of resolutions and arrangements, which may be recommended by the Committee.

9.2 Key characteristics

Health insurance are aimed at indemnifying or compensating insureds in the event of damage to their health due to disease or accident.

The insurance coverages in this area, offered by insurance companies, are divided mainly to the following layers:

Alternative insurance (an alternative to the services provided in the National Health Basket/Shaban), private insurance (insurance beyond the National Health Basket and/or Shaban), supplementary insurance (insurance not included in the National Health Basket and/or Shaban).

The insurance coverages are usually offered as separate independent policies, or as a rider to another policy, or via a package of coverages which bundle several insurance coverages.

Insurance premiums are fixed premiums or premiums that change throughout the insurance period according to the insureds' age, up to the age of 65, and are fixed thereafter. There are special arrangements whereby children purchase coverage for surgeries in Israel at a fixed premium, under which they are entitled to surrender value, as per the conditions set forth in the insurance plan.

Health insurances are offered either as individual policies for insureds ("**individual insurance**") or as collective insurance agreements ("**collective insurance**"), see Clause 9.4.1 below.

9.3 Description of the main insurance coverages / services that are offered

Type of plan	Coverage description
	Medical expenses insurance
Surgery insurance	It mainly provides coverage for expenses involved in private surgery in Israel and abroad. The coverages for surgeries in Israel are marketed in several layers, which include coverage for surgeries in Israel with deductible, supplementary plan to Shaban and coverage "from the first Shekel". In individual insurances this coverage is offered for life. Following the position paper regarding "Compensation in Coverage for Surgeries in Israel", published in August 2013, as from January 1st, 2014 it is no longer possible to market insurance plans that cover private surgeries in Israel, that allow insureds to choose between the indemnification of surgery costs by the insurer and a compensation by the insurer in respect of a surgery that was performed within the Shaban or the public health system. Accordingly, as of that date, the Company markets a coverage for surgeries in Israel that indemnifies the insured in respect of surgery expenses, without the possibility of receiving compensation in respect of surgery carried out without the insurer's participation. This change brought about an increase in premium for coverage of surgeries from the first Shekel and coverage supplementary to that provided under Shaban.
Transplant insurance	It mainly provides coverage for expenses involved in organ transplants abroad and/or special treatments abroad. In individual insurances this coverage is offered for life.
Medications insurance	It mainly provides coverage in respect of medications that are not included in the National Health Basket. In individual insurances this coverage is offered for life.
Dental insurance	It mainly provides the insureds with coverage of expenses in respect of dental treatments based on several coverage layers: basic dental treatments, gums, restorative, dental implants and orthodontics. This coverage is marketed by the Group only as collective insurance and for limited durations.
Riders	Various coverages provided to insureds such as physiotherapy treatments, consultations with psychologists, alternative medicine treatments, house calls by physicians as well as ambulatory coverages such as consultations with physicians, diagnostic medical tests, managers' screening tests and preventive medicine checks. Usually riders are offered as appendices to the main coverage and sold as riders are effective for the same period as the main coverage. The Company may cancel these riders as per the arrangements set forth in the relevant riders.
	Dread diseases insurance
Dread diseases (all Mazor type policies)	An insurance coverage which provides the insureds with insurance benefits (mainly compensation, as opposed to indemnification) in case of contracting one of the dread diseases or severe medical occurrences, on the basis of a predetermined list included in the insurance plan. Usually the insurance is offered for a limited period. In August 2013 the **Circular regarding Signing Insurance Plans for Dread Diseases Insurance** was published, changing several definitions of dread diseases and provides the principles for writing dread diseases insurance plans, which include the manner by which to examine or update the dread disease definition.

Type of plan	Coverage description
	LTC insurance
LTC insurance (Caring for Tomorrow policies)	An insurance which provides the insureds compensation in case they become LTC-dependent under the definition set in the policy, and after the preset waiting period in the policy. In insurance plans marketed up until 2012, the monthly compensation was linked to the investment portfolio, as per the conditions set forth in the plan. Under certain conditions, in case of discontinuing the premium payment before the end of the insurance period, the insured is entitled to partial insurance coverage, according to the policy terms. In individual insurances this coverage is offered for life. For changes in LTC insurance, including the **Circular regarding the Principles for Signing LTC Insurance Plans**, see Clause 9.4.2 below.
	Personal accidents insurance
Personal accidents	A plan granting insureds with insurance benefits in respect of damages or expenses they incurred as a result of an accident. The coverage is multi-annual and is provided in the event of death, burns, fractures, LTC condition, hospitalization or disability, and medical expenses caused following an accident, and may also include coverage for temporary occupational disability. The insurance coverage is offered for a limited duration.
	Travel insurance
Travel insurance	The policy provides indemnification for expenses related to medical events that occurred abroad as well as indemnification in respect of third party damages and luggage.
	A plan marketed in the past
Healthy investment	A plan combining medical insurance for surgery and compensation in case of dread disease. In addition, as per the plan terms, the insured may be reimbursed with premiums if he has not claimed on the policy.

For details regarding results as per policy types in the area of health insurance – see Note 19 to the Financial Statements.

9.4 Key markets

9.4.1 General

As set forth above, health insurances are offered both as individual insurance and as collective insurance.

The key characteristics of collective insurance terms are: the terms of the collective insurance agreements are set in negotiations between the insurer and the entity representing the group. Usually, such agreements are signed for preset periods of time of several years, premiums are lower than premiums paid in similar individual policies, and sometimes the terms of the collective policy insurance coverage are wider than those of individual policies. When insureds leave the group, usually the insurer must offer them to continue in an individual policy as per the terms set forth in the legislative arrangements, and usually premiums are collected in one payment for the group's insureds.

9.4.2 Key changes in LTC insurance and in the market referring to this insurance

In LTC the following main changes are introduced:

(a) Regulation of the principles for signing LTC plans

The signing of LTC Insurance Plan Circular

In December 2012, the Commissioner published the Circular regarding the Writing of LTC Insurance Plan (which was updated in August 2013 and in December 2013).

This Circular regulates, inter alia, the principles for writing an individual and collective LTC insurance policy. Inter alia, it was decided that the insurance period in LTC insurance (both individual and collective policies) will be for the entire life of insureds (unlike the previous situation in collective policies, in which the insurance duration was limited), a standard and minimal definition of the insurance event in the case of LTC, setting the minimal entitlement level of insureds upon the occurrence of an insurance event, a prohibition on subsidizing between various age groups (beyond 5 years) and between genders, the premium shall be fixed or increased, (4% per year before CPI-linking, and it becomes fixed at the age of 65, at the latest), and provisions regarding disposal and surrender values in the policies if premium payment is discontinued.

The Circular's provisions regarding individual insurance will come into effect on January 1st, 2014 (they substitute the provisions of a previous Circular on this matter).

Regarding collective insurance - the Circular's provisions will come into effect on December 31st, 2014, and it was decided that as of the Circular's publication date (August 29th, 2013), it is no longer possible to market or renew collective policies not pursuant to the Circular's provisions, except for the renewal of existing policies up until December 31st, 2014.

Furthermore, it was determined that most of the Circular's provisions do not apply to the marketing or renewal of a collective policy for LTC insurance in which a health fund is the policy holder.

(b) Collective LTC insurance – outline for older insureds

In January 2013 the Commissioner published an outline for older insureds in collective LTC insurance (the population aged 60 and above), pursuant to which, in August 2013 Draft Regulations of the Supervision of Financial Services (Insurance) (Collective LTC Insurance for Older Insureds) – 2013, and a Circular regarding Collective Insurance for Older Insureds were published.

Pursuant to the proposed outline, insurers will offer such older insureds whose LTC insurance was discontinued, to renew the collective insurance in an outline policy ("**outline policy**") if they do not suffer from an LTC condition and they are insured under collective LTC insurance or were insured in such an insurance in the last three years ("**target population**"). Within the outline, there are timetables for extending an offer to join the outline. It was set that insureds from the target population of the policy holder who asked to join the outline policy shall be added to the outline policy and will be entitled to buy additional coverage ("**the additional coverage**"). Should policy holders decide not to join the outline policy, the members of the target population may shift to an individual policy pursuant to the terms of the Commissioner's Circular on this matter. The renewal of insurance under the outline policy shall be without examining previous medical condition and without a qualification period.

(c) The intention to create a homogenous LTC policy for all health funds

The **Draft Regulation of the Supervision of Financial Services (Insurance) (Collective LTC Insurance for health fund members) - 2013** (distributed in December 2013 to insurance companies) is pending. The Draft Regulations sets rules regarding collective LTC insurance sold to health fund members. The main issues in the proposal are that the insurance plan shall include identical minimal conditions for all insureds in the various health funds, the definition of the insurance event will be identical and the terms of exclusions will be identical, the insurance amounts will depend on the original age the members joined the original health fund's LTC insurance, insurance benefits in years 4 and 5 will be 75% of the amount to which they are entitled in the first years, the premium shall be set forth with a breakdown by ages by each health fund separately, with a weighting set forth by the Commissioner of Insurance in order to maintain the same gap in all age between the health funds. It is possible to join at any age (subject to examining previous medical condition), there is a prohibition on placing conditions regarding other products, the insurance amounts and premiums shall be linked to the CPI, there will be no qualification period and the waiting period shall be 60 days. The policy shall include a continuity clause to individual policies under predetermined conditions.

9.4.3 **The Company's estimate as to changes on this market**

In the area of LTC, the Company focuses on individual insurance, and its share in collective LTC is small. The Company, unlike competing insurance companies, does not have agreements with the health funds for collective LTC insurance. For the share of health funds' LTC insurances and the Company's share in collective insurance, see Clause 10 below.

The Company estimates that the proposed changes in LTC insurance in general, and in collective insurance in particular, may bring about changes in the expansion of the private LTC insurance market, and if the provisions regulating the terms of the homogenous policy for health fund members come into effect, this will expand the scope of sales in LTC insurance.

Since all the proposed arrangements regarding collective LTC, including those for health fund members, have not been completed yet, the Company is unable to estimate the implications of the changes described above on the Company.

Information in this paragraph with respect to the Company's estimations is future-forecasting information as per its definition in the Securities Law – 1968, is based on the proposed legislative arrangements, and it is still unknown whether the Commissioner shall take additional or supplementary measures. Furthermore, the aforesaid is based on assumptions and estimates regarding actions that will be taken by entities in the market, which might not be realized if the provisions are amended or updated or applied in a way that is different than that forecasted.

10. Competition

10.1 General

The main competitors in the area are divided into two main groups: insurance companies, most of them operate in the area, and health funds that offer some of the insurance coverages within the health services offered by them.

In the area there is harsh competition stemming, inter alia, from the large number of competitors and the similarity in products. Competition is even harsher in collective insurance. The relative share of collective insurance in the area has been increasing constantly. In collective insurance, the large number of consultants in the area, in light of the harsh competition, has brought about a significant decrease in prices, low profitability, and sometimes even losses.

The area of health insurance in Israel is concentrated and held mainly by the five large insurance companies, Harel Group, Clal Group, The Phoenix Group, Migdal Group and Menorah Group.

Collective insurance's share constituted approx. 50% of total premiums in the area in 2012[17]. The collective LTC insurance constituted about 28% of total premiums in the area, and most of it is attributed to LTC insurance for members of health funds.

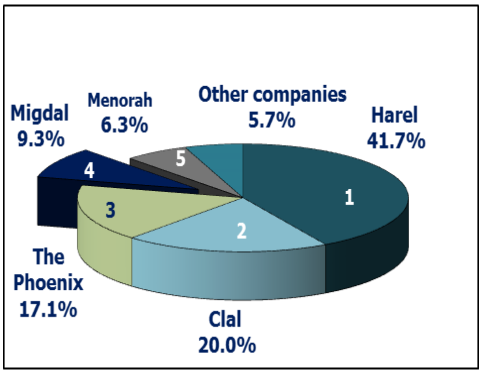
As set forth in Clause 9.4.3 above, the Company's share in the collective health insurance market is small, and the Company does not have agreements regarding LTC insurance with health funds.

10.2 Market data[18]

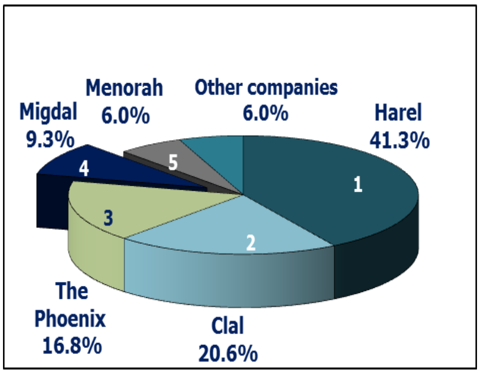
Presented below are market shares in individual insurance and in collective insurance in terms of premiums, in 2012:

Total health insurance business

For the period 1-9/2013

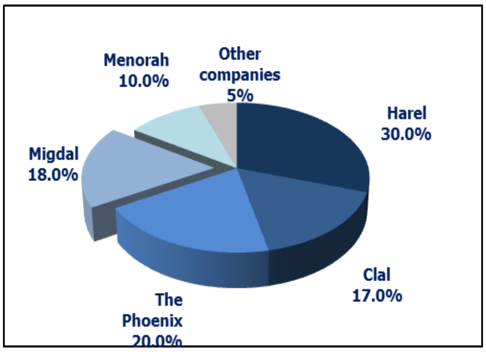


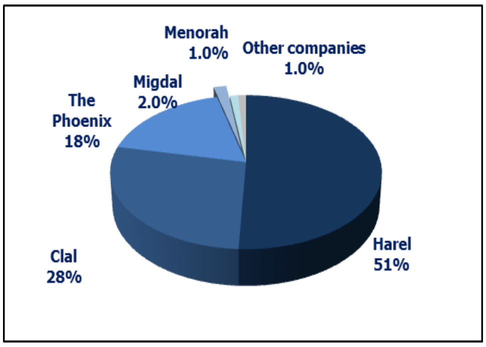
For the period 1-9/2012



[17] Based on the 2012 Report by the Capital Markets, Insurance & Savings Division. Excluding disability insurances, foreign workers, personal accidents and other.
[18] The market data are based on the processing of the Reports of the MoF published on its website ("**managerial reports**").

Individual insurance for 2012	Group insurance for 2012





10.3 **The Group's main methods for coping with the competition**

Promote the Group's brand name also in the area of health insurance and ancillary services, in addition to its brand name in the area of insurance.

Expand the array of products and services offered by the Group to other target populations, including putting an emphasis on innovation in the area of products, while making adjustments to meet the regulatory changes in the area.

Utilize the business potential embedded in companies owned by the Group, in order to expand services offered by the Group and expand distribution channels.

Expand Group activity also in the area of collective insurance, in which it did not focus up until now, with an emphasis on the business acceptance policy, expand the actuarial information basis, along with an efficient management of claims.

11. Customers

Presented below is a table showing the breakdown of customers in the area of health insurance by gross premiums in 2011-2013:

	2013		2012		2011	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Individual insurance	706	92	634	92	575	94
Collective insurance	64	8	58	8	40	6
Total	770	100	692	100	615	100

In individual LTC policies, the cancellation rate, in terms of premiums, as a percentage of policies in effect at the beginning of the year, equaled approx. 4.1% in the reported year, vs. approx. 4.9% in 2012 and about 4.5% in 2011.

In individual policies in other health insurance (not including LTC insurance and including the other sub-lines in the policies for a period exceeding one year), the cancellation rate, in terms of premiums, as a percentage of policies in effect at the beginning of the year, equaled approx. 8.3% in the reported year, vs. approx. 9.5% in 2012 and about 8.3% in 2011.

The Group does not have a single customer from whom revenues in the area constitute 10% or more of total premiums.

Area C – General Insurance

12. Key products and services

12.1 General

The area of general insurance includes all other insurance lines in which the Group engages, other than insurance lines included under the area of life assurance and long term savings and long term health insurance. The area includes the following sub-lines:

CMBI - focuses on coverage whose acquisition by car owners or drivers is mandatory under the Law (Motor Vehicle Insurance Ordinance (revised version) – 1970.

The casco area - focuses on coverage of property damages to the insured car and coverage of property damages that the vehicle might cause to a third party.

The area of other general insurance lines - includes other general insurance lines that are not vehicles (CMBI or property). It focuses mainly on property insurance and liability insurance, and is characterized by providing coverage for specific risks or "packages" for houses, businesses etc., which combine several insurance coverages, and also includes the health lines which provide short-term coverage, such as personal accidents.

For the expansion of the Group's activity in the area due to the absorption of new business in general insurance of Eliahu Insurance, and the Company's strategy for expanding its activity in the area, see Clause 12.4 below.

12.2 Description of key insurance coverages offered and their unique characteristics

Type of plan	Coverage description
Motorcar insurance	
CMBI	
Providing insurance coverage by virtue of the Motorcar Insurance Ordinance (New Version) - 1970 ("motorcar insurance ordinance")	The product is a policy that covers bodily injuries caused as a result of using a car, and its purchase is mandatory under the Motorcar Insurance Ordinance. The CMBI policy covers, according to the Motorcar Insurance Ordinance, the owner of the vehicle and the driver from any liability they may bear according to the Traffic Accident Casualty Compensation Law - 1975 ("**TACC**") due to bodily injury caused by the use of a motorcar to the driver, to the passengers, or to pedestrians hit by the vehicle. The policy is a standard policy that should be issued pursuant to the Supervision of Financial Services) (Insurance) (Conditions of Contract for Insurance of Vehicles) – 2010. The amount of insurance benefits in this area is unlimited (mainly the medical expenses component) except for certain damage categories such as “pain and suffering” whose amount is limited, and compensation in respect of salary loss, all as per the coverage restrictions set forth in the Traffic Accident Casualty Compensation Law. Amendments to the TACC Law and/or precedents regarding interpretation to this Law affect the scope of coverage. Usually, CMBI policies are issued for a period of one year. However, claims in this area are handled over a long period, which might take several years, due to the long time that elapses from the occurrence of the event and until the final settlement of the claim. The tariff principles are based on the instructions of the Commissioner of Insurance and as per these principles, the parameters / variables that may be used by insurers in order to determine the tariff and the procedures with which

Type of plan	Coverage description
	insurers must comply regarding the approval of insurance fees, including the maximum tariffs that may be charged by insurers[19], were set. The Group applies a differential tariff, based on some variables, selected by the Group as being the most appropriate in assessing risk and setting premium.
Casco	
Casco insurance includes coverage for property damages to the insured vehicle and property damages caused by the vehicle to a third party	Casco insurance is divided into two main groups according to the type of vehicle: • Insurance for private and commercial vehicles of up to 3.5 tons that grants insurance coverage as per the terms of the standard policy set forth in the Supervision of Insurance Business Regulations (Conditions of Contract for Insurance of a Private Vehicle) – 1986. ("casco regulations"). It is possible to add to the standard policy extensions as to the scope of coverage and covered risks (within riders). Various coverages are offered, such as windshields, road services and towing, alternative vehicle etc. The tariff is an actuarial differential tariff (not homogenous for all insureds, and adjusted to risk), and it is based on several parameters / variables, both related to the vehicle insured by the policy (such as make, model, etc.) and to the insured's characteristics (number of drivers, drivers' age, past claim record etc.). • Insurance for other types of vehicles such as trucks of over 3.5 tons, motorcycles, taxis, heavy equipment, buses, agricultural equipment etc. Insurance policies for these types of vehicles are not subject to the terms of the standard policy.
Other general insurance	
These are divided into property insurances and liability insurance.	
Property insurances	
Property insurances are aimed at providing insureds with coverage against physical damage to their property. The main risks covered in property policies are fire hazards, explosion, burglary, earthquake and natural disasters. Property insurances sometimes include coverage for consequential damage (loss of profit) due to physical damage caused to the property, and they are a layer in homeowners insurance, business insurance, engineering insurances, goods in transit (marine, terrestrial, aerial) etc. In most cases, the property insurance policies are issued for a period of one year. Also, in most cases, claims in respect of such policies are clarified a short time after the occurrence of the insurance event.	
Homeowners insurance	Homeowners insurance includes building insurance and content insurance, based on property insurances as described above plus liability insurances related to homes (third party liability and employers' liability in respect of housekeeping employees). The homeowners insurance policy is based on the terms set forth in the Supervision of Insurance Businesses (Conditions of Contract for Home Insurance and Content) Regulations – 1986. It is possible to add to the standard policy extensions as to the scope of insured coverage, risks, property and liability of the insured. The proposed coverages are water damages, repair of electric appliances, computers, emergency services, house calls by physicians etc. A draft **Supervision of Insurance Businesses (Conditions of Contract for Home Insurance and Content) Regulations (Amendment) – 1983** is pending, proposing to introduce amendments to the above-mentioned Regulations and to the standard policy. The underwriting of this product is based on a basic tariff (with some variance regarding parterres, villas and penthouses) through analyzing the specific risk. The Group also offers a "structure insurance for mortgage" policy, which is a policy covering the building only, whose main target is mortgage banks borrowers.
Business	Business insurance is property, buildings and content insurance, which are used

[19] In July 2013 the **Variables in the CMBI Line Circular** was published, updating the list of variables based on which insurance companies may set insurance tariffs for various vehicles. The Circular came into effect as of February 1st, 2014. In spite of the above, the Commissioner allowed insurers to integrate, as of July 2013, subject to her approval, some new variables as a basis for the tariff.

Type of plan	Coverage description
insurance	for business needs against fire risks and associated risks (risks coverage sold together with fire risks coverage, such as coverage for burglary, explosion and earthquake). This coverage is extendable to consequential damage coverage, namely loss of profits. This product is usually sold as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), aimed at combining into one policy all coverages needed for the business. The underwriting of this product is mostly based on the specific risk analysis and in large corporations insurance, on individual negotiations with the reinsurers.
Other property insurance	This framework includes diversified insurance coverages such as marine and aviation insurances (watercraft, aircraft, goods in transit), contractor work insurances, mechanical engineering equipment insurance, fidelity insurance and all risks insurance. The scope of activity in these insurance lines is non-material.
Personal accidents insurance	Personal accidents insurance compensates the insured in respect of any damage caused to him/her due to an accident. Coverage is granted against death or disability as a result of an accident, and may also include coverage for temporary occupational disability.
Liability insurance	
Liability insurances are aimed at covering an insured's liability, by law, in respect of damage he/she may inflict upon a third party. The liability insurance policies are usually issued for one year. However, the pace at which claims in this line progress is longer and may take several years, for several reasons: the damage covered in the policy is caused to a third party who is not the policyholder, the time elapsed between the occurrence of the event and the time of establishing the liability and damage and filing the claim, is relatively long. In many cases it involves a relatively complex factual and legal inquiry, both regarding the insured's liability and the scope of damage. The statute of limitation period in respect of the cause of claim is longer than the customary limitation period in property insurance. In some of the liability insurances (mainly third party and employers' liability), coverage is usually event-based, namely the coverage is for events that occurred during the insurance period and the claim can be filed after the end of the insurance period, subject to limitation.	
Insurance of liability towards a third party	The purpose of this product is to protect insureds from liability which they might bear, in respect of damage they caused, by negligence, to a third party. The coverage is adjusted to the insureds’ activity and the limit of liability in the policy is determined by the insureds, at their discretion, based on the risk level to which they are exposed, in their opinion. This product is sold both as an independent individual policy (third party liability coverage only), and as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), whose aim is to combine into one policy all coverages required for the business.
Employers' liability insurance	The purpose of this product is to protect employers from liability which they might bear, in respect of damage they caused, by negligence, to one of his employees, during and due to his work. Coverage in these policies is provided above the sums provided by the National Insurance Institute of Israel, which handles work accidents. The limit of liability in such policies is set by the insureds, as per their discretion, based on the risk level to which they might be exposed. This product is sold both as an independent individual policy (employers' liability coverage), and as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), whose aim is to combine into one policy all coverages required for the business.
Other liability insurances	These are insurance coverages for product liability, professional liability insurance, and D&O insurance.

12.3 **Special arrangements referring to the CMBI line**

12.3.1 **Residual insurance arrangement ("the Pool")**

Since on the one hand there is a duty imposed on vehicle owners to insure their vehicles pursuant to the CMBI Ordinance, but on the other hand, insurance companies may refuse to insure vehicles as per their discretion, vehicle owners who were rejected by insurance companies may acquire insurance via "the Pool" – the Israeli Vehicle Insurance Database, which is a corporation in which all the insurance companies are parties.

The Motorcar Insurance Regulations (Residual Insurance Arrangement and Mechanism for Setting the Tariff) - 2001 ("**the arrangement regulations**") regulate, inter alia, the establishment of this corporation, the way the corporation is managed, the share of each company in that insurance, the settlement of accounts of the co-insurance, including arrangements regarding setting residual insurance tariffs and the duty to sell insurance to anyone approaching the said corporation. All insurance companies operating in the area of CMBI participate in "the pool" and each bears the pool's losses or profits as per its relative share in the CMBI market, and as of January 2013, following an amendment to the Pool's Articles of Association, the share of companies participating in the Pool is set at the end of the current year, and not based on their share in the previous year. For the Group's share in the Pool's results see Note 5 in Clause 13.2 below.

12.3.2 **Karnit**

The Traffic Accident Casualty Compensation Fund – Karnit, is a corporation established following the TACC law, whose role is to compensate casualties who are entitled to such compensation by virtue of this law, and who cannot sue the insurance company for compensation due to one of the following events: the liable driver is unknown, the driver does not have CMBI or the insurance does not cover the liability, the insurer of the motorcar is in liquidation or was appointed an authorized manager.

Insurance companies must pay Karnit 1% of their insurance premiums without fees in respect of CMBI policies.

Furthermore, as from January 2010, insurance companies must transfer to Karnit another 9.4% of insurance premiums, less the amount transferred to Karnit, as collected by them in the preceding month in respect of all the CMBI policies they issued, since as from that date, the insurance liability for granting medical services due to bodily injuries to car accident victims was transferred from insurance companies to health funds.

12.3.3 **Subrogation right of the National Insurance Institute of Israel (NII)**

As per Clause 328 to the National Insurance Institute Law (combined version) – 1995, the NII has the right to claim from a third party to pay back annuities paid or that will be paid by the NII, if the case serves as a cause for charging a third party as per the Civil Wrongs Ordinance or the TAAC Law.

As of January 2014, an amendment to the arrangement included in Clause 328 to the National Insurance Institute Law as set forth above, regarding the duty to inform the NII by insurers whenever insurers deducted or were allowed to deduct from the compensation amount the amounts of annuity that the NII paid or would pay under the NII Law, and which the NII may claim from insurers, as set forth above, came into effect. The provisions also set forth the deadlines and the ways the reporting should be made. Whenever insurers did not inform the NII within the time set forth by the Law, the statute of limitation period of NII claims in respect of the subrogation right shall begin upon the reporting or when the NII was informed about the procedures in which insureds are entitled to compensation, the earlier of the two, provided no such claim is filed if 15 years have elapsed since the event that mandated the NII to pay the annuity[20].

12.3.4 "**Light heavy" clearance outline**

Under CMBI activity, the Insurance Companies Association operates a clearance system aimed at transferring payments automatically between motorcar insurers as per the TACC Law and the Compensation for Traffic Accident Casualty Order (Arrangements for the Distribution of the Burden of Compensation Between Insurers) – 2001. The parties in the clearing system are all the insurers and it applies to accidents in which the vehicles insured in the policies were involved.

From 2006, the authority of the outline manager was expanded, such that he/she also has arbitration authority for disputes regarding liability, both in the legal aspect and the factual aspect.

12.4 **Changes in the Group's share in the area**

12.4.1 Following the absorption of new business in general insurance of Eliahu Insurance as described in Clause 2.3.1 above, in the reported year the Group expanded its activity in this area, mainly in CMBI, property and homeowners insurance, and the Group's market share in the entire area increased from approx. 8.0% to about 11.3%, and in the CMBI line from 6.2% to 12.2%, see Clause 14.2 below.

12.4.2 For the Company's strategy for expanding its activity in the area of general insurance, see Clause 5 to the BoD Report.

13. Development of income in CMBI and liability lines[21]

13.1 **General**

The results presented in the following tables do not include most of the results attributed to the increase in new business as a result of the absorption of Eliahu Insurance's general insurance portfolio in Migdal, and these will be reflected in the Financial Statements of upcoming years, as per the accounting rules and legislative arrangements regarding the recognition of income in CMBI and liability lines.

For the legislative arrangements regarding the changes in the way reserves in general insurance are calculated, see Note 37b3c) (6) to the Financial Statements.

13.2 **CMBI line**

Presented below is the composition of income before tax in CMBI in 2011-2013 (in NIS million):

	Income in respect of open years (1)	Income in respect of underwriting year released in the reported year (2)	Adjustments in respect of the underwriting years released in previous years(3)	Activity not included in the calculation of reserves (4)	Total income for the period(5)
2013	11	26	98	(6)	129
2012	14	41	52	(3)	104
2011	5	23	33	(4)	57

[20] The Amendment to the NII Law was made by amending the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Objectives for 2013 and 2014 – 2013, approved in July 2013.

[21] The data in this Clause originates in Part B to Appendix B to Circular 2006-1-3 ("**Old Barnea Circular**"), which was replaced by the Commissioner's Circular mentioned in the Introduction to this Report. Pursuant to Insurance Circular 2014-1-2 Update of Instructions regarding the Structure of Required Disclosure in Financial Statements of Insurance Companies as per International Reporting Standards ("**FS Update Circular**"), this information shall be included in Note 17, starting from 2014 Financial Statements. The Group decided not to implement the provisions of the FS Update Circular in 2013.

(1) This column includes the actual investment income / (losses), while the accumulation was credited with 3% real annual yield. The relatively high income in 2012 was affected by the cover of losses from previous years (in respect of underwriting years 2010 and 2011).

(2) Underwriting years released in reported years 2013, 2012 and 2011 are 2010, 2009 and 2008, respectively. The decrease in income in 2013 vs. 2012 was affected by a decrease in underwriting income.

(3) Adjustments due to a change in actuarial valuation of outstanding claims and changes in investment income in respect of these reserves. The increase in adjustments in 2013 vs. 2012 was mainly affected by a continued improvement in the claims experience, which led to a decrease in the actuarial evaluation, for details see the Statement of general insurance actuary.

(4) Losses in respect of the activity excluded from the reserve calculation in 2011-2013 stem from expenses which, under the rules, cannot be charged to the accumulation, as well as from a systematic amortization of identifiable intangible assets that were recognized upon the absorption of new business in general insurance.

(5) The residual insurance losses ("**Pool**") reduced the income for the period in 2013 by approx. NIS 9 million, in 2012 by approx. NIS 8 million, and in 2011 by about NIS 20 million.

Presented below are aggregate financial data in CMBI for the underwriting years 2006-2013 (in NIS million):

	Open underwriting years			**Closed underwriting years**				
Underwriting year	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Gross premiums	541	268	256	256	308	325	297	320
Aggregate income (loss) in respect of the underwriting years	3	2	4	36	84	94	68	102
Excess of revenues over expenses (accumulation)	14	6	17	-	-	-	-	-
Investment income included in accumulation/aggregate income in respect of the underwriting year	17	23	36	52	91	100	91	101

The marked competition, as well as the tariff reductions significantly reduced the profitability embedded in this area. In addition, the volatility in income from investments substantially affects the development of income and accrual throughout the years.

The sum of the accumulation and aggregate income is lower in the open underwriting years vs. the aggregate income in the closed underwriting years, mainly due to the fact that 3% real annual yield in the open years has not been accrued yet, and investment income has not been accrued yet, which are a key factor in the long-term lines' profitability. Another reason that may account for the decline is the price reduction during the period due to competition in this line. It should be noted that the reserves in the CMBI line are not discounted – see Note 37b1a2 to the Financial Statements.

13.3 Liability lines

Presented below is the composition of income for the period before tax in liability lines in 2011-2013 (in NIS million):

	Income (loss) in respect of open years [1]	Income (loss) in respect of underwriting year released in the reported year [2]	Adjustments in respect of the underwriting years released in previous years[3]	Activity not included in the calculation of reserves [4]	Total income for the period
2013	(3)	-	(17)	(10)	(30)
2012	8	2	8	(5)	13
2011	(4)	(5)	(15)	(4)	(28)

(1) This column includes the actual investment income / (losses), while the accumulation was credited with 3% real annual yield. In 2013 and 2011 a loss in respect of open years was recognized, while in 2012 the results included the cover of losses in respect of previous years.

(2) Underwriting years released in reported years 2013, 2012 and 2011 are 2010, 2009 and 2008, respectively.

(3) Adjustments due to a change in actuarial valuation of outstanding claims and changes in investment income in respect of these reserves. The loss in 2013 is due to the continued upwards trend in the claims experience, which led to an increase in the actuarial valuation in third party and employers' liability lines, for details see the Statement of general insurance actuary. Income in 2012 was affected by an increase in investment income, which was partly offset by the update of the actuarial valuation, and the loss in 2011 was affected by the update of the actuarial valuation of outstanding claims in respect of old years.

(4) Losses in respect of the activity excluded from the reserve calculation stem from expenses which, under the rules, cannot be charged to the accumulation.

Presented below are aggregate financial data in liability insurance for underwriting years 2006-2013 (in NIS million):

	Open underwriting years			Closed underwriting years				
Underwriting years	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Gross premiums	278	242	269	267	254	249	256	243
Aggregate income (loss) in respect of the underwriting years	(7)	(5)	(5)	3	17	3	5	28
Excess of revenues over expenses (accumulation)	11	6	3	0	-	-	-	-
Investment income included in accumulation/aggregate income in respect of the underwriting year	7	15	24	32	48	51	55	52

The sum of the accumulation and aggregate income is lower in the open underwriting years vs. the aggregate income in the closed underwriting years, due, inter alia, to the fact that 3% real annual yield in the open years has not been accrued yet, and investment income has not been accrued yet, which are a key factor in the long-term lines' profitability. Another reason that may account for the decline is the increase in the actuarial valuations of outstanding claims.

It should be noted that the reserves in the liability lines are not discounted – see Note 37b1a2 to the Financial Statements.

For additional explanations see also Clause 3.6.2 to the BoD Report.

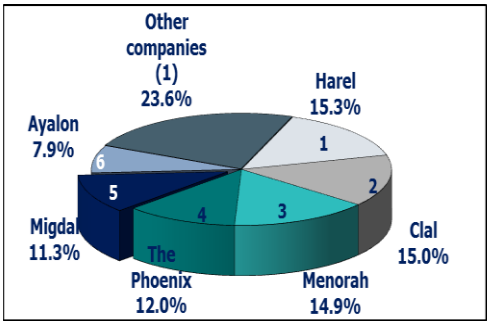
14. Competition

14.1 The area of general insurance is characterized by harsh competition, which focuses on tariffs and service.

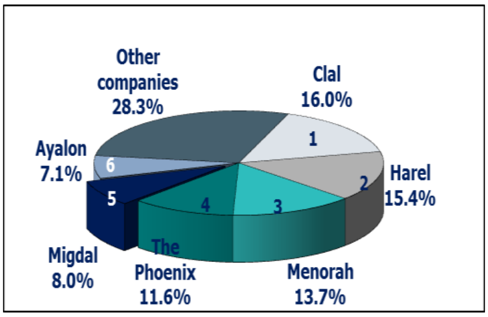
14.2 **Market data in terms of gross premiums**[22]

The entire area of general insurance in Israel

For the period 1-9/2013

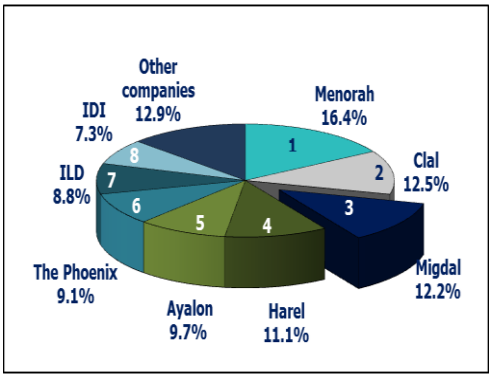


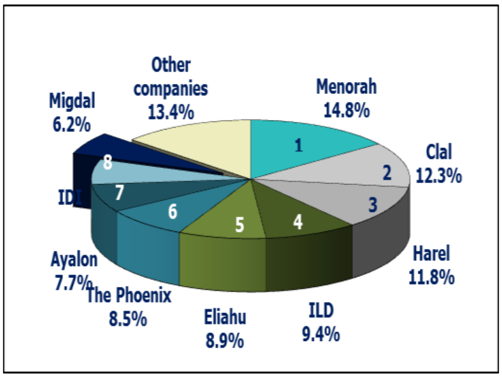
For the period 1-9/2012



(1) Including Eliahu Insurance's market share, totaling approx. 4.6%.

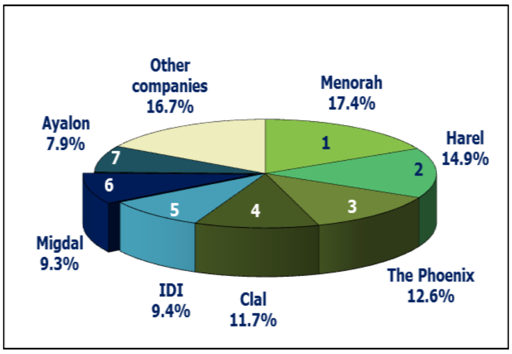
CMBI

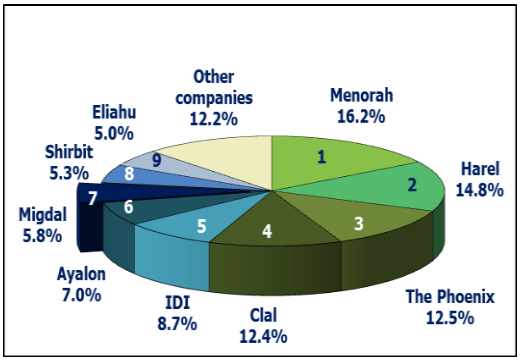




The share of all direct insurance companies in this period equaled approx. 10.1% of total gross premiums in the line, vs. approx. 9.2% in the same period in 2012.

Casco



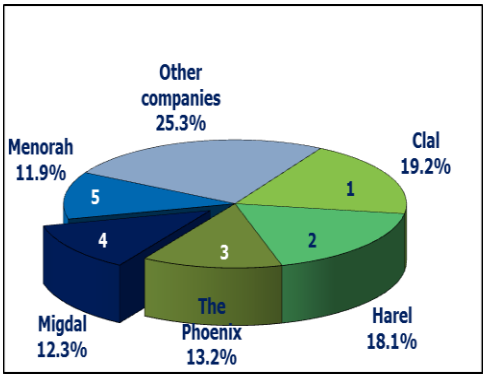


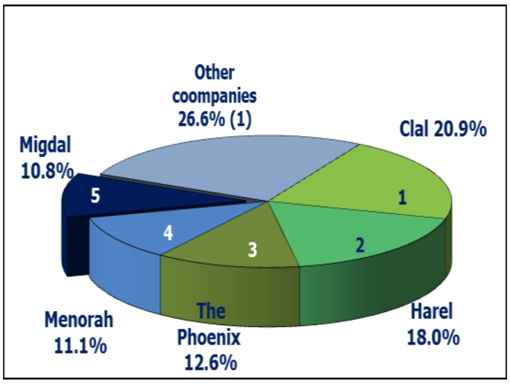
The share of all direct insurance companies in this period equaled approx. 12.9% of total gross premiums in the line, vs. approx. 11.9% in the same period in 2012.

[22] The data brought in this Clause are based on the processing of the MoF Reports published on the MoF's website ("**Managerial reports**") unless specified otherwise.

Other general insurance lines

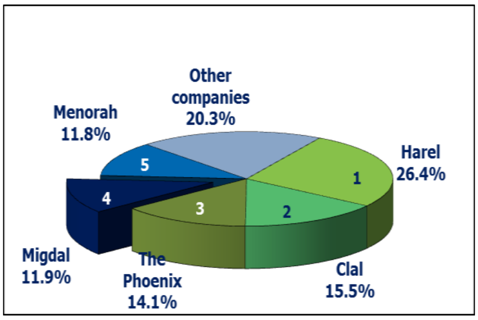
For the period 1-9/2013	For the period 1-9/2012

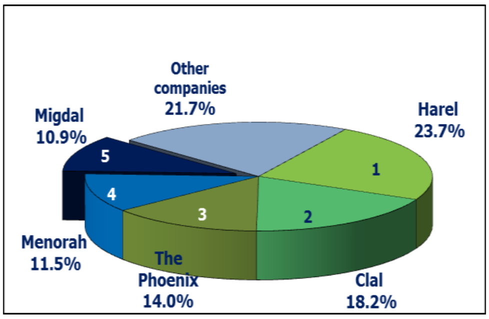




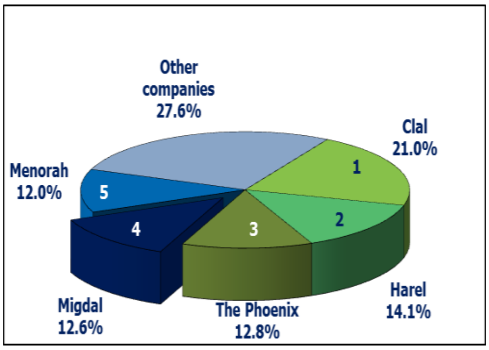
Including Eliahu Insurance's market share, totaling approx. 1.6%.

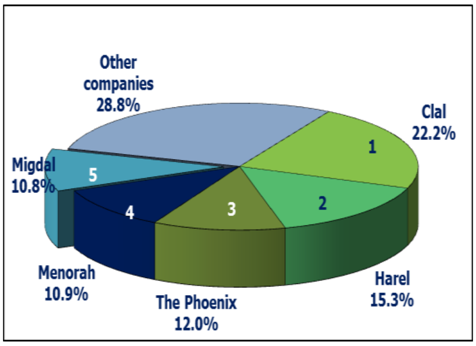
Liability lines (excluding CMBI)





Property lines (excluding casco)





14.2.2 In 2013 there was a significant increase in gross premiums in the area's lines, affected mainly by the absorption of new business in general insurance of Eliahu Insurance in Migdal, which brought about an increase mainly in CMBI, casco and homeowners insurances. In other property lines (excluding motorcar), the increase in premiums was also affected by a change caused by a change in insurance periods in some large businesses. On the other hand, the discontinuation of activity in several collective insurances and the erosion of tariffs in CMBI, as well as the tariff update and the composition of coverage in homeowners insurance, reduced the above-mentioned increase in the amount of premiums.

14.3 **The Group's main methods for coping with the competition**

The Company deals with the competition in several ways:

Increasing market share following the absorption of new business in general insurance of Eliahu Insurance.

Managing tariff and risks – the Group manages the tariff in individual insurance in a way that allows it to cope with customers' segments in which it is interested, along with analyzing the information accumulated in the area, which allows it to respond to changes in the market.

In addition, the Company takes the following measures: improving service to customers and agents, operational streamlining and integrating advanced computerization systems, including developing various digital tools.

15. Customers

15.1 **Breakdown of activity in the area of general insurance**

Presented below are details about the breakdown of activity in the area of general insurance, by gross premiums, in 2011-2013 (in NIS million):

	2013		2012		2011	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Individual insureds and small business customers	1,513	75	972	69	938	65
Collective insurance and big businesses(1)	509	25	434	31	508	35
Total	2,022	100	1,406	100	1,446	100

(1) Including vehicle fleets and companies engaging in motor vehicles.

The increase in the share of individual insureds and small business customers is mainly due to the absorption of Eliahu Insurance's new business in Migdal.

15.2 **Customers' seniority and persistency**

15.2.1 **General**

Renewal rates in 2013 detailed in this Clause refer to policies in force in Migdal Insurance before the absorption of the new business in general insurance of Eliahu Insurance in Migdal. The new policies that were absorbed as set forth above, in the data referring to the breakdown of customers by seniority, are presented in "First insurance year (no seniority)".

15.2.2 **CMBI**

In 2013, the renewal rate in the CMBI line, in terms of premiums to policies in force in the previous year, equaled approx. 58%, vs. a renewal rate of about 67% in 2012 and about 70% in 2011. The decrease in renewal rate in 2013 is mainly due to the discontinuation of insurance in several collective insurances.

Presented below are details of the breakdown of customers by seniority in CMBI, in terms of premium turnover, in 2011-2013:

Number of underwriting years (seniority years)	2013	2012	2011
First insurance year (no seniority)	73%	39%	41%
Second insurance year (one seniority year)	9%	22%	18%
Third insurance year (two seniority years)	6%	12%	12%
Over three seniority years	12%	27%	29%
Total	100%	100%	100%

In 2013 the segment of customers that is common to the CMBI and casco lines is approx. 48% of premiums in CMBI, vs. about 59% in 2012 and about 62% in 2011 (the data refer to 2012 and 2011 refer to policies in force in Migdal Insurance only).

15.2.3 **Casco**

In 2013, the renewal rate in the casco line, in terms of premiums of policies in force in the previous year, equaled approx. 70%, similar to 2012, and about 72% in 2011.

Presented below are details of the breakdown of customers by seniority in casco, in terms of premium turnover, in 2011-2013:

Number of underwriting years (seniority years)	2013	2012	2011
First insurance year (no seniority)	59%	29%	34%
Second insurance year (one seniority year)	12%	22%	18%
Third insurance year (two seniority years)	9%	14%	12%
Over three seniority years	20%	35%	36%
Total	100%	100%	100%

In 2013 the segment of customers that is common to the casco and CMBI lines is approx. 75% of premiums in casco, vs. about 79% in 2012 and about 76% in 2011 (the data refer to 2012 and 2011 refer to policies in force in Migdal Insurance only).

15.2.4 **Homeowners insurance**

In 2013, the renewal rate in the homeowners insurance[23] line in terms of premiums of policies in force in the previous year, equaled approx. 86%, vs. about 96% in 2011-2012. The decrease in the renewal rate in 2013 was mainly affected by an update in tariffs and the composition of coverages.

Presented below are details of the breakdown of customers' seniority in homeowners insurance[24], in terms of premium turnover, in 2011-2013:

[23] Does not include insurance for mortgage banks borrowers, which is under collective insurance in run-off.
[24] Idem.

Number of underwriting years (seniority years)	2013	2012	2011
First insurance year (no seniority)	27%	15%	18%
Second insurance year (one seniority year)	10%	14%	11%
Third insurance year (two seniority years)	10%	10%	8%
Over three seniority years	53%	61%	63%
Total	100%	100%	100%

Area D – The Area of Financial Services

16. Financial information in the area of financial services[25]

	2013	2012	2011
Total revenues			
From external sources	196	198	231
From other areas of activity	5	11	5
Total revenues	**201**	**209**	**236**
Costs that do not constitute revenues from areas of activity	201	191	219
Costs that constitute revenues from areas of activity	4	7	(2)
Total costs	**205**	**198**	**217**
Out of which: expenses in respect of original difference amortization	1	1	2
Income (loss) for the period before tax	**(4)**	**11**	**19**
Comprehensive income (loss) for the period before tax	**(3)**	**11**	**20**
Total assets in balance sheet	**883**	**727**	**736**

Presented below are details of development in revenues of different segments comprising the financial services area between 2011-2013 (NIS million):

	2013	2012	2011
Revenues from old mutual funds management fees	144	143	166
Revenues from brokerage services (commissions)	37	40	51
Other revenues	4	5	5
Income/losses from securities and finance expenses (net)	16	21	14
Total revenues of the area	201	209	236

For explanations regarding the revenues and income in the area of financial services, see Clause 3.7 to the BoD Report.

17. General information about the area of financial services

17.1 **General**

The Group's activity in the financial services area is performed by Migdal Capital Markets (1965) Ltd. ("**Migdal Capital Markets**") and its subsidiaries ("**Capital Markets Group**"). Migdal Capital Markets was established in 1965 and was acquired by the Group in 2001.

[25] The information in this Clause is information which, pursuant to the Securities Regulations, appears in Part B to the Corporation Businesses Description. Since this Report is prepared as per the Commissioner's Circular mentioned in the introduction to this Chapter, this information appears in the beginning of the area's description. Data regarding revenues, expenses and income before tax include the results of activity of financial services performed under Migdal Capital Markets, as well as the activity of Arxcis Global Wealth Management Ltd., held by Migdal Management and other revenues / expenses.

The Capital Markets Group engages in providing various services in the financial area, especially financial asset management services (mutual funds management, portfolio management and hedge fund management) and investment marketing[26] (marketing structured products and hedge funds), execution services in the Stock Exchange and in regulated markets (brokerage), underwriting and investment banking. Furthermore, Capital Markets Group engages in managing various professional educational courses on the capital market, including preparation courses for the professional exams of the MoF and the ISA, via a subsidiary.

17.2 **The area of activity structure and its changes**

17.2.1 **General**

The financial services area is highly affected by the local and global capital market condition. The area is characterized by high volatility as a result of political and economic events both in Israel and abroad, affecting the securities rates in the Stock Exchanges and regulated markets. The financial services area is characterized by high regulation, and is affected by decisions taken by the various regulators in the capital market, including the Israel Securities Authority (ISA), the Tel Aviv Stock Exchange Ltd. ("**the Stock Exchange**"), the Bank of Israel etc. There is harsh competition in the line of financial services, both on the part of various banking corporations (brokerage activity) and non-banking entities (all of the line's activities).

17.2.2 **The activity of financial asset management and investments marketing in the Group** – includes mutual funds management (including mutual tracking funds, that are a passive/index-tracking means for investment management), investment portfolio management and investments marketing and management of hedge funds. The activity is performed through the following companies – Migdal Trust Funds Ltd. ("**Migdal Funds**"), Migdal Investment Portfolio Management (1998) Ltd. ("**Migdal Portfolio Management**"), Dragon Hedge Funds Management Ltd.[27] ("**Dragon**") and MGTF Hedge Funds Management Ltd. ("**MGTF**"), all companies in the Migdal Capital Markets Group[28].

17.2.3 **The brokerage activity in Capital Markets Group** – this activity is mainly rendering execution services in stock and derivatives in TASE and in Stock Exchanges and regulated markets overseas. This activity is performed by Migdal Stock Exchange Services (N.E.) Ltd. ("**Migdal Stock Exchange Services**"), which is a member of the Stock Exchange and the Stock Exchange clearinghouse.

17.2.4 **Other activity –** within Capital Markets Group, there are several small activities that are non-material as of now, therefore the reporting in their respect in this Report is limited. Inter alia, underwriting and investment banking activity that is performed via Migdal Underwriting and Business Initiatives Ltd. ("**Migdal Underwriting**"), the activity of extending professional courses on the capital market via Migdal Capital Markets – Finance Academy Ltd., Family Office[29] activity, carried out via Arxcis Global Wealth

[26] The "investments marketing" service is equivalent to the term "investments advising" service, but the service provider is affiliated or related to institutional entities. Since institutional entities operate within Capital Markets Group, Capital Markets Group renders "investments marketing" services, instead of "investments advising" services.

[27] In its previous name: Tau Hedge Funds Management Ltd.

[28] MCM holds, directly and indirectly, 100% of Migdal Funds',Migdal Portfolio Management's and MGTF's share capital, and approx. 71% of Dragon's share capital.

[29] Assistance in selecting investment managers, including for hedge funds and other private investment funds, setting asset allocation for every investment manager, supervising the composition of the portfolio managed by various investment managers, follow up on the customers' expenses and concentrating the customers' financial information in one place, etc.

Management Ltd., which is not part of the Migdal Capital Markets Group[30] ("**Arxcis**"), and Nostro money management activity, performed via Migdal L.B. Ltd.

17.3 **Limits, legislation, standardization and special restrictions applying to the area of activity**

See Clause 26 below.

17.4 **Developments in the macro-economic environment and their implications on the area of activity**

17.4.1 **General**

For developments in the economy and on capital markets, see Clause 4.1 to the BoD Report.

17.4.2 **Area of asset management and investments marketing[31]**

The line of asset management is divided into 2 ways of management - traditional investment management (also called active management) and indices-tracking management (also called passive management). In 2013 there was a significant increase in the volumes of activity in the mutual funds line and the indices products line:

	Traditional management / "active management" (in NIS billion)		Index-tracking management / "Passive management" (in NIS billion)	
	Traditional funds	**Money market funds[32]**	**Tracking funds**	**Indices products**
2013	155.0	61.1	14.7	101.3
2012	125.6	34.8	9.4	68.9
2011	106.2	33.2	2.9	56
% change in 2013 vs. 2012	About 23.4%	About 75.5%	About 56.4%	About 47%

As you can see from the data above, the trends that characterized 2013 are as follows:

<u>The competition between tracking funds and indices products</u> - in 2013 investment houses continued to deploy towards the passive market regulation reform, as a result of which, the tracking funds will become ETFs and will be better able to compete with index products, such that now investment houses managing index products (basically, all large investment houses) also manage tracking funds. It should be noted that as long as the reform is not in effect, management fees are hardly collected in the tracking funds industry, and in 2013 only about 6% of total tracking funds' assets in Israel produced management fees. However, in tracking funds, fund managers do not absorb distribution commissions, since, as of the date of this Report, unlike other mutual funds, there is no distribution commission paid by the fund managers to the banks in tracking funds, but acquisition and selling commissions which are paid directly by the customers to banks.

[30] Arxcis is owned by Migdal Management. Since the activity of Arxcis company focuses on extending investment management services via portfolio managers, Arxcis' activity is included within the financial services activity in this area.

[31] Data referring to the mutual funds line are based on Bizportal system data for 2012 and the data referring to ETNs are based on the TASE monthly review for December 2012. Regarding the portfolio management line, since there are no official data regarding this line, the Company is unable to refer to developments in this line.

[32] Money market funds in NIS.

Increased competition - the increased competition continued to be characterized by the fact that investment houses continued to collect "negative management fees" in certain traditional funds managed by them, i.e. management fees that are lower than the distribution commissions paid in respect of the funds. As of the end of 2013, in respect of approx. 13.3% of the mutual funds line's assets either no management fees are collected at all, or management fees collected are less than or equal to the distribution commission.

17.4.3 A change in the public's preferences – in 2013 the public's transition to funds with a low risk profile has continued, as part of the change in the public's preferences that increased asset risk towards the end of the year, in light of the positive trend on domestic and global Stock Exchanges. This trend was reflected in money raisings by traditional funds and tracking funds.

17.4.4 **Brokerage services line of business**[33]

The volume of brokerage activity is affected by the trade turnover on the Stock Exchange and the volatility in the capital market. On the TASE, 2013 was characterized by price increases, after the increases recorded in 2012, however, there was only a slight increase in trade turnovers, mainly in 2H13. Starting from 2009 a trend of erosion in the profitability of the brokerage services extended by TASE members who are not banks, including Migdal Stock Exchange Services, began, due to regulatory changes and several other events. The regulatory changes include the coming into effect of the Joint Investments Trust Law (Amendment No. 14) – 2010, and the coming into effect of the Control of Financial Services (Provident Funds) (Acquisition and sale of Securities) – 2009 Regulations.

Most of the events that caused an erosion of profitability in the line are the increased competition by banks in the area of trading services (the banks offer low commissions on trading services, thus there is an aggressive price war vis-à-vis TASE members who are not banks), and the sharp reductions in trade turnovers in Israel and worldwide. In light of the above, in recent years there have been mergers and acquisitions of several investment houses in the line, including the merger of Meitav and Dash, the sale of Harel's TASE membership, the sale of Clal Finance Investment House's activity to Jerusalem Bank (brokerage activity) and to Harel (other activities).

Equity market

In 2013 the average daily volume (on the TASE and outside the Stock Exchange) totaled approx. NIS 1.2 billion, a 10% increase compared with the average daily volume in 2012. The average daily volume remained stable up until August 2013, at about NIS 1 billion, similar to the average trade turnover in 2012. In 2013's last trimester, trade turnovers increased gradually to approx. NIS 1.4 billion on average per day, the highest volume for over two years.

The bond market

On the bond market, average daily trade turnovers (on the TASE and off Stock Exchange) increased, reaching NIS 4.3 billion, exceeding that of 2012 by approx. 6%, and slightly lower than the record trade turnover witnessed in 2008. The increase in volumes this year was due to an increase of approx. 13% in the trade turnover in NIS government bonds, which reached a record of approx. NIS 3.4 billion in June 2013, and its annual average was approx. NIS 2.2 billion vs. approx. NIS 2 billion per day in the last two years. The average daily trade turnover in corporate bonds increased by approx. 4%.

In 2013 the average daily trade turnover in short term loans (on the TASE and off Stock Exchange) totaled approx. NIS 0.6 billion, lower by approx. 9% compared with the previous year's trading.

[33] The data are based on the annual review of the Stock Exchange for 2013.

Derivatives market

In 2013 the trade in options on TA-25 index was characterized by lower volumes, unlike trading in the base asset (shares). In 2013 approx. 199 thousand units were traded per day, vs. approx. 234 thousand units in 2012.

Trade turnovers in index products

By the end of 2013, 530 ETNs were traded, including 25 currency ETNs, and the value of the public's holdings in them reached a record of approx. NIS 111.5 billion by the end of November 2013, following an increase of about NIS 40 billion in 2013. The average daily trade turnover in ETNs on share indices (domestic and international) increased in 2013 and totaled (on the TASE and off Stock Exchange) approx. NIS 275 million, exceeding 2012 turnover by about 27%. This turnover constituted approx. 23% of the total trade turnovers in shares, vs. 20% in 2012. This year about 80 new ETNs were issued, and at the same time 13 ETNs were delisted (out of which 7 ETN short funds expired).

17.4.5 **Underwriting and investment banking line of business**[34]

In 2013 the total issuances of shares, private allotments of shares and the exercise of options amounted to approx. NIS 6.1 billion, vs. approx. NIS 3.4 billion in 2012 and about NIS 5.5 billion in 2011. In 2013 there was a small number of IPOs, in the amount of approx. NIS 320 million. About NIS 36 billion were raised in issuances of companies' bonds, vs. approx. NIS 39 billion in 2012. About NIS 7.5 billion of this sum was raised by private issues of bonds.

17.5 **Changes in the volume of activity of Capital Markets Group and in its income**

The revenues in the area of financial services mainly stem from management fees that are calculated as a rate of the volume of managed assets, from commissions in respect of brokerage services, underwriting and distribution commissions and gains/losses of independent investments (Nostro).

The volume of managed assets

Presented below are details of the volume of assets managed by Capital Markets Group (in NIS million), for unrelated parties, with a breakdown between mutual funds, portfolio management and hedge funds, in 2011-2013:

	2013	2012	2011
Portfolio management (1)	5,703	5,110	4,258
Mutual funds (2)	24,530	18,712	15,350
Hedge funds (3)	49	111	115
Total	30,282	23,933	19,723

(1) The data refer to the volume of assets managed within the portfolio management line, net (excluding assets managed by portfolio management and held by mutual funds managed by Capital Markets Group, and excluding the asset management of mutual funds, provident funds and educational funds managed by Capital Markets Group and/or the Group). As of June 30th, 2013, Capital Markets Group extends investment management services to some of Migdal Makefet's provident funds (mainly those previously managed by Migdal Platinum).

(2) Out of which about NIS76.2 million were managed by external portfolio managers, who do not belong to Capital Markets Group, as of the end of 2013, vs. about NIS 62.1 million as of the end of 2012 and approx. NIS 104 million as of the end of 2011.

(3) In addition to the asset management as set forth above, Capital Markets Group extended investment marketing services for hedge funds to various customers, and the volume of their assets for these services total about NIS 4.7 million as of the end of 2013.

[34] The data are based on the annual review of the Stock Exchange for 2013.

17.6 **Developments in the markets of the area of activity and changes in its customers' characteristics**

For changes in the market share of players in the mutual funds line – see Clause 22 below. Due to the lack of official sources, Capital Markets Group has no information about the share of non-banking entities in the portfolio management line, brokerage and primary dealership, and underwriting and investment banking line[35].

17.7 **Alternatives to the financial services area's products and changes they are undergoing**

Portfolio management and mutual funds

The main alternative to the asset management services provided by the financial services area is asset self-management, whereby the customers decide how to manage their assets, usually through consulting bank investment advisors. The banking system saving plans and deposits serve as some alternative to asset management services. Direct acquisition of securities and acquisition of ETNs on various indices (including on indices of securities overseas), constitute an alternative to mutual funds in general, and to tracking funds in particular. Until now, Capital Markets Group has not issued such ETNs, but at the beginning of 2008 it started managing tracking funds, which are an alternative product to ETNs, and as of the end of 2013, it manages 32 tracking funds on various indices. Some of the structured products marketed in Israel are alternative products to mutual funds, or to investment in securities and other financial derivatives. Capital Markets Group engages in marketing structured products, issued by third parties.

In addition to the above, there is certain substitution among some of the area's various products. Customers may purchase asset management services in the capital market both by receiving portfolio management services (tailor made services), and by acquiring units in mutual funds, such that mutual funds constitute some kind of alternative to the investment portfolio management services.

17.8 **The structure of competition in the financial services area and changes it is undergoing**

The financial services area is characterized by harsh competition, inter alia due to the fact that the market is relatively small, and the number of competitors is large. In 2013, the trend of investment houses consolidation continued, decreasing the number of competitors in the various lines in the capital markets, inter alia because the fixed expenses increase constantly due to regulatory requirements in the various lines, and because of the erosion in management fees. For additional details see Clause 26 below.

18. The area’s main products and services

Following are the main services provided by Capital Markets Group:

Mutual funds management – in this framework, as of December 31st, 2013, Capital Markets Group manages 159 mutual funds, differing in their investments policy or their tax status. Mutual funds enable investments in multiple and varied basic assets, while maintaining high liquidity. The mutual funds management activity is characterized by the distance between the customers and the funds manager, since most of the public's investments in mutual funds are made through the banks.

Some of the mutual funds are managed via the investment management of a non-related external investment manager, who manages the investment portfolio of these funds in return for a portion of the management fees in their respect.

[35] The entities active in the financial services area are divided into two categories: banking and non-banking entities. Following the implementation of the Bachar Legislation, the banks, except U-Bank, ceased operating in the mutual funds management line.

Presented below are additional details on mutual funds managed by Capital Markets Group, not via the investment management of a non-related external investment manager, as of December 31st, 2013 (in NIS millions)[36]:

Categories	Amount of assets of Migdal Capital Markets Group funds	Amount of assets in the sector by category	Average management fees in Capital Markets Group's funds	Average management fees in the sector by category (in %)
Bonds in Israel - general	4,139.2	48,646	1.06%	0.95%
Bonds in Israel - Forex	33.5	298.6	1.37%	1.38%
Bonds in Israel - companies and convertible	1,633.9	29,123.1	1.16%	0.98%
Bonds in Israel - State	2,123.2	28,970.8	0.95%	0.85%
Bonds in Israel - NIS	2,974.2	27,674.7	0.56%	0.6%
Overseas bonds	50.8	3,582.1	0.84%	1.03%
Fund of funds	10.7	1,644.6	0.39%	0.97%
Flexible	13.4	1,657.8	2.70%	1.87%
Overseas - general	-	18.2	-	0.40%
Money market - USD	237	1,649.2	0.13%	0.27%
Money market - NIS	3,956.4	59,430	0.12%	0.14%
Leveraged and strategic	374.5	1,026	2.77%	2.45%
Shares in Israel	167.5	7,471	2.23%	2.19%
Shares abroad	432	4,867	1.65%	1.99%
Foreign residents	-	62.6	-	2.36%
Bond tracking	7,492	13,384.3	0.00%	0.03%
Share tracking	815.8	1,276.7	0.03%	0.02%
Total in 2013	24,454.1[37]	230,782.7	0.52%	0.71%
Total in 2012	18,650	169,771	0.63%	0.80%
Total in 2011	15,247	142,303	0.77%	0.90%

The assets in these mutual funds include tracking funds, whose assets totaled about NIS 8,307 million as of December 31st, 2013, vs. NIS 4,731 million as of December 31st, 2012, and NIS 1,129 million as of December 31st, 2011, and as of December 31st, 2013, they constituted about 33.97% of total assets of mutual funds managed by Migdal Funds (excluding funds whose investments are managed by unrelated external investment managers), vs. approx. 25.37% as of December 31st, 2012 and approx. 7.41% as of December 31st, 2011. It should be noted that Migdal Funds did not collect management fees in tracking funds in the reported period.

The amount of investments in tracking funds, which is significant for Capital Markets Group, and which is increasing, is due to a long-term strategic outlook, under the reform in the area of passive management creates an opportunity for Migdal funds to enter the market of passive products, which currently include ETNs traded on a daily basis and tracking funds traded once a day, and which after the reform shall also be traded on a daily basis as ETNs.

Investment portfolios management and investment marketing – in this framework the customers' assets are managed, or they are provided with investment marketing services, according to the investments policy agreed upon vis-à-vis the customers and customized to their needs, and pursuant to the provisions of the Investment Advice, Investment Marketing and Investment Portfolio Management Law (hereinafter: "Regulation of Investment Law") and the regulations thereof. The portfolio management and investment marketing activity is characterized by direct and personal contact with customers, who are

[36] As per Bizportal system data for December 31st, 2013.
[37] Also, Capital Markets Group manages mutual funds together with non-related external investment managers, whose scope of assets as of December 31st, 2013 totaled approx. NIS 76 million, see details in Note (2) to Clause 17.5 above.

mainly customers holding assets that exceed a certain minimum.

Brokerage services - in this framework there are transaction execution services (inside and outside the Stock Exchange) in securities and financial derivatives, traded in the Stock Exchange and in stock exchanges and regulated markets abroad, as well as custodian services for securities and financial derivatives. Sometimes credit is provided to customers for acquiring securities and making transactions in financial derivatives. Brokerage services are provided to customers, who open an account for this purpose with Migdal Stock Exchange Services, through different ways: operating transaction rooms and trading rooms, providing e-trading platforms to customers to trade in the TASE and stock exchanges overseas, or providing online trading systems allowing direct access (FMR system). In order to provide brokerage services abroad, Migdal Stock Exchange Services has accounts with several foreign brokers. Migdal Stock Exchange Services also provides centralized services in issues and in offers for acquisition and sale. Some of the customers (usually institutional entities) receive transaction execution services only, while custodian services are provided to these customers by banks / other TASE members.

Capital Market Groups examines and operates on an ongoing basis towards developing and issuing / distributing new financial products, and adjusts its products and services to the needs of its customers and to market conditions.

19. Revenues and profitability breakdown of products and services

The financial services area does not include a group of products, whose revenues constitute 10% or more of the Group's total revenues.

20. Customers

Some of Capital Market Group's customers receive only portfolio management services and investment marketing services from Capital Markets Group, some of them receive only brokerage services (whether as independent customers, or as customers of portfolio managers [whether or not from Capital Markets Group] who manage the investments in the customer's account), some of them receive only investment marketing services for hedge funds, and some of them receive various services simultaneously. It should be noted that eligible customers usually receive only execution services from the brokerage services line, and securities and financial assets custodian services are provided to these customers by banks.

Customers of the portfolio management and investment marketing line and of the brokerage services and primary dealership line - Capital Markets Group has a large number of scattered customers, divided into three main groups:

20.1 **Private customers** – usually households whose scope of asset portfolio is relatively small. These customers do not include eligible customers as defined in the Regulation of Investment Law.

20.2 **Eligible customers** - customers meeting the detailed criteria in the annex to the the Regulation of Investment Law (mainly educational funds, provident funds, pension funds, insurance companies, local municipalities, public companies etc., whose shareholders' capital exceeds NIS 50 million; and private customers meeting the criteria of the Regulation of Investment Law for this matter). The asset portfolios of these customers is usually relatively large, but on the other hand the level of management fees is competitive, since sometimes the engagement with them is the result of winning a competitive procedure.

20.3 **Other external corporations and companies (that may not be defined as eligible customers) -** usually public companies with equity that is lower than NIS 50 million, private companies etc. The asset portfolios of these customers is usually relatively large (but usually lower than those of eligible customers), but on the other hand the level of management fees is competitive, since sometimes the engagement with them is the result of winning a competitive procedure.

The Group has no clear data as to revenue distribution by type of customer in this Clause.

Presented below are details of the breakdown of the relative share of the portfolios managed by Capital Markets Group by type of customer (excluding asset management of Capital Markets Group and/or the Group's managed mutual funds, provident funds and educational funds, but including mutual funds managed by Capital Markets Group and held within the portfolio management line under customers portfolios) totaling approx. NIS 6,633 million[38] as of December 31st, 2013:

Type of customers	Rate to total AuM in managed portfolios	
	31.12.2013	31.12.2012
Eligible customers	50%	46%
Private customers	28%	31%
Other companies and corporations	22%	23%
Total	100%	100%

Capital Markets Group has a large number of customers, and there is no dependence on a single customer, or on a small number of customers, the loss of which might have a material impact on the area of financial services. Capital Markets Group does not have a customer the revenues from whom in the area constitute 10% or more of total revenues in the area of financial services.

It should be noted that Capital Markets Group's total revenues, in respect of brokerage services and/or portfolio management provided to the other areas of activity in the Group totaled approx. NIS 5 million in 2013, and approx. NIS 10 million in 2012.

21. Marketing and distribution

Capital Markets Group uses several marketing and distribution channels to distribute its products and services, the main ones of which are:

Marketing and distribution through banking corporations' investment advisors

This channel serves as the main channel for distributing mutual funds. Capital Markets Group's main activity in this channel is to inform investment advisors of its products and services, and provide them with the relevant information and marketing documentation. As of the date of this report, Migdal Funds engaged in distribution agreements with most of the banks. The distribution agreements state that the commission rate paid to those banks will be the maximum rate that the banks may collect from time to time as per the provisions of the Law. The distribution agreements with all banks are for an unlimited period or for a renewable period, whose termination is subject to prior notice of a few months.

[38] Out of which about NIS 0.93 billion were invested in mutual funds units managed by Capital Markets Group.

Marketing and distribution (except regarding mutual funds) through a large number of different mediators, including referral by insurance agents, including agents working with the Group's Customers Division.

This channel is the main channel for the distribution of portfolio management and brokerage services of Capital Markets Group. With respect to customers that are referred to receive portfolio management services, Capital Markets Group is accustomed to pay these mediators commissions at a certain rate out of the management fees collected from the referred customers, and in some cases a one-time payment based on the amount of assets deposited by the referred customers, followed by commissions at a lower rate out of the management fees collected from the referred customers. As to customers referred to brokerage services, Capital Markets Group usually pays these mediators some of the commissions it collects, and sometimes a one-time payment in respect of each referred customer.

Directly soliciting customers through Capital Markets Group employees, among other things, through taking part in tenders published by customers, and soliciting public companies regarding in the underwriting and investment banking lines.

Holding professional/marketing conventions.

TV, press and internet-related advertising.

Capital Markets Group has no exclusivity agreements with any of the abovementioned marketing and distribution channels.

22. Competition

The factors on which the Group competes in the area of financial services are the achieved yield (relative to the risk level), the rate of management fees, the commissions' rate in respect of the different services and the quality of service.

22.1 Mutual funds management services[39]

Key competitors operating in the mutual funds sector [40]	Data as of the end of 2013	Data as of the end of 2012	Data as of the end of 2011
Competitor name		**Market share**	
Psagot	15.5%	16.8%	17.6%
Harel-Pia	14.3%	11.5%	12.0%
Dash-Meitav [41]	18%	11.2%	11.8%
Migdal Funds	10.6%	11.0%	10.8%
Excellence	9.4%	11.0%	12.9%
Altshuler Shaham	7.4%	7.7%	3.2%
Dash (before the merger with Meitav)	-	6.2%	6.9%
Clal Finance (before the merger with Harel)	-	6.1%	6.2%
IBI	4.5%	4.8%	6.9%

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[39] As per data of Bizportal as of December 31st, 2013.

[40] As per Bizportal data for 2011-2013. The data include market share stemming from funds managed by external non-related investment managers and money market funds.

[41] Data regarding Dash-Meitav for 2011 and 2012 refer to Meitav only before the merger with Dash, and data for 2013 refer to Dash-Meitav after the merger.

According to data published by the Bizportal system, as of the end of 2013, 19 mutual funds management companies operate in Israel, while as of the end of 2012, there were 21 such companies. All in all, these companies manage together about 1,255 mutual funds. Among the mutual funds management companies, 9 manage assets exceeding NIS 10 billion, another 8 companies manage assets exceeding NIS 1 billion, and another 2 companies manage assets of under NIS 0.5 billion. In 2013 the size of funds' assets in Israel increased from NIS 169.8 billion at the end of 2012 to NIS 230.8 billion at the end of 2013, out of which about NIS 61 billion are money market funds (NIS) and NIS 14.6 billion are tracking funds.

By the end of 2013, Migdal Funds is the fourth largest managing company in AuM, with about NIS 24.53 billion in managed assets (vs. approx. NIS 18.71 billion at the end of 2012)[42].

Out of these assets, the size of tracking funds managed by Migdal Funds as of the end of 2013 totaled approx. NIS 8.31 billion (vs. NIS 4.73 billion by the end of 2012 and NIS 1.13 billion as of the end of 2011). Migdal Funds' market share in the tracking funds' industry as of the end of 2013 constituted approx. 56.5% (vs. approx. 50.3% by the end of 2012 and approx. 38.9% at the end of 2011). Therefore, Migdal Trust Funds is the largest company as far in AuM in tracking funds. Migdal Trust Funds' market share out of total passive investment management (tracking funds and ETNs) constituted approx. 7.16% at the end of 2013 (vs. 6.04% at the end of 2012 and approx. 1.92% at the end of 2011).

22.2 **Portfolio management and investment marketing services**

There are many portfolio managers in the portfolio management and investment marketing business. Due to the lack of official publication, the Group cannot estimate the scope of portfolio assets managed by portfolio managers in Israel. As mentioned above, the size of the net portfolio assets[43] managed by Capital Markets Group as of December 31st, 2013 is approx. NIS 5,703 million, and the gross[44] amount of assets is approx. 6,633 million. In addition to the above mentioned asset management, Capital Markets Group provides investment marketing services for hedge funds to various customers. The size of assets for which these services were provided total NIS 4.7 million as of the end of 2013.

Capital Markets Group's main competitors, to the best knowledge of the Group, regarding investment portfolio management and investment marketing services are Psagot Securities Ltd., Peilim Portfolio Management Company Ltd., Tachlit Investment House Ltd., Altshuler-Shaham Ltd., IBI – Amban Investment Management Ltd., Analyst Stock Exchange & Trading Services Ltd., Clal Finance Batucha Investment Management Ltd.[45], Excellence Nessuah Investment Management Ltd. and Dash Meitav Investment Management Ltd.

[42] Out of which, Capital Markets Group manages mutual funds under the investment management of an unrelated external investment manager, whose scope of assets, as of December 31st, 2013, totaled approx. NIS 76 million. For details see Note (2) to Clause 17.5 above.

[43] Excluding mutual funds managed by Capital Markets Group held as part of the assets managed under the line of portfolio management and excluding asset management of mutual funds, provident funds and educational funds managed by Capital Markets Group and/or the Group.

[44] Including mutual funds managed by Capital Markets Group held as part of the assets managed under the line of portfolio management and including asset management of mutual funds, provident funds and educational funds managed by Capital Markets Group and/or the Group.

[45] In December 2013 a transaction pursuant to which Jerusalem Bank acquired Clal Finance Batucha Investment Management Ltd. was finalized.

22.3 Brokerage services

The Stock Exchange is comprised of 12 TASE members which are banks and 14 members which are not banks[46].

According to the trading data published by the Stock Exchange, the average daily turnover in stocks and convertibles, traded on the Stock Exchange or outside it, in 2013, was approx. NIS 1.2 billion, out of which Migdal Stock Exchange Services executed about 1.6%. At the end of 2013, Migdal Stock Exchange Services is rated 15th among the TASE members (banks included) as to stock and convertibles trading.

According to the trading data published by the Stock Exchange, the average daily turnover in bonds, traded on the Stock Exchange or outside it, in 2013, was approx. NIS 4.3 billion, out of which Migdal Stock Exchange Services executed about 1.1%. At the end of 2013, Migdal Stock Exchange Services is rated 15th among the TASE members (banks included) as to bonds trading.

According to the trading data published by the Stock Exchange, the average daily turnover in short term bonds, traded on the Stock Exchange and outside it, in 2013, was approx. NIS 0.6 billion, out of which Migdal Stock Exchange Services executed about 3.7%. At the end of 2013, Migdal Stock Exchange Services is rated 8th among the TASE members (banks included) as to short term bonds trading.

According to the trading data published by the Stock Exchange, the average daily trade turnover in options on the TA-25 index, in 2013, was approx. 205 thousand units, out of which Migdal Stock Exchange Services executed about 4.2%. At the end of 2013, Stock Exchange Services is rated 6th among the TASE members (banks included) as to trade turnover in options on the TA-25 index.

According to the trading data published by the Stock Exchange, the average daily trading turnover in USD options, was approx. 41 thousand units, out of which Migdal Stock Exchange Services executed about 8.7%. At the end of 2013, Migdal Stock Exchange Services is rated 4th among the TASE members (banks included) as to trade turnover in USD options.

The names of Capital Markets Group's main competitors, to the best knowledge of the Company, regarding brokerage services are as follows: members of the Stock Exchange that are Israeli banks, foreign banks and investment houses (Citibank N.A, Citigroup, HSBC, Merrill Lynch, Barclays Bank PLC, Deutsche Bank and UBS), as well as non-banking TASE members (Poalim Sahar Ltd., Israel Brokerage &Investments (IBI) Ltd., Meitav Dash Trade Ltd., Excellence Nessuah Stock Exchange Services Ltd., Psagot Securities Ltd., E-Broker Trading and Securities Ltd.).

In light of the significant increase in the banking system's activity in the area of securities trading, originating, inter alia, from a diversion of brokerage activity by institutional entities towards the banking system, along with a reduction in commissions paid by them and in light of the coming into effect of the Duty for Mandatory Tenders in Funds (see Clause 26.1.2 (b) below), there was a marked deterioration in the ability of TASE members which are not banks to compete with the banking system in the area of brokerage services.

[46] Including 7 international entities – HSBC bank PLC, Barclays Bank PLC, Citibank N.A, Citigroup, UBS, Deutsche Bank and Merrill Lynch (which is a remote member).

22.4 **The main methods used by Capital Markets Group to handle competition, in all the financial services area lines are as follows:**
Striving towards high yields (relative to risk level) in assets management; increasing awareness to the performances and quality of Capital Markets Group's products, mainly among banks' investment advisors, who are the main marketing and distribution channel of the mutual funds; adjusting and diversifying the basket of products offered to customers according to their needs and market conditions, including with respect to foreign asset management; developing new products; advertising; using the Group's reputation; using insurance agents who work with the Group as a source for customer referral; improving the customer services quality; giving competitive commission rates in the brokerage services line; maintaining current professional relations with institutional investors in Israel, who are the main target for the acquisition of securities, structured products and hedge funds; professionalism and high reliability.

23. Seasonality

The Company estimates that the financial services area, as a whole, is not characterized by seasonality.

24. Suppliers and service providers

Below is the Capital Markets Group's acquisition rate from its main suppliers relative to overall expenses (which are not wages costs):

Supplier	Rate (in %)
FMR Computers and Software Ltd.	About 4.2%

Agreement to receive software services from F.M.R. Computers and Software Ltd. ("**FMR**") – Capital Markets Group is engaged with FMR in an agreement, according to which FMR provides Migdal Stock Exchange Services with the software, through which Migdal Stock Exchange Services gives instructions to the Stock Exchange to execute securities and financial derivatives-related trade, and manages its Back Office array. In addition, FMR provides Migdal Funds with software for monitoring and revaluating its funds. Capital Markets Group is dependent on FMR, since replacement of the latter without adequate preparation may materially harm its activity. On December 31st, 2013 a new agreement was signed between Migdal Stock Exchange Services and FMR, effective from September 30th, 2012 and up to December 31st, 2015. We note that most of the non-bank TASE members and even some of the banks operate through the FMR software.

As to payments to the various distribution channels used by Capital Markets Group – see Clause 21 above.

25. Working capital

Customers' credit: Migdal Stock Exchange Services extends credit to its customers for the purchase of securities and financial derivatives. The amount of credit is limited according to the formula set in the Stock Exchange instructions, and calculated according to the different types of securities in the customer's portfolio. To secure the credit, different collateral is given based on the Stock Exchange instructions. In 2013, average credit to NIS customers amounted to approx. NIS 39.5 million, and the average credit to foreign currency customers amounted to approx. NIS 20 million. It should be noted that the above credit is given to customers on a daily basis, and bears commercial interest.

Suppliers' credit: in 2013, the average suppliers credit was not material.

26. Restrictions and supervision applied to the financial services area

26.1 **Main laws and regulations** - hereunder is a summary of the legal provisions and arrangements that significantly affect this area of activity, changes that occurred during the reported period and new legal provisions that were legislated and/or published during the reported period:

26.1.1 **Mutual funds management**

(a) **The Joint Investments Trust Law- 1994 and the regulations and the Securities Authority's circulars issued thereunder**
This Law and the Regulations and Circulars thereof regulate the licensing requirements, the duties imposed on the fund managers as to the managed fund, corporate governance rules that apply to them, the way mutual funds should be established and managed, the assets they may purchase and hold and their percentage, the supervising and enforcement powers of the ISA, including administrative enforcement, towards the fund manager and fund trustee.

(b) In May 2013 the **Joint Investments Trust Law (Distribution Commissions) (Amendment) – 2013** came into effect. Pursuant to the Regulations, the distribution commissions that distributors may collect from fund managers were reduced, and during the six months that ended in November 2013, fund managers undertook to reduce the fund managers' fees accordingly, such that in that period the reduction in distribution commissions shall be passed over to the unit holders.

(c) In September 2012 the ISA published a **Road Map: the Objectives of the ISA and its Plans for Upcoming years**. In this framework, the ISA is considering introducing several reliefs in the area of joint investments in trusteeship. Some of these reliefs were included in the Law for Reliefs on the Capital Market and for the Promotion of Activity in it (Legislative Arrangements) – 2014, published in the official gazette on January 27th, 2014 ("**Reliefs Law**").

(d) Planned amendments in the regulation that applies to fund managers

(1) The ISA is promoting a reform in the area of index products (ETNs) from a reporting governance (rules for the disclosure of a reporting corporation) to a supervision governance that is currently common in the mutual funds sector. This reform is expressed in a pending **Bill for the Joint Investments Trust Law (Amendment No. 21) (ETNs and ETFs) – 2012**. The Bill is aimed at closing the gap that currently exists in the regulatory provisions that apply to index products and the mutual funds. In addition, the amendment proposal will allow creating a new type of mutual fund - ETF funds: closed tracking funds traded on the TASE, aimed at achieving results that are as similar as possible to the tracked asset, and sets forth provisions that would apply to them. Within the reform, **Joint Investment Managers** may manage simultaneously one or more of the following arrangements - traditional mutual funds, ETFs or ETNs. Furthermore, since ETNs and ETFs are alternative investment instruments, whose general characteristics are similar, it is suggested to apply the same rules on ETFs and ETNs, in order to provide the public an accessible platform for comparing these products. This reform, if it is completed, may allow Migdal Funds to continue developing and expanding the area of tracking mutual funds management, upon turning them into ETFs traded on the TASE. In November 2013 the updated **draft of Joint Investments Trust Regulations (Shift from Tracking Funds to**

ETFs) – 2013 regarding the required conditions in order for tracking funds to become ETFs, was published.

(2) In May 2010 **the Bill for Joint Investments Trust Law (Amendment No. 15) – 2010** was published. The amendment includes changes in various clauses, including the possibility of offering foreign fund units in Israel, the possibility of collecting differential management fees in the fund according to criteria to be determined, a limit on discounts according to pre-set criteria, etc. Furthermore, in November 2013 the **proposal for Joint Investments Trust Regulations (Offering Units of a Foreign Fund) – 2013**, setting the main conditions required for offering foreign funds in Israel, and the **proposal for Joint Investments Trust Regulations (Distribution Commission) (Amendment) – 2013,** were published, proposing the cancellation of the distributors' right to charge customers a fee for the purchase, sale or holding of units in funds along with collecting a distribution commission from fund managers under a distribution agreement. They also offer to apply these Regulations to foreign funds' units. At this stage, it still unknown whether this Amendment shall have a material impact on fund managers because of the possibility of offering foreign fund units in Israel.

26.1.2 **Brokerage services**

(a) **TASE supervision** – TASE members who are not banks, such as Migdal Stock Exchange Services, are subject to the supervision of the TASE pursuant to the **TASE Articles of Association Provisions**. The TASE Articles of Association, rules and regulations, regulate the recording of different securities for trade, the manner of trading in the TASE, TASE membership, including qualification and members' admission procedures and the TASE's supervision over members, equity required from TASE members who are not banks, areas of activity allowed TASE members, TASE members' duties towards the TASE and other members and towards their customers, etc. As of December 31st, 2013 and as of the date of this report, Migdal Stock Exchange Services fully complies with the capital adequacy and liquidity requirements as per the new model, set forth in the TASE Articles of Association.

(b) **Restrictions on commissions from related parties** – under regulation applying to institutional entities and fund managers, there is a restriction on the amount of commissions these entities may pay from the assets managed by them for brokerage services, to a TASE member which is not a bank and which is a related party. Pursuant to these restrictions, commissions exceeding 20% of total commissions paid by the institutional entity or the fund during the year shall not be paid to TASE members that are related parties to these entities. Also, the payment of commissions is subject to the existence of a competitive procedure or a tender. The coming into effect of the **Joint Investments Trust Law (Amendment No. 14) – 2010 ("the Law of the Duty of Tenders in Funds")** in December 2011 materially reduced the amount of revenues of Migdal Stock Exchange Services from mutual funds and its profitability. It should also be noted that Migdal Funds held a tender for the activity related to future contracts traded abroad, options on these contracts traded abroad, options on indices traded abroad and bonds issued by governments traded abroad, and selected one of the banks in order to serve as a securities agent of the funds with respect to this activity, which was previously performed by Migdal Stock Exchange Services.

(c) **Money Laundering Prohibition Law – 2000**. TASE members must comply with money laundering rules and Orders issued under this Law, and in this respect, are supervised by the ISA. This regulation sets a duty for TASE members to identify and know their customers, and a duty to report unusual transactions made by them. In May 2013 the ISA issued for the public's comments, a **Draft Amendment of the Activity Order in a Closed System (Clause 8)** in the Money Laundering Prohibition Law that applies to TASE members. As part of a move aimed at increasing the competition in the area of trading services in securities, mainly to private customers, between non-banking Stock Exchange members and banks, the ISA proposed to allow non-banking Stock Exchange members access to the activity of retail customers by giving non-banking Stock Exchange members an exemption from the duty to identify clients face-to-face within the managing of accounts in a closed system.

26.1.3 **Portfolio management and investment marketing services**

(a) **Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law - 1995 ("Regulation of Investment Law")** – this Law and the regulations and provisions thereunder regulate required licensing, duties imposed on portfolio managers, including duties of trust and caution, eligibility requirements, corporate governance rules, disclosure provisions, special consent provisions required from customers in the execution of transactions within the management of their investment portfolios, submission of periodic reports to customers, how to check customers' needs and instructions and the adjustment of services to these needs, publishing and presenting yields, submitting reports to the ISA and regulating its supervisory authority including administrative enforcement, etc. In September 2013 **a list of acts that attest to a violation of the duty of trust and the duty of caution by portfolio managers**, came into effect. It should be noted that the opening of an administrative procedure in respect of an act included in the list shall be made if this behavior was made with a clear deviation from proper behavior.

(b) **Money Laundering Prohibition Law – 2000**. This Law and the Orders issued thereunder, regulate the duty to identify and know the customers of portfolio managers, similar to the regulations that apply to TASE members in this regard. For details see Clause 26.1.2 (c) above.

(c) **Planned amendments in the regulations that apply to portfolio managers:**
Within the **road map published by the ISA** (see Clause 26.1.1 (c) above), the ISA is considering introducing several reliefs in the area of portfolio management, some of which have already been Included in the Reliefs Law.

26.2 **Licenses and permits**
Following are the licenses and permits issued in the areas of activity:

Migdal Stock Exchange Services – a member of the Stock Exchange, member of the Tel Aviv Stock Exchange Ltd. clearinghouse.

Migdal Portfolio Management – holds a portfolio management license.

Migdal Funds – serves as the manager of mutual funds in accordance with the Joint Investments Law.

Migdal Underwriting – registered in the underwriters' register in accordance with the Securities Regulations (Underwriting) (Amendment) – 2007.

26.3 **Standardization and control** –Capital Markets Group's companies detailed above are required to meet the requirements and standards set forth in the regulatory and supervising provisions that apply to them as set forth above, including the ISA and/or TASE instructions and provisions.

26.4 **Entry and exit barriers** – for entry and exit barriers see Clause 28 below.

Part C - Additional Information Regarding Insurance Lines Not Included Under Areas of Activity

Part D - Additional Information at the Entire Company Level

27. Restrictions and supervision applying to the Company's activity

27.1 General

The Group’s activity in various areas is subject to vast regulation and strict supervision. In addition to the laws, the body supervising the insurance, pension and provident activity in the Group is the Commissioner of Insurance / the Commissioner of the Capital Markets in the Ministry of Finance who, within his authorities pursuant to the various laws, may publish provisions regarding the way the entities under his supervision operate and are managed.

In accordance with the Supervision Law, conducting insurance activities, including insurance brokerage, requires licensing, and the Supervision Law sets provisions as to the licensing of insurers and insurance agents, including the authority to revoke licenses. Holding means of control in an insurer and insurance agency requires receiving permits, and the Supervision Law provisions include provisions as to obtaining control and holding permits. The pension activity requires receiving insurers' licensing, as well as receiving a permit for operating as a managing company and the provident activity also requires a permit for operating as a managing company. For details regarding licenses and permits, see Clause 28.1.1 (a) below.

The Group's activity in the area of financial services, via Migdal Capital Markets Group, is also subject to the Joint Investments Trust Law and the Regulations thereof and the supervision of the ISA. Regarding legislation specific to the area of financial services, see Clause 26 c above.

Furthermore, since the Company is a public company that issued securities to the public, it is subject to the provisions of the Securities Law and is supervised by the ISA, as well as to the Companies Laws that apply to public companies.

27.2 Key laws and regulations in the areas of activity of insurance and savings in general

27.2.1 The Law of Supervision of Financial Services (Insurance) – 1981 (“The Supervision Law”)

The Law includes provisions as to the supervision of insurance businesses, inter alia, as to restrictions on business management, regulations regarding corporate governance, organs and office holders in insurers, submission of reports, authorities of supervision and administrative inquiries, provisions regarding the separation of life assurance businesses from other businesses of the insurers, provisions regarding maintaining the insureds' interests, provisions regarding maintaining the ability to meet obligations and proper management, provisions authorizing the Minister of Finance and/or the Commissioner of Capital Markets to set regulations/instructions as to various issues associated with various aspects of insurance supervision, etc. By virtue of these authorities, regulations regarding various issues were legislated, and from time to time the Commissioner publishes various instructions regarding the regulation of the supervised entities.

The Supervision Law also includes provisions that if violated, are considered to be a criminal offense, and it also empowers the Commissioner to impose financial sanctions and civil fines in significant amounts, without having to file an indictment.

Rulings and rulings in principle regarding complaints, audits, data requests, financial sanctions

From time to time, complaints are filed against the Group, including to the Commissioner. The Commissioner's rulings on such claims, if and insofar as a ruling is made in their respect, are sometimes given, and in recent years, even more so, as across-the-board rulings with respect to a group of insureds.

Furthermore, under his supervisory authority, the Commissioner from time to time conducts audits and/or examinations are conducted on his behalf in the Group's institutional entities. Under this framework, instructions are received and/or guidelines are provided regarding the Group's handling of various products, including instructions to amend various actions, including by way of making reimbursements, and sometimes, pursuant to the findings, and if the Commissioner estimates that there has been a violation, he imposes a financial sanction under administrative enforcement.

For details regarding rulings, rulings in principle, audits, data requests, financial sanctions, see Note 39 1 e 39 to the Financial Statements.

27.2.2 **The Law of Supervision of Financial Services (Provident Funds) – 2005 ("Provident Funds Law")**

The Law regulates the establishment of provident funds, the types of provident funds, the management and actions of managing companies, and the relationship between members and the managing company. Insurance plans recognized as insurance funds are also subject to some of the provisions included under the Provident Funds Law. The Provident Fund Law applies some of its provisions to managing companies as well. The Provident Fund Law also includes provisions as to the Commissioner's authority to publish provisions as to proper management by insurers and similar provisions regarding financial sanctions, civil fines and criminal offenses, similar to the Supervision Law. The Law's provisions also regulate the employees' right to choose their own preferred pension product and the institutional entities from which they want to acquire the selected product.

27.2.3 **Supervision of Financial Services Regulations (Provident Funds) (Rules of Investment Applying to Institutional Entities) - 2012 ("Investment Regulations")**

The Investment Regulations came into effect in July 2012, and they cancel, inter alia, the distinction that existed between the rules regarding investments of pension and provident funds assets, and those that applied to the monies of profit participating policies. These Regulations regulate the investment rules for assets of institutional entities / institutional investors, and empower the Commissioner to set provisions regarding various issues referring to the investment rules applying to institutional entities.

In addition, these Regulations also set provisions regarding the control and holding of means of control by insurers in other corporations, and inter alia, it was set forth that insurers shall not control nor hold more than 20% of means of control, except in corporations set forth in the Regulations, namely: (1) another insurer; (2) a managing company; (3) a corporation whose main business is holding real estate assets and their management; (4) corporate agent; (5) a corporation whose main occupation is investment management or extending credit on behalf of an insurer and / or other institutional entities under its control (6) another type of corporation whose main business is related to the insurer's current activity. Investment in the types of corporations set forth in (5) and (6) above needs the Commissioner's approval in advance, and there are provisions regarding required minimal equity against holdings in such corporations.

In August 2013, a **Circular regarding Investment Rules** that apply to institutional entities was published (amending the Circular published in July 2012, when the above-mentioned Investment Regulations came into effect), regarding issues related to investments made by institutional entities.

27.2.4 **The Insurance Contract Law – 1981**

The Insurance Contract Law mainly regulates the relationship between the insurers and the insureds, including the status of insurance agents, and sets various provisions regarding the following main issues: the essence of the insurance contract, the duty of disclosure and consequences of non-disclosure, the insurance period and conditions for cancellation or shortening of the policy, the status and rights of members, provisions regarding payment of insurance fees and their dates, including setting a special interest rate for non-payment of insurance benefits that are not disputed, provisions regarding changes in the insured risk, provisions regarding the way insurance benefits are paid, including their limitation periods, various provisions which are specific to various types of insurance, such as life assurance, accident, disease and disability insurance, damage insurance, liability insurance etc.

27.3 **Material legal pronouncements published in the reported period and until publication of this Report (including drafts), referring to activities in general or to all areas of activity**

27.3.1 **Arrangements regarding regulatory changes of products**

Bills for the amendment of the Supervision Law and the Provident Funds Law are pending, pursuant to which, inter alia, there is an intention to change current rules regarding providing insurance plans and pension and provident articles of association ("products"), such that institutional entities will be required to inform the Commissioner of Insurance about new products before they are marketed, without having to wait for the Commissioner's approval as a condition for beginning their marketing (mainly the Amendment of Clause 40 to the Supervision Law), unlike the situation prior to the proposed amendment, pursuant to which in some insurance products, there is need for a positive approval by the Commissioner for their marketing. At the same time, the Commissioner will be able to instruct insurers to cease marketing an insurance plan or stipulate that its continued marketing will be allowed only after making changes in the plan, under conditions specified in the proposed amendment to apply also to plans already launched. Should the change be approved, it may affect the procedures for launching products in institutional entities.

As a measure towards the proposed change, the following provisions were also published:

The **Circular regarding Principles for the Wording of Insurance Plans – Commissioner's Opinion** (published in July 2013), that includes principles, with examples, aimed at instructing insurers on wording insurance plans. There are provisions as to the application of the Circular's provisions, both regarding insurance plans marketed from December 1st, 2013, and regarding existing insurance plans, and their gradual adjustment to the Circular's provisions, and the non-application of the provisions to certain insurance plans.

The **Circular regarding the Establishment of Insurance Plans and Provident Funds' Articles of Association** (published in December 2013) regulates the procedure for submitting new insurance plans or Articles of Association or changes thereof, including, inter alia, the documents and information to be submitted to the Commissioner in relation to the establishment of insurance plans or Articles of Association. The Circular provisions expand and amend previous provisions regarding this issue, and some of them were even adjusted to the change that will be introduced in the approval of products as per Amendment of Clause 40 to the Supervision Law, as described above. The provisions are effective as of January 2014, and some of them - in 2015.

27.3.2 **Consolidated Circular – future regulation Codex**

The Commissioner began to initiate a move to compile the instructions the Commissioner of Capital Market has given from time to time throughout the years to the institutions supervised by him, via a consolidated circular, organized as per a table of contents of issues under his authority.

The introduction of the consolidated circular, its table of contents, instructions as to investment assets management and the extension of credit, general insurance contracts, and pension funds, have been published. Drafts for other chapters in the table of contents are still pending, and not all the chapters have been published yet.

27.3.3 **Calculation of the value of non-negotiable assets held by an institutional entity**

In December 2013, the **Circular regarding the calculation of the value of non-negotiable assets held by an institutional entity** was published. The Circular, substituting a Circular published in 2011, deals with the way non-negotiable assets held by institutional entities should be revalued. Within the changes introduced in the Circular, there are several reliefs regarding the types of assets regarding which it was difficult to receive a valuation, and there are additional provisions as to valuations of assets suspended from trading, and which were acquired in private placements.

27.3.4 **Behavior of institutional entities upon engagement in a significant transaction**

In December 2013 the Commissioner published a clarification opinion regarding **the behavior of institutional entities upon engagement in a significant transaction**. The clarification deals with setting adequate procedures for the characterization, deployment and handling of transactions which, as per the BoD's decision, may potentially have a significant impact on the business results of the institutional entities, or on the monies of their customers.

27.3.5 **Managing compliance risks in institutional entities**

In December 2013 the Commissioner published a **Circular regarding managing compliance risks in institutional entities**, pursuant to which, inter alia, the institutional entities are mandated to appoint an internal compliance and enforcement officer, define his/her authority and the way he/she works, as well as defining an internal compliance and enforcement plan and take reasonable measures in order to make sure the plan is implemented. Furthermore, the Commission's opinion regarding the criteria for the evaluation of the effectiveness of the internal compliance and enforcement plan was published. The existence of such a plan will stand to the credit of an institutional entity when its behavior is examined, and the institutional entity is found not to comply with legal provisions and may serve as a discretionary factor for reducing financial sanctions, if it is decided to impose such sanctions.

27.3.6 **Remuneration policy in institutional entities - draft**

In December 2013 the Commissioner published a Draft Circular regarding the **Remuneration Policy in Institutional Entities.** The draft includes provisions regarding the BoD's duty to deliberate and approve the institutional entity's remuneration policy, and such policy shall include the principles regarding the terms of remuneration, including terms of retirement of key position holders and the principles of terms of remuneration for other employees, as well as the terms of remuneration, including terms of retirement for Senior Officers in the institutional entity as well as the establishment of a Compensation Committee, whose role is to recommend and approve the remuneration policy and the remuneration plans.

The Circular provisions deal, inter alia, with the principles and discretions that should be taken into account upon setting the remuneration policy, including those referring to the variable component in the remuneration. The Draft Circular intends to remarkably expand the provisions regarding the remuneration policy of Senior Officers in institutional entities and investments employees of a Circular published in 2009 (Circular 2009-9-24 - Remuneration Policy of Senior Officers in Institutional Entities). As proposed in the Draft, the provisions are supposed to apply also to agreements signed before the circular's proposed application date, April 2014, if possible, and every contract of the office holders set forth in it, that will be signed / renewed after the Draft's publication should include a condition that allows changing the conditions in order to adjust them to the provisions of the Draft Circular, as per its final wording.

27.3.7 **The Law for the Promotion of Competition in order to Reduce Centralization - 2013**

In December 2013 the **Law for the Promotion of Competition and the Reduction of Centralization – 2013 ("Centralization Law")** was published. The law refers to three levels. The first one is the regulation of the distribution of public's assets (vital infrastructures) such that it would prevent damage to competition and reduce centralization in the entire economy. The second is a restriction on the activities of business groups built as "pyramids", and the third is a separation in the holdings and office holders between significant financial entities and significant real corporations, both as per their definition in the Centralization Law.

The provisions of the Centralization Law are relevant to the Group mainly in the following issues: the amendments introduced to the Supervision Law and the Provident Funds Law, pursuant to which it was set forth, inter alia, that insurers and/or managing companies shall not hold over 10% of a certain type of means of control in a significant real corporation as defined in the Centralization Law, there will be restrictions regarding granting credit to a corporation or a business group by institutional entities, the prohibition on a consent between shareholders in an insurer or a managing company regarding the vote as to the appointment of a Director in these entities, restrictions on giving a control permit in insurers and in managing companies to the same entity, restrictions as to relations between Directors serving in significant financial entities and significant real entities, and additional provisions regarding the amendments that were introduced to the Companies Law.

27.4 **Key laws and regulations specific to the area of insurance and LTS**

27.4.1 **The Law of Supervision of Financial Services (Pensionary Advice, Marketing and Clearing System) – 2005 ("the Advice and Marketing Law")**

This Law regulates two key issues:

(a) Provisions regarding the practice of providing advice and marketing of pensionary products and the supervision thereof;

(b) Provisions regarding the central pensionary clearing system.

The practice of providing advice and marketing of pensionary products - the Marketing and Advice Law defined two practices requiring training and licensing – the advisor and the marketing agent. The distinction between advice and marketing is based on the existence of "**affiliation**". The Law sets forth regulations regarding the requirement of licensing for both pensionary advisors and pensionary marketing agents and the conditions, duties, prohibitions and restrictions that apply regarding the practice of pensionary advising and pensionary marketing, including provisions regarding the practice of pensionary advising by banking corporations, provisions regarding the supervision of license-holders, including the Commissioner's authority to publish instructions for proper management and securing insureds' businesses, provisions regarding the relationship between the pensionary advisor / agent and the institutional entity aimed at unifying relevant legal provisions that apply to agents by having them apply also to pensionary advisors and marketing agents, as well as provisions that give the Commissioner the authority to impose financial sanctions and civil fines, including criminal sanctions. The Law also includes a provision setting forth that transactions for pensionary products for customers should be made only as part of pensionary advising or pensionary marketing and pursuant to it.

The regulation of pensionary clearing house – the Law includes provisions regarding the regulation of the establishment and operation of a pensionary clearing house, including the permits required for its establishment, as well as provisions regarding the requirement to use the pensionary clearing system.

27.4.2 **The Supervision of Financial Services (Provident Funds) (Management Fees) Regulations - 2012**

The Regulations are part of the management fees reform that came into effect as of January 1st, 2013, and set forth a unified model for management fees collection in the three pensionary savings (insurance policies recognized as provident funds, pension and provident funds). Management fees are collected both from contributions and from accrual, and they also determine the maximum management fee rate that may be collected in pensionary savings products. For details see Clause 6.2.3 above.

27.4.3 **Regulations of the Supervision of Financial Services (Provident Funds) (Money Transfer between Provident Funds) – 2008 ("Mobility Regulations")**

These regulations regulate the transfer of pensionary products monies, and include provisions regarding the following: conditions for their transfer, restrictions to the transfer, timetables for transfers, the way money is transferred, transfer of the insurance liability, etc.

27.4.4 **Significant legal pronouncements published in the reported period and until this Report's publication (including drafts), referring to insurance and LTS**

(a) **Direct Expenditures for the Execution of Transactions - Draft**

In March 2014, the second draft of the **Regulations of the Supervision of Financial Services (Provident Funds) (Direct Expenditures for Execution of Transactions) – 2013** was published. The main changes proposed in the draft regulations are: setting a temporary order pursuant to which the total annual direct expenditures, in respect of the types of expenditures that were set forth in the temporary order, shall not exceed 0.25% of the total revalued value of assets managed by the institutional entity by the end of the fiscal year. There is a transition order whereby in 2014, the institutional entity may charge direct expenditures in respect of the types of expenditures for which the restriction applies, beyond the 0.25% only in respect of investments made before the Regulations came into effect. In 2015 the institutional entity may charge direct expenditures beyond the 0.25% only if the direct expenditures for which there is a quantitative restriction, both in respect of expenditures stemming from investment in investment funds defined in the Draft or in respect of certain expenditures defined in the Draft, stem from transactions made before the day the Regulations came into effect.

The temporary order shall expire on January 1st, 2016.

Furthermore, from the moment these Regulations come into effect, it will no longer be possible to charge direct expenditures in respect of the "expenditure coverage component" in ETNs.

The draft regulations have not yet been approved, and it is still unknown whether the proposed provisions shall remain in the final version. If there will be no change in the proposed cap on direct expenditures, the Company does not forecast that this restriction will have an immediate material impact on its financial results. However, the Company is examining the possible long-term impacts.

(b) **Draft Regulations of Supervision of Financial Services (Provident Funds) (Payments to Provident Funds) - 2013**
In June 2013 a Draft to these Regulations was published, regarding the details that employers must submit to institutional entities upon depositing payments to provident funds, timetables for depositing payments and interest employers will be charged upon making a late deposit. The Draft Regulations include provisions regarding these issues, and the requirement to report deposits to provident funds electronically and the duty to give a computerized feedback to employers of deposits received by the provident funds.

(c) **Arrangements regarding the usage of the central pensionary clearing house, including regarding the transfer of information and data**
In the reported period, several additional provisions were published, aimed at regulating the obligation to use and the method of using the pensionary clearing house, including provisions regarding the transfer of information and data.

(d) **Letter sent to institutional entities for their comments, regarding arrangements regarding the yield assumption in annuity conversion coefficients**
In August 2013, institutional entities' managers were asked to refer to the outline that the Commissioner wanted to examine, with respect to a change in assumption of the fixed yield embedded in conversion coefficients. The yield assumption embedded in conversion coefficients, is set both for the calculation of the value of liabilities to pensioners in the pension funds' actuarial balance sheet (the embedded assumption is a yield of 4.26%), and for the sake of presenting an illustration of the expected annuity in insurance plans that combine savings (the embedded assumption is 4%), and set forth in the legislative arrangements. The proposed outline is to change the yield assumption such that it would be adjusted to actual interest. The proposed change shall be applied gradually over a period of three years, and shall not apply to people who already receive annuities, and to members of old pension funds. The outline was proposed in light of the significant fall in interest rates, which created a material difference between the actual interest rate and the embedded yield assumption.

27.5 **Area of health insurance**
For the legislative arrangements proposed in the reported period regarding LTC, see Clause 9.4.2 above.

27.6 **Area of general insurance**

Regulations of the Supervision of Financial Services (Insurance) (Calculation of Reserves in General Insurance) – 2013, published in February 2013**,** and the Circular from January 2013 **- Insurance Circular regarding the Calculation of Insurance Reserves in General Insurance,** deal with the update of existing legal provisions regarding the calculation of insurance reserve in general insurance. The main change that will apply when the Amendment comes into effect, from the Financial Statements as of December 31st, 2014, is the cancellation of the reserve for excess of revenues over expenses ("**accumulation**"). Furthermore, guidelines were issued regarding the calculation of reserves in the insurance lines in which the accumulation is calculated. See Note 37b3c6 to the Financial Statements.

28. Entry and exit barriers

28.1 **Entry barriers**

The main entry barriers of the Group's various areas of activity are set by the provisions of the relevant laws which require obtaining licenses and permits.

28.1.1 **Licenses and permits**

(a) **Insurance, pension funds and provident funds activity**

As per the Supervision Law, insurance activity (including holding a pension fund managing company) requires the granting of an insurer license as per the Supervision Law ("**insurer license**"), holding of more than 5% of a certain type of control means in an insurer, requires receiving a permit for holding means of control from the Commissioner ("**holding permit**"), and control of an insurer or a corporate agent, which is also conditioned on receiving a permit from the Commissioner ("**control permit**"). The management of provident funds also requires a license.

Among other considerations for granting an insurance license or a corporate agent license, a holding permit and a control permit, the Commissioner takes into consideration a large variety of matters, including presenting the action plans of the applicant, qualifications of Senior Officers and their ability to fill their positions, the financial means, the experience and business background of the entities requesting the license or the permits, the capital market competition, including the insurance market, and its service level, the government's economic policy, arrangements as to reinsurance, staff etc. The Commissioner may set conditions and restrictions as to granting the permits, including the existence of a fixed and stable control nucleus in an insurer, a prohibition on pledging the means of control included within the chain of control in an insurer, maintaining the controlling group's structure, including by setting provisions or restrictions as to the sale or transfer of the means of control to another.

As per the Provident Funds Law, the activities of provident funds, also, require receiving a managing company license. Also, holding more than 5% of a certain type of control means in an insurer, requires receiving a holding permit and a control permit. The aforementioned considerations as to granting licenses and permits in the insurer, also apply to provident funds, with the required changes. Provident funds for annuity have the same requirements as insurers.

Also, as per Clause 32 (c1) to the Supervision Law, there is **a prohibition on having a material holding in the area of LTS**. A material holding was defined as holding a market share exceeding 15% of all LTS assets[47].

As per data published by the Commissioner, in a Circular dated December 2013, the total value of LTS assets, as of September 30th, 2013, is approx. NIS 679 billion. The amount of LTS assets giving the maximal market share as of that date is approx. NIS 102 billion.

The Company holds as of September 30th, 2013, on the basis of the data on which the value of the assets was calculated as set forth above, approx. 17.4% of total LTS assets.

(b) **Permits for holding means of control in institutional entities in the Group**

On October 29th, 2012, the transaction pursuant to which the control in the Company was transferred to Eliahu Insurance was completed. The permit for holding means of control and the control in institutional entities in the Group was given to Mrs. Shlomo Eliahu and Ms. Haya Eliahu, as per their holding rate as detailed in Clause 2.1 above (the Commissioner's permit is dated October 28th, 2012).

The control permit sets forth, inter alia, restrictions and limitations as to the way means of control in Eliahu Insurance, Migdal Holdings, Migdal Insurance, Migdal Makefet and Yozma are held, as to maintaining the control structure and the minimal holding rate in the entities mentioned above, regarding the sale or transfer or issuance of means of control in each of the above mentioned entities, including placing a lien on them, regarding maintaining an equity ratio in all the institutional entities controlled by the controlling shareholders, as well as conditions pursuant to which the controlling shareholders and Eliahu Group may receive management fees from the institutional entities controlled by the Company, or provide services to institutional entities controlled by the Company.

Mr. Shlomo Eliahu gave the Commissioner of Capital Market, Insurance and Savings a letter of undertaking signed on October 16th, 2012. Pursuant to that letter of undertaking (a condition for obtaining the control permit was giving this letter), Mr. Shlomo Eliahu, being the controlling shareholder in Eliahu Insurance, Migdal Insurance, Migdal Makefet and Yozma ("**the insurers**"), undertook to supplement Eliahu Insurance's and Migdal Insurance's equity to the amount set forth in the Regulations of Supervision on Insurance Businesses (Minimum Equity) Required of Insurers – 1998, or any other Regulation or Law that would substitute them, and supplement the equity of Migdal Makefet and Yozma to the amount set forth in the Regulations of Supervision on Financial Services (Provident Funds) (Minimum Equity Required Managing Companies of Provident Funds or Pension Funds) – 2012, or any other Regulation or Law that would substitute them ("**Capital Regulations**"). This undertaking is irrevocable and will be in effect as long as Mr. Shlomo Eliahu controls, directly and indirectly, the insurers set forth above.

[47] Regarding material holdings in the area of LTS in order to receive the permit as set forth above, the following parameters shall be disregarded: (1) a change in the market value of managed LTS assets; (2) a change in the value of all LTS assets; (3) the joining of insureds / members to insurance plans / provident funds in a manner that increases the total assets, except following a trsnsaction with another institutional entity or a merger therewith.

(c) **Permits/restrictions in authorities' permits following the transfer of control in the Company**

Bank of Israel permit – since Mr. Shlomo Eliahu, prior to the completion date, held, directly and indirectly, including via Eliahu Insurance, means of control in Bank Leumi and Israel Union Bank Ltd. ("**the banking corporations**"), Mr. Eliahu informed the Company that he received permits for holding means of control pursuant to the Banking Law (Licensing) – 1981 in banking corporations, referring, inter alia, to his holdings in banking corporations via Eliahu Group as well as via the Company and its subsidiaries. Under these permits, Mr. Shlomo Eliahu's holding rate in each of the banking corporations, via the Company and its subsidiaries, shall not exceed 5%, similar to the regulatory restrictions that currently apply to the Company regarding holding means of control in banking corporations (as of the date of this report, the holdings of the company and its subsidiaries in these banking corporations are: Bank Leumi - approx. 4.9% and Union Bank – approx. 0.6%)[48].

The Israel Antitrust Authority permit – on June 12th, 2012, the Israel Antitrust Authority General Director approved the merger between Mr. Shlomo Eliahu, Eliahu Insurance and the Company. The merger was approved subject to the following conditions: as of the transaction's completion date, the Company shall not engage (directly and indirectly)[49], in an agreement with related trading companies[50] for the execution of transactions in members' assets in which the consideration in their respect is paid from the members' assets, unless via a tender in which all trading companies are given an equal opportunity to participate ("**the tender**"), and in which at least four trading companies participate.

The tender's documents shall be published in the Company's website and will include, inter alia, the entry requirements for participating in the tender, the way and deadlines for submitting offers, the engagement period and conditions thereof, as well as the way and criteria for selecting the winners.

The Company shall not negotiate with trading companies or anyone on their behalf, regarding the details of the tender and its conditions, before the publication of the tender documents and thereafter, until the selection of winners, except for receiving clarifications regarding the offers submitted by the tender participants.

An offer by a related trading company may be selected in a tender only if the financial consideration to be paid by the Company as per this company's offer, is the lowest offered in the tender.

(d) **Financial services activity**

In order to perform various activities in the area of financial services, there is need to receive control permits and licenses from the various State authorities, especially the Securities Authority and the Stock

[48] In addition, to the Company's best knowledge, in the BoI permit that was given to Mr. Shlomo Eliahu and Ms. Haya Eliahu regarding the holding of banking corporations, there are restrictions that apply to them regarding the continued holding of the controlling interest in the above mentioned banking corporations, including mandating the transfer of means of control held by them to a trustee.

[49] Regarding this matter, the Company means the Company, including a related person, as per the definition of this term in the Restrictive Trade Rules (General Provisions and Definitions) – 2006.

[50] A Related Trading Company's definition – a trading company, that at least 5% of its shares are held, directly and indirectly, by the controlling shareholder in Migdal, including a holding via a trustee, except a trading company which, upon the date of transaction completion, all its shares are held, directly and indirectly, by the Company.

Exchange. In their considerations for granting control permits and licenses, as mentioned, the relevant supervision authorities take a wide variety of considerations into account. The sale or transfer of means of control in a TASE member requires receiving a permit.

Fund managers may not receive for their management a fund from another fund manager, if their market share after receiving the fund's management exceeds 20%. There is a prohibition to control fund managers, such that the total market share (the total market share of fund managers controlled by him/her) exceeds 20%, consequent to a fund manager controlled by him/her received control in a fund from another fund manager. It is not possible to receive a permit for the control and holding of means of control in a fund manager, if the total market share, after receiving the permit, exceeds 20%.

28.1.2 **Equity and limits on dividend distribution**

The activity of the Group's institutional entities (insurance companies and managing companies of pension funds and provident funds) requires, as per the provisions of various laws, a minimum solvency margin. The capital requirements are tested according to the annual Financial Statements and interim reports of the institutional entities, and if the equity on the report date is less than required, the institutional entities must increase it or reduce their scope of business, on the dates as prescribed by the law. As long as such required equity is not completed, the institutional entities may not distribute dividends.

For information regarding equity required from institutional entities in the Group, and restrictions regarding dividend distribution, including surplus amounts that may not be distributed, see Note 7 e to the Financial Statements.

The various companies operating in the area of financial services need equity, and sometimes might also need a positive working capital and liquid assets, in the amounts and rates as set forth in the relevant law provisions.

28.1.3 **Expertise, knowledge and experience**

The insurance and financial activity of the Group's businesses requires specific professional knowledge, mainly in the area of actuary and risk management, and familiarity with the area's markets, including the reinsurance market. Furthermore, experience in this activity, actuarial information and a rich database are very important for setting tariffs and underwriting of new business.

28.1.4 **Minimum size (critical mass)**

In order to cover the high fixed operational costs required for the operation of the insurance and investment systems, including the requirement to meet changing regulatory demands in the various areas, a minimum amount of revenues is required.

28.2 **Exit barriers**

The main exit barriers of the Group's activities are also set by the relevant laws.

28.2.1 **Insurance, pension and provident activity**

The liquidation or winding up of an insurer's insurance businesses are subject to the supervision of the Commissioner of Insurance, who may instruct insurers to act in a certain way in the winding up of the business or ask the court to give an order stating that the liquidation should be made by the court or under its supervision.

Mergers, splitting up, management termination or voluntary liquidation, require the prior approval of the Commissioner. If an order application was made to appoint an official receiver or a temporary liquidator in a managing company, and such order was not cancelled within a certain period set in the Provident Funds Law, or if management was not transferred to another managing company within the period set under the law, the Commissioner may apply his authorities regarding anything related to maintaining the stability of the provident fund, including appointing an authorized manager in accordance with rules set as to insurance companies.

In life assurance and pension businesses and "long-tail" lines of general insurance businesses – the termination of activity involves setting up an arrangement for the continued handling of all of the insureds' / members' rights (Run-Off).

28.2.2 **Financial services**

During 3 years from the date the last prospectus was signed by an underwriting company, and upon meeting additional conditions, such as the non-filing of a claim against the Company in respect of its obligations under the prospectus as per the Securities Law, it is not allowed to withdraw monies from a deposit that was deposited with a trustee

The liquidation of mutual funds managed by a fund manager is subject to arrangements under the **Joint Investments Trust Law – 1994**. Any sale or transfer of means of control in some of the companies in the area of financial services mandates the buyer to receive the permits set forth in Clause 26.1.1 (a) with the required changes.

29. Critical success factors

29.1 General success factors

The following factors can be specified as the common success factors for all of the Group's various areas of activity:

Changes in the market, employment and capital market condition; regulatory demands, including control of tariffs; competition in the area; customer loyalty and portfolio persistency; quality of investment management, including the management of risks involved in all the Group's areas of activity; distribution channels, including their ability to increase demand and create new markets; a variety of products and the ability to adjust them to market conditions and customer needs, including providing integrated solutions for the customers in respect of the Group's variety of products; quality of service to insureds, members and other customers, as well as agents; positioning the Company as a leading company in the life assurance and LTS area, while creating a brand that will enhance its competitive status; preservation and employment of high-quality human capital; computerization and technology level; operational efficiency and operational, marketing and sales expenses level; operation of efficient control and constant examination and improvement of working processes; robustness and stability.

29.2 Success factors unique to the pension and insurance areas

In addition to the aforementioned, the pension and insurance areas can be ascribed the following factors:

Level of the permitted management fees allowed under the law, and management fees actually collected; underwriting quality; actuary quality in pricing and reserves and their management; changes in life expectancy; frequency and severity of claims, including catastrophes; quality of claims management, including management of agreements with service providers and fraud control; protection and cost of reinsurance; scope of tax benefits for customers (in the area of life assurance and LTS); technological and other developments in medicine including medical inflation; changes in the health basket.

30. Investments[51]

30.1 Structure of investment management of the Group's institutional entities

The investments in institutional entities in the Group are carried out by an investment array that concentrates the information, expertise and personnel required for investment management, see Clause 32.1 below.

As per the legislative arrangement, there are two Investment Committees in insurers.

One, for managing the investment portfolio of monies to cover yield dependent liabilities ("**Profit Participating Investment Committee**"), and another for investing the insurer's equity, and investing monies to cover non-yield dependent insurance liabilities ("**Nostro Committee**").

In Migdal Makefet and Yozma there is an Investment Committee for the management of members' monies managed by Migdal Makefet and Yozma (The profit participating investment committee for the management of members' monies managed by Migdal Makefet and Yozma shall be referred as "**Members' Investment Committee**").

Pursuant to the legislative arrangement, in the Members' Investment Committee there is a majority of external representatives, who comply with the eligibility requirements for External Directors pursuant to the Law.

The BoD of every subsidiary, which is an institutional entity outlines the overall investment policy in its areas of activity. In its overall investment policy, the relevant institutional entity's BoD sets the strategy, objectives and exposure framework for the various investment channels, in each of the portfolios managed by it. The Investment Committees which operate both in the insurer, as well as in the pension and provident funds' managing companies, determine the investment policy specifically for each of the above-mentioned entities in the Group, within the overall investment policy set forth by the BoD.

Furthermore, in the Group there is a joint Credit Committee for Migdal Insurance (Members' Monies and Nostro), Migdal Makefet and Yozma (Credit Committee that is joint for all entities), whose main role is to review credit transactions as set forth regarding this issue in the legislative arrangement that applies to all institutional entities.

The provisions of the legislative arrangement which apply to investment management include the Investment Rules Regulations and the Circular regarding Investment Rules and other Circulars published by the Commissioner of Insurance regarding investment management by institutional entities. The legislative arrangement sets forth various restrictions and frameworks adjusted to the type and nature of various liabilities of institutional entities (members' monies and Nostro monies).

The investments array in Migdal Group is built in a matrix structure, two Chief investments managers, one is the CIO in charge of real investments, private equity investments, credit and Nostro investments of Migdal Group's companies, and the

[51] The Clause refers to investment management of institutional entities in the Group only.

other is the CIO in charge of members' monies, real estate and hedge funds investments of Migdal Group's institutional entities[52].

The Investments Discipline in Migdal Group concentrates the investment management of the Nostro portfolio, the profit participating portfolio, the pension funds portfolio and provident funds portfolio of institutional entities in the Group, and each portfolio has a designated investment manager who is in charge of the overall investment management of that investment portfolio.

30.2 Breakdown of assets under management

Hereunder is the breakdown of managed assets of the Group's institutional entities, as of December 31st, 2013 and December 31st, 2012:

<table>
<tr><th></th><th colspan="2">31.12.2013</th><th colspan="2">31.12.2012</th></tr>
<tr><th>Institutional entity</th><th>Nostro</th><th>Yield-dependent monies (1)</th><th>Nostro</th><th>Yield-dependent monies (1)</th></tr>
<tr><td>Migdal Insurance (2)</td><td>33,498</td><td>70,595</td><td>31,213</td><td>60,449</td></tr>
<tr><td>Migdal Makefet – pension funds</td><td rowspan="2">197</td><td>37,740</td><td rowspan="2">169</td><td>30,857</td></tr>
<tr><td>Migdal Makefet – provident funds</td><td>15,336</td><td>14,559</td></tr>
<tr><td>Yozma</td><td>7</td><td>1,557</td><td>5</td><td>1,448</td></tr>
<tr><td>Total</td><td>33,702</td><td>125,228</td><td>31,387</td><td>107,313</td></tr>
</table>

(1) "Yield-dependent monies" are in insurers – assets against yield-dependent liabilities, and in managing companies – members' monies.

(2) As of December 31st, 2013 the total liabilities in respect of yield-dependent contracts in Migdal Insurance is approx. NIS 70,559 million, out of which: approx. NIS 69,822 million is in respect of yield-dependent insurance contracts and approx. NIS 737 million in respect of yield-dependent investment contracts, vs. the total liabilities in respect of yield-dependent contracts as of December 31st, 2012 of approx. NIS 60,063 million, out of which: approx. NIS 59,790 million in respect of yield-dependent insurance contracts and approx. NIS 273 million in respect of yield-dependent investment contracts.

(3) For additional details regarding the breakdown of investment channels see the Company's websites:

https://www.migdal.co.il/He/MigdalTeam/investments/Pages/nustro.aspx
https://www.migdal.co.il/He/MigdalMakefet/Investments/Nechasim/Pages/default.aspx

30.3 Declaration in advance regarding the investment policy

The Institutional Entities Circular 2009-9-13, Declaration in Advance by Institutional Entities regarding their Investment Policy ("Circular regarding declaration of Investment Policy"), requires institutional entities to declare their investment policy, regarding non-specialized investment tracks and specialized investment tracks, as per the provisions set forth in the Circular regarding declaration of Investment Policy, including reporting in the event of a change. For the link to the website in which the institutional entities' declarations were published:

https://www.migdal.co.il/He/MigdalTeam/investments/Pages/InvestmentPolicy.aspx
https://www.migdal.co.il/He/MigdalMakefet/Investments/InvesPolicy/Pages/default.aspx
https://www.migdal.co.il/He/PensionarySavings/pensia/Yozma/Pages/InvestPlicty.aspx
https://www.migdal.co.il/He/MigdalMakefet/Investments/InvesPolicy/Pages/default.aspx

[52] Regarding the announcement of the CIO of members' monies, real estate and hedge funds Investments as to his resignation, see Regulation 26 in the Chapter of Additional Data on the Corporation.

30.4 Material investments in held companies, partnerships and ventures that are not subsidiaries[53]

The balance of the Group's investments in affiliates is approx. NIS 654 million as of December 31st, 2013, vs. approx. NIS 605 million as of December 31st, 2012. The increase is mostly due to the income of affiliates in the amount of approx. NIS 70 million, less dividends in the amount of approx. NIS 41 million, the participation in Amot's issuance in the amount of about NIS 14 million performed in June 2013, and an investment in another affiliate in the amount of approx. NIS 6 million, for additional information regarding affiliates and the amount of investment in them, see also Notes 7a and 7b to the Financial Statements.

The material affiliates are:

30.4.1 Ramat Aviv Mall Ltd. (previously Meqarqee Merkaz Ltd.) – ("Mall Company")

This is a private company whose shares are held at approx. 73.4% by Melisron Ltd., a public company, and at approx. 26.6% by Migdal Real Estate Holdings Ltd. (which is a subsidiary fully held by Migdal Insurance). The Company owns the Ramat Aviv Mall, which includes retail rental areas and an adjacent office building and office space for rent. In January 2013, the management activity of a subsidiary of the Mall Company was discontinued, and the management activity is carried out by the Mall Company.

For the loans received from the Mall Company, see Note 38h to the Financial Statements. Regarding tax assessments issued for Migdal Real Estate Holdings Ltd, which holds the Mall Company Ltd., see Note 21d to the Financial Statements.

30.4.2 Amot Investments Ltd. ("Amot")

Amot is a public company, whose shares are traded on the TASE, engaged, directly and indirectly, via corporations controlled by it, in renting, managing and maintaining assets in Israel, as well in acquiring, initiating and developing real estate for rent for self-use. Amot is a subsidiary of Alony Hetz Properties and Investments Ltd., a public company whose securities are also traded on the TASE. Migdal Insurance holds approx. 14% of Amot's issued and paid up share capital.

31 Reinsurance

31.1 General

As an integral part of its activity in insurance, the Group operates to cover some of the insurance risks it takes via foreign reinsurers. The engagement with reinsurers has several advantages, mainly protection against high exposure risks and fluctuations in the level of risk. Reinsurance is adjusted to various risks according to the nature of risk and its level.

The acquisition of reinsurance is performed in policies or lines in which, in the Group's estimation, it is more efficient to cede the risk than to use the Company's capital. Internal actuarial estimates, various actuary or statistical models and claims experience, help the Group in assessing the required reinsurance level.

Reinsurance transactions are signed in the Company's various areas of activity, life assurance, health insurance and general insurance (property and liability insurances). The balance of risk imposed on the insurance company after ceding part of the risk to reinsurers is called "**retention**".

Usually there are two types of engagements in reinsurance:

[53] For the definition of held companies, subsidiaries, affiliates, see Note 1 Definitions to the Financial Statements.

- **Contractual reinsurances** – the reinsurer receives in advance all the risks that the insurer placed upon it, in a pre-defined line / area, during the treaty period and in the insurance scopes defined in the treaty ("**reinsurance treaty**"). Reinsurance treaties are signed and / or renewed, usually every year (usually in the beginning of a calendar year), and they cover, in the conditions set forth in them, a variety of risks included in the various insurance policies, sold by the Group during the activity period to which the treaty applies. Claims under the reinsurance treaties are paid both during that year and / or during the following years, subject to the Statute of Limitation[54].

- **Facultative reinsurance** - the reinsurers are asked to participate in each business separately, and they may accept or reject the proposed business. The engagement with the reinsurer is in order to cover risks in the specific policies ("**facultative reinsurance**"). Usually businesses will have this type of insurance when the insurance amount exceeds the insurance amounts covered by the reinsurance treaties mentioned in the previous paragraph, and / or when the risk is excluded from the reinsurance treaty and / or due to specific underwriting considerations and their adjustment to the outlines and terms of the treaties.

The customary structures of reinsurances are:

- **Proportional reinsurances** – the reinsurers participate in the pro rata share of the risk, and in return they receive the same pro rata share of premiums. There are mainly two types of proportional reinsurance:

  (a) **Quota Share**, in which the reinsurers participate in a pre-determined rate, in premium, risk and claims.

  (b) **Surplus treaty -** in which the reinsurers participation rate varies from one risk to another, and from the moment it is defined, the reinsurers participate in the same rate in premium, risk and claims

- **Non-proportional reinsurances –** the share of the reinsurers is not their share in premium. Usually, reinsurers do not pay commissions in non-proportional treaties. The main treaty in non-proportional reinsurance is **Excess of Loss**, in which reinsurers receive a payment deriving from the scope of the line to which the treaty refers, in return for which they cover damages exceeding a certain amount, per risk, claim or event, as they were set.

Reinsurance engagements in general insurance are usually conducted on an annual basis.

In life assurance and health insurance, reinsurance engagements are usually conducted with relation to a defined period, and apply throughout the entire life of the covered policies issued at such defined period. In some health insurance (LTC, medications insurance etc.), reinsurers may interrupt the insurance coverage during the agreement period, such that the agreement does not cover all the lives of issued policies, under certain conditions in the agreements.

In reinsurance transactions, the insurance company pays reinsurers a premium. Reinsurers pay the ceding company payments in respect of claims, as well as commissions, depending on the structure of the reinsurance transaction. As already mentioned, usually, in non-proportional reinsurances, no commissions are paid by reinsurers.

[54] In life assurance and health insurance, where the policies are for the long term, usually reinsurance treaties cover the policies sold in the area of activity to which the treaty refers, but their validity will be for the entire life of the policies that were sold until their cancellation, even if the reinsurance treaty is not renewed in the following years. In some reinsurance treaties in health insurance, the reinsurer may request changes in the treaty also for existing insureds if certain conditions set forth in the treaty are met, see Clause 31.3 below.

The commissions received from reinsurers are usually set as a share of the premium ceded to the reinsurers. Sometimes, the commission rate is fixed, regardless of the achieved results, and sometimes the commission rate depends on the underwriting results of the ceded businesses. Sometimes, Migdal receives a profit commission in addition to the fixed commission, which is calculated as part of the underwriting profit of the same risk (namely, premiums less claims and commissions).

Sometimes the Group also executes more complex transactions. Usually, these transactions are transactions in which the customer has global activity, both in Israel and abroad. The insurance coverage is given not only to the Israeli activity but also to activity overseas ("**multi-national transaction**").

Reinsurers' liabilities towards the insurance companies do not release the insurance companies from their liabilities towards their insureds, therefore reinsurers' financial stability affects the insurance companies – see Notes 37a3d and 37b (4.1) to the Financial Statements.

31.2 Life assurance

The Group acquires reinsurance in respect of the risk component in life assurance policies (risks of death, disability and PHI). In 2013 the amount of reinsurance premiums in life assurance in the Group was equal to approx. 2.3% of gross premium.

Reinsurance covering risks of death, disability and PHI is signed in surplus or quota share treaties.

In 2013, in surplus treaties for death risk, the coverage cap is approx. NIS 8,731 thousand per insured.

In quota share treaties for PHI for portfolio in force as of December 31st, 2013, the cap of coverage of monthly compensation is approx. NIS 48.6 thousand per insured. In 2013 the Company conducted a transaction for the acquisition and sale to another reinsurer of a PHI reinsurance treaty whereby the portfolio was sold under the same terms and with the same cap of NIS 48.6 thousand. Regarding PHI policies sold as from 2013, the Company has a new reinsurance treaty, which is a combination of surplus and quota share reinsurance, in which the coverage cap for monthly compensation is approx. NIS 90 thousand. The level of reinsurance coverage varies depending on the insurance risks assessed by the Company.

Furthermore, there are facultative reinsurance treaties, signed for covering risks embedded in specific policies.

In 2013, the Company has a reinsurance treaty for covering death in catastrophe events in the amount of approx. USD 150 million, beyond USD 80 million in the event of war, and beyond USD 40 million in the event of an earthquake. From January 1st, 2014, this treaty covers, in addition to the risk of death, also risk of absolute and permanent occupational disability.

31.2.1 Transaction for the acquisition and sale of PHI reinsurance treaty

In December 2013, transactions pursuant to which Migdal Insurance acquired from Generali its reinsurance portfolio for PHI policies for the period between January 1st, 1970 till December 31st, 2012, for approx. NIS 30 million, were completed.

Under the agreement, Generali will stop serving as a reinsurer for covering reinsurance for PHI policies of Migdal Insurance as of January 1st, 2013, and the parties shall release each other of any liability that existed between the parties as per the reinsurance treaties for PHI policies as set forth above. The mutual release also includes a waiver by Generali of its rights regarding all the reserves held by Migdal Insurance, including reserves held by Migdal Insurance against Generali's liabilities regarding claims, both current and outstanding, and those that occurred but not reported yet.

At the same time, an agreement was signed between Migdal Insurance and another reinsurer, Swiss Re, under which Swiss Re shall transfer to Migdal Insurance the amount of approx. NIS 82 million, against taking all of Generali's liabilities, as is, in respect of the sold portfolio for the coverage of the portfolio's reinsurance.

After the implementation of the exit agreement with Generali and the engagement with Swiss Re in an alternative treaty, Generali's insurance liabilities in respect of the sold portfolio were fully transferred to Swiss Re, "back-to-back", and the terms of reinsurance do not change.

As a result of these engagements, Migdal Insurance and the Company recorded income recognized in 4Q13, in the amount of approx. NIS 52 million. For additional details see the Company's Immediate Reports dated November 26th, 2013 (Reference Nos. 2013-01-203196 and 2013-01-203211) as well as Note 38e1c) to the Company's Financial Statements.

For information regarding premiums paid to reinsurers, reinsurers' share in claims and commissions paid by reinsurers, see Notes 3b and 3c to the Financial Statements.

31.2.2 The Company has several reinsurers whose share of reinsurance premium in life assurance constitutes 10% or more, as detailed below:

		2013		2012	
Name of reinsurer	**Rating as per S&P[55]**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of life assurance in percent**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of life assurance in percent**
Generali	A-	11.0 (1)	6	66.7	42
Swiss Re	AA-	90.8 (1)	52	27.3	17
Munich Re	AA-	33.4	19	30.1	19

(1) After the transfer of premiums in the amount of approx. NIS 39 million recorded to Generali's credit and transferred to Swiss Re's credit within the transfer of PHI policies, as set forth of 31.2.1 above.

[55] The rating in the table is as of the date of the Report publication.

31.2.3 **Pension** – Makefet Ishit pension fund has a reinsurance treaty for the coverage of death in catastrophic events (without coverage of plague). The total compensation is USD 50 million, over retention of USD 15 million, in case of multiple injuries including war and earthquake. The coverage cap per member is approx. USD 1 million. The cost of reinsurance premiums is paid from the fund assets. As of 2014, the treaty was expanded to cover permanent disability in catastrophe events, and the total coverage was increased to USD 70 million.

The Makefet Comprehensive pension fund has a quota reinsurance treaty covering 90% in case of death and/or disability of the active fund members who are not in the basic old age track, paid as per the fund Articles of Association. Coverage is obligatory and is up to an amount at risk of approx. NIS 4.5 million in case of death and approx. NIS 7 million in case of disability, for each insured. From 2012 the cost of reinsurance premiums is paid from the assets of the active members who are not in the basic old age track.

31.3 **Health insurance**

The Group purchases reinsurance in respect of the risk element in health policies (transplant, dread disease, LTC and medication insurance risks to health funds members). In 2013, the scope of reinsurance premiums in the Group's health insurance equaled approx. 8.5% of gross premium.

Reinsurance coverage for LTC is by a surplus treaty. Reinsurance for transplants, dread disease and medications not included in the health basket coverage is by a quota share treaty.

There are also facultative reinsurances, which are signed to cover risks embedded in specific policies.

In the dread disease reinsurance quota share agreement, the coverage cap is approx. NIS 745 thousand per insured; in the transplant insurance quota share agreement, there is no cap; in medications not included in the health basket quota share agreement, as aforesaid, the coverage cap is approx. NIS 15,000 thousand per insured.

In most reinsurance treaties described above, the Company is paid flat commissions from the premium ceded to reinsurers, and in addition, the Company receives a profit commission that is usually calculated as a rate out of the underwriting profit.

In some reinsurance treaties, the reinsurer may demand that changes in the treaty also apply to existing insureds, if certain conditions set forth in the treaty are met.

The Group has a number of reinsurers in this area, whose share of reinsurance premiums in health insurance constitutes 10% or more, as follows:

Name of reinsurer[56]	Rating as per S&P[57]	2013 Reinsurance premium ceded to reinsurer (NIS million)	2013 Share of total reinsurance premiums in the area of health insurance in percent	2012 Reinsurance premium ceded to reinsurer (NIS million)	2012 Share of total reinsurance premiums in the area of health insurance in percent
Hannover Re	AA-	35.1	54	33.9	54
Swiss Re	AA-	24.5	37	23.9	38

31.4 General insurance

31.4.1 CMBI

The Group's liabilities in the CMBI line in 2013 are covered by excess of loss reinsurance. As a result of the reinsurance arrangement, exposure in respect of a single claim is limited. Within this agreement there is a cumulative deductible of all claims beyond the set retained amount. As customary in this kind of contracts, no commissions are received from the reinsurers.

31.4.2 Casco

The line of casco is characterized by large dispersal and relatively small standard deviation of claims. In light of the above characteristics, the Group does not purchase reinsurance in this line, except an excess of loss type agreement, of insignificant scope.

As customary in this kind of contracts, no commissions are received from the reinsurers.

31.4.3 Other general insurance lines

The main lines in which the Group purchases reinsurances in the area are for coverage of different types of property lines, including: contractors, engineering and marine and also for covering liability lines. The Group's reinsurance array and policy in the area are very important to its ability to insure large or special risks. As a result of the various reinsurance arrangements, the Group's exposure in respect of a single claim is usually limited, according to the amounts agreed-upon between the Group and the reinsurers, from time to time, including the retained amounts. The maximum exposure and retained amounts are determined according to the Group's estimate of the expected damages or events.

In the property, contractors, engineering and marine insurance lines, the Group purchases proportional reinsurances such as quota share and surplus insurances, in which the reinsurers’ participation is set as a fixed and equal percentage both in the premium and in the claim.

In proportional insurances, some of the reinsurers limited their participation to a rate that exceeds the maximum estimated damage assessed by the Company. In terror-related events there is a limitation of USD 50 million per event and USD 100 million per year.

[56] Generali has a non-material participation.of approx. 1% in reinsurance.
[57] The rating in the table is as of the date of the Report publication.

In recent years, in some treaties commissions received from reinsurers are at a fixed rate out of premium, and in others at variable rates according to the results.

Regarding excess of loss treaties in coverages for earthquake events, the Company decided to increase its participation in risk by approx. NIS 150 million, which caused a similar increase in the required equity.

In the treaties signed by the Group for 2014, there was, inter alia, a change in the proportional reinsurance in property insurance, pursuant to which the Company changed the treaty structure to a surplus treaty which unifies retention that exceeds the weighted retention in effect in the reported year. Furthermore, some reinsurers limited their participation to a rate that exceeds the Company's estimate of the maximum expected damages.

In the liabilities lines, the Group purchases excess of loss reinsurance, in which the retained amount is fixed and the reinsurer covers damage exceeding the set amount. As customary in such reinsurances, there are no commissions received from reinsurers.

In liability lines, the Group did not reach the caps set in the reinsurance treaties in the reported period, and has no outstanding claims in a scope which is close to the set limits.

31.4.4 **General**

In businesses where the insurance amounts exceed the scope defined in the relevant treaty and/or when the risk is excluded from the treaty with the reinsurer, and/or due to specific underwriting considerations, with respect to the treaties' frameworks and conditions, facultative reinsurance is purchased. Sometimes, within an overall insurance arrangement, reinsurance agreements with unrated companies are included.

The Group has a few reinsurers, whose share of reinsurance premiums in general insurance in the reported year constitutes 10% or more, as follows:

		2013		2012	
Name of reinsurer	**Rating as per S&P [58]**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in general insurance in percent**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in general insurance in percent**
Generali [(1)]	-A	166	32	161	35

(1) Including premiums in facultative reinsurance at 100%, in the amount of approx. NIS 58 million in respect of one insured in 2013, and approx. NIS 56 million in 2012.

[58] The rating in the table is as of the date of the Report publication.

31.5 **Exposure policy to reinsurers for 2013 as approved pursuant to Insurance Circular 2003/17**

31.5.1 **General**

As stated above, the Group acquires reinsurance under the framework of risk management policy. The reinsurance acquisition takes place in policies or lines in which, in the Company's opinion, it is more efficient to transfer the risk. Internal actuarial estimates, various models and former experience with claims, assist the Group in estimating the required reinsurance level.

There are two types of exposure to reinsurers:

(a) Exposure to open balances, and the risk that the reinsurer may not be able to cover its current and future liabilities. This exposure is managed via ongoing follow-up of the reinsurer condition in the global market, and the compliance with its financial liabilities.

(b) Exposure to a single large damage or accumulation of damages in respect of an especially large event. The accumulation is estimated based on the Maximum Possible Loss ("**MPL**") rate. This exposure is managed via an individual estimate of each of the reinsurers separately.

There are also exposure caps for the plan or for the scope of exposure to the reinsurer, depending on the reinsurer's equity and rating.

31.5.2 **Life assurance**

For the description of the Group's exposure policy to reinsurers in the life assurance area– see Clause 31.2 above.

31.5.3 **Health insurance**

For the description of the Group's exposure policy to reinsurers in the health insurance area– see Clause 31.3 above.

31.5.4 **General insurance**

The Group hedges itself from earthquake events, even from those occurring once in approx. 350 years. The estimate is achieved, inter alia, via the use of designated models for catastrophe-related risks estimates.

In the CMBI line, the Group acquires reinsurance up to an unlimited level, if possible, or, alternatively, to a level high enough to avoid any foreseen event.

In other lines, such as liabilities, the Group estimates the risk based on actuarial or statistical estimates and models, and claims experience, and acquires protection up to the required limit, in its opinion, under the policies sold by the Group.

Under the risk management policy, the Group distinguishes between the following types of businesses:

(a) "Short tail"[59] businesses – **low frequency** – includes medium to large corporations and businesses. Due to lack of Israeli-specific statistical data, the Group relies on models and estimates conducted by research institutes and universities, and acquires adequate reinsurance accordingly: proportional, facultative or excess of loss. The engagements are made with insurers rated BBB or higher.

[59] **Short Tail –** lines in which the time gap between the insurance event and the final determination of damage and its payment is relatively short.

(b) **"Short tail" businesses** – high frequency – mainly refers to property insurance of homes and small businesses. In such lines, the Group usually uses proportional or excess of loss agreements per event. The engagements are made with insurers rated BBB or higher.

(c) **"Long tail" businesses**[60]. – the covered risks are mainly liabilities and CMBI. Many of these claims end up in court, and sometimes, setting the indemnification liability may take many years. In long tail business, since the Group must engage with reinsurers which, according to its estimate, will be solvent in the long term, the number of reinsurers which may be relied upon is quite limited. Therefore, the Group policy in these types of businesses is to engage with reinsurers rated A- and higher. The selected type of reinsurance is mostly excess of loss.

Sometimes, under an overall insurance arrangement, reinsurance arrangements with unrated companies are included.

For additional details regarding exposure to reinsurers, see also Note 37 to the Financial Statements.

31.6 **Reinsurance transactions with Generali**

Generali, which was the Company's controlling shareholder up until October 29th, 2012, had a material share in the Group's reinsurances.

For details regarding reinsurance transactions with the Generali Group, see the description in Note 38e to the Financial Statements.

31.7 **Exposure of reinsurers to catastrophe events - earthquake and natural hazards**

General

31.7.1 **General insurance**

In respect of catastrophic events (earthquake and natural hazards), beyond coverage under proportional reinsurance agreements, the Group acquired "excess of loss" reinsurance for property, contractor, engineering and property lines in respect of the accrued retention, at an exposure–defined amount which shall derive from such event, based on the Group estimate as to the expected damage or event due to catastrophe. In the risk estimate, as mentioned, the Group used, inter alia, international designated software based on mathematic models for catastrophic risk estimate. If an event occurs, whose extent of damage exceeds such estimate, the Group shall be exposed to losses that are not covered by reinsurance.

As aforementioned, the Group protects itself against earthquake events, even earthquakes of an intensity which occurs once in 350 years.

In 2013, non-proportional coverage at weighed rates of approx. 2.0% was acquired, representing a weighted MPL of 5.7% once every 350 years (before the insured's deductible). In 2013, the insurance sums covered under proportional reinsurance against earthquake total approx. NIS 175 billion, while the insurance sums in retention which the Company covers through non-proportional reinsurance total approx. NIS 63 billion.

In 2014, following the shift to the usage of an updated model for the assessment of catastrophe risks, non-proportional coverage at weighed rates of approx. 1.8%[61] was acquired, representing a weighted MPL of 5.0% once every 350 years (before the insured's deductible). The Group's policy in

[60] **Long Tail** - lines in which the time difference between the insurance event and the final outlining and payment of the damage, is long.

[61] Except one transaction in which there is a maximum insurance amount fully covered by reinsurance.

catastrophe risks ("short tail" risks) is to engage with reinsurers whose rating is at least BBB.

Exposure to earthquakes is covered by reinsurers rated A- and above.

The three reinsurers participating in catastrophe events reinsurance coverage, whose share of the total exposure exceeds 10%, are Generali (approx. 22%), Swiss Re (approx. 14%) and Hanover Re (approx. 10%).

31.8 Summary of reinsurance results in general insurance (NIS millions)

Areas of activity	CMBI (1) (2)			Casco			Other property lines (see breakdown by premium types hereinafter) (3) (4)		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Premiums ceded to reinsurers	8.5	5.5	5.4	1.0	1.0	0.6	435.4	379.1	390.7
Reinsurers' results - income	8.9	15.2	12.1	1.0	1.0	0.5	206.4	190.9	36.6

	Other liability lines (5)			Total		
	2013	2012	2011	2013	2012	2011
Premiums ceded to reinsurers	68.0	68.8	87.6	512.9	454.4	484.3
Reinsurers' results - income	30.6	69.1	97.2	246.9	276.2	146.4

The results presented in the tables above exclude the results that will be attributed to an increase in the new business further to the absorption of the general insurance portfolio of Eliahu in Migdal Insurance, and these shall be expressed mainly in the Financial statements of upcoming years, as per the accounting rules and legislative arrangements regarding income recognition in CMBI and liabilities.

Breakdown of other property lines by premium types	2013	2012	2011
Reinsurance premiums – proportional	286.4	272.8	267.2
Reinsurance premiums – non-proportional	7.5	10.8	9.7
Reinsurance premiums – coverage for catastrophe events(6)	141.5	95.5	113.8
Total reinsurance premiums	435.4	379.1	390.7

(1) The increase in reinsurance premiums in 2013 was mainly affected by the absorption of Eliahu's new business in Migdal.
(2) The reinsurance results in CMBI mainly reflect the accumulated profit / (loss) of the underwriting year which ended three years prior to the reported year, as well as changes mainly in reinsurers' outstanding claims in old underwriting years. The decrease in CMBI results in 2013 was affected by a decrease in income released in respect of underwriting year 2010.
(3) The increase in reinsurance premiums in 2013 was mainly affected by the absorption of Eliahu's new business in Migdal.
(4) In 2011, the low income for reinsurers in other property lines was mainly due to two large claims that were mostly covered by reinsurance.
(5) Reinsurance results in other liability lines mainly reflect the aggregate income/(loss) of the underwriting year that ended three years before the reported year, as well as changes mainly in reinsurers' outstanding claims in old underwriting years. The

decrease in reinsurers' results in 2013 was affected by an increase in reinsurers' outstanding claims.

(6) The premium includes all types of reinsurance arrangements for catastrophe risks coverage (proportional reinsurance, facultative reinsurance and excess of loss reinsurance in order to cover accrued retention). As set forth above, the increase in reinsurance premiums in 2013 was mainly affected by the absorption of Eliahu Insurance's new business.

31.9 **Draft Circular regarding money transfers to foreign reinsurers**

In January 2014 the Commissioner of Insurance published a Circular regarding money transfers to foreign reinsurers. The proposed Circular is supposed to substitute provisions set forth in this regard in insurers' old Investment Regulations. The Circular's provisions define the relation between the rating of reinsurers and the collateral required from them. Insurance companies will be able to hold additional equity in the required capital, instead of a collateral. At this preliminary stage, it is still unclear what will be the final arrangement, therefore it is impossible to assess its implications on the Company.

32. Human capital

32.1 **The Group's organizational structure**

The insurance, pension and provident activity is conducted via several Divisions / Units as follows:

The Division of LTS, Health and Quality of Life – it centralizes the activity of life assurance, pension fund, provident fund and health insurance. This Division also centralizes the activity of institutional entities regarding the management of pension funds, provident funds and educational funds. From September 2013, the Division also centralizes the handling of claims / rights in the areas of life assurance and health insurance, pension funds and provident funds, which were previously handled in Migdal Claims Management Ltd. ("**Migdal Claims**"). From the end of February 2014, this Division is also in charge of the Chief Business Underwriting, the operation array of LTS and the Employers and Customers District.

From the end of February 2014, the Manager of the LTS, Health and Quality of Life Division was appointed as the Strategy Discipline Manager, including marketing and business development, which was previously under the Customers and Distribution Channels Division.

General Insurance and Reinsurance Division – it concentrates the general and reinsurance activity. From September 2013, the Division also handles claims payment in the area of general insurance (which was previously concentrated within Migdal Claims). From the end of February 2014, the Corporate Risk District ("CRD") was transferred to the Division's responsibility. In 2013, the District also handled the operations of reinsurance in the area of general insurance.

Customers and Distribution Channels Division – it concentrates the marketing and distribution activity and manages services for the Group customers and distribution channels, for all of the Group's institutional entities. From the end of February 2014, the Division centralizes the activity of the distribution arrays via the regional districts and the activities of the national sales arrays of the Group's various distribution channels (except the marketing and distribution activity of Mivtach Simon agency and the operation array of B-Diyuk, concentrated in the LTS Division, as aforementioned). Following the resignation of the Customers Division Manager in September 2013, the role of the Customers and Distribution Channels Manager is filled by the CEO.

Investments and Real Estate Array – it concentrates the know-how, the expertise and the manpower required to manage the Group's institutional entities' investments, and includes the area of members' investments, real estate and hedge funds and the area of real investments, private equity activity, credit and Nostro.

Finances and Actuarial Division – it was established in 2013 (see the Company's Periodic Report for 2012, Clause 49.1), and it concentrates the issues of finances and actuary in the area of LTS and health, and from the end of February 2014, other Units were added (previously included under the HQ functions), including: Risk Management Array (including operational risks), the SOX array, the Unit for the payment of commissions to agents, investments control and analysis. It should be noted that the Risk Manager has direct access to the Company's CEO.

Technology and Resources Division – it concentrates the computerization services unit, which provides IT services to the Group within Migdal Technologies Ltd. ("**Migdal Technologies**"), and from 2013, it also includes the areas of procurement, information security and the area of administration and logistics, which were under the HQ functions in 2012.

HQ Manager – from the end of February 2014, he is in charge of internal enforcement and control, service, HR array, O&M and the Ombudsman Unit.

Company Secretariat and Legal Advice are directly subordinated to the CEO.

Internal Audit – provides services to Group companies. The Internal Auditor reports directly to the Chairman of the Board of the Company.

Financial Services – provided primarily through Migdal Capital Services, which operates as a separate unit.

The Group's **insurance agencies activities** are mainly concentrated in Migdal Agencies.

The other ancillary activities, mainly Migdal's activities, are carried out as separate units (in the employees' breakdown below, they are included under "other").

For the organizational changes at the end of February 2014, see the Company's Immediate Report dated February 24th, 2014, Reference No. 2014-01-046033.

32.2 **The Group’s work forces**

The Group does not have a clear distribution of employees by areas of activity mentioned in this Report, inter alia, since there are various Divisions / Units (such as employees of the Customers, Investments, Finances and Actuarial Divisions, and the Technology Unit etc.) which provide services to more than one area of activity.

As of December 31st, 2013, the Group employs about 4,376 employees (out of whom about 36 are hired through manpower companies), vs. about 4,316 employees (out of whom about 51 employees were hired through manpower companies) as of December 31st, 2012[62].

As of the said date, the Group’s work force (including employees hired through manpower companies) can be divided in accordance with the following breakdown and the aforementioned organizational structure:

[62] The data regarding employees strength exclude employees who are employed by affiliates held at 50% or less, which are not material.

Division / Unit	No. of employees as of December 31st, 2013	No. of employees as of December 31st, 2012
Group management and HQ functions (1) (2) (3)	102	335 (1)
Finances and Actuarial Division (2)	141	
Customers and Distribution Channels Division	1,590	1,518
LTS, Health and Quality of Life Division (4) (5)	174	76
General Insurance and Reinsurance Division (5)	216	37
Investments and Real Estate Array	70	60
Technology and Resources Division (3)	386	339
Internal Audit Array	20	19
Migdal Capital Markets Group	249	273
The Group's insurance agencies	1,237	1,246
Other (6)	191	132
Migdal Claims Management – claims management unit (5)		281
Total	4,376	4,316

(1) In 2012 the HQ functions also included the finances, actuarial, Company Secretariat units, procurement units, information systems and logistics, which, in 2013, were transferred to other Divisions (some to the Finances and Actuarial Division, and some to the Technology and Resources Division) as detailed below.

(2) In 2013 the Finances and Actuarial Division was established, concentrating the finances, actuarial and Company Secretariat units, which were previously included under the Company HQ functions. In February 2014 there was another change in the Finances and Actuarial Division, whereby another 78 employees were added to the Finances Division, from the HQ functions and the Customers and Distribution Channels Division.

(3) In 2013, the Technology and Resources Division is comprised of Migdal Technologies, the computerization services unit (that existed in 2012 as well), as well as the procurement, information services and logistics units, which were included under the Company's HQ functions in 2012. The work force of Migdal Technologies as of December 31st, 2013 included 283 employees.

(4) In 2013 the Health Insurance Division was consolidated with the LTS Division, to make the LTS, Health and Quality of Life Division. In 2012 the LTS Division included 65 employees, and the Health Insurance Division – 11 employees.

(5) In 2012 all the claims activity regarding the areas of insurance, pension and provident in the Group was concentrated in Migdal Claims Management, whose employee strength as of December 31st, 2012 is detailed in the table above. During 2013 there was a change in the structure of claims management in the Group, within which the activity was split between the various areas. 102 employees were included in the LTS, Health and Quality of Life Division, and 165 employees were included in the General Insurance and Reinsurance Division.

(6) Other – including Migdal Management, Migdal Health and Data Car.

According to the aforementioned organizational structure, some of the Group employees, mainly employees of the Customers and Distribution Channels Division, the Investments and Real Estate Array, and some of the Finances and Actuarial Division and HQ employees, are jointly employed by institutional entities of the Group.

The main reasons for changes in the work force in the reported year as per their breakdown among the various units are detailed in the explanatory notes to the Table.

In 2013 there was an increase in the work force in the Customers and Distribution Channels Division, mainly due to the absorption of Eliahu Insurance's new business in Migdal Insurance.

The increase in the work force under "Other" is mainly due to the absorption of Pilat employees following the acquisition of that company's activity by Hi Capital in February 2013 (see Clause 3.3.2 to the Corporation Businesses Description for 2012).

32.3 **Employees' organization**

On November 3rd, 2013 the New General Federation of Labor ("**Histadrut**") announced that as of that date, it serves as the representative organization among Migdal Insurance employees (see the Company's Immediate Report dated November 3rd, 2013, Reference No. 2013-01-181320). On January 30th, 2014 Migdal Insurance announced that it agrees to start negotiations with the employees' representatives towards a collective agreement, and that it recognizes the Histadrut as Migdal Insurance employees' representatives (see the Company's Immediate Report dated January 30th, 2014, Reference No. 2014-01-028051).

Between Migdal Insurance and the Histadrut there were legal procedures both before the representation was recognized, regarding the issue of recognizing the Histadrut as the representative organization in Migdal Insurance and regarding the Histadrut's claims as to the damage caused by Migdal Insurance to the employees' organization, as well as after its recognition as the representative of the organization. For this issue, see Note 39.1 e 38 to the Financial Statements.

As of the date of this Report, Migdal Insurance is about to begin negotiations towards signing a collective agreement in Migdal Insurance, within which the parties agreed to "freeze" all pending legal procedures between the parties.

Since the negotiations have not been yet completed into a binding agreement, and in light of the uncertainty as to their scope and conditions, see also Clause 38.1 below.

32.4 **Benefits and the nature of employment agreements**

The working relations between the Group and its employees are based on personal work agreements, except for a few employees of Migdal Makefet, to whom a collective agreement applies.

The work agreements define their terms of employment, including basic salary, social benefits and fringe benefits.

The Group includes several employee groups, mainly supervisors and salespersons and some of the investment staff in Migdal Capital Markets Group, who are remunerated beyond the basic salary, also by salary based on performance or meeting targets and subject to the Law.

For the organization of employees and the negotiations towards the signing of a collective agreement, see above.

32.5 **Special grant in respect of 2013**

In November 2013 the Company's BoD and Migdal Insurance's BoD approved a special budget for a grant to employees, which reflects, as a rule, the sum of two monthly salaries for employees who started working before 2013, and one monthly salary for employees who started working in 2013. The grant was paid in December 2013 as a special grant to the employees of the main companies in the Group, after the completion of one year from the acquisition of the control in the Company, and as a token of appreciation for the contribution of all Group employees to the Company's achievements in the transition period, prior to the acquisition of control and thereafter. The Company decided to allocate a budget also for employees in companies providing services to the Company in its premises, although they are not employed by the Company. The grant to employees who are Senior Officers in the Company and in institutional entities, except the CEO, is pursuant to the remuneration policy for Senior Officers in the Company, as detailed in Clause 32.6 below. The special budget was approx. NIS 97 million.

The grant to the CEO was approved by the Company's BoD on February 24th, 2014, and it is subject to the approval of the General Meeting that will convene on April 1st, 2014. See the Company's Immediate Report dated February 25th, 2014 (Reference No. 2014-01-046174).

32.6 **Remuneration policy and principles for Senior Officers in the Company**

32.6.1 On September 12th, 2013 the Company's General Meeting approved the remuneration policy for Senior Officers in the Company as per the Companies Law (Amendment No. 20) – 2012 ("**Amendment No. 20**"), after receiving the recommendation of the Company's Compensation Committee and the BoD. The Company BoD referred to mandatory issues in the remuneration policy, detailed in Addendum A to the Companies Law, as well as pursuant to the Institutional Entities Circular 2009-9-24 ("**Commissioner Circular regarding Remuneration**") regarding Senior Officers in the Company who also serve as Senior Officers in institutional entities controlled by the Company, and the aforementioned Circular applies to them.

This remuneration policy shall be in effect from the date of the General Meeting approval for the years 2013-2014. The remuneration policy shall apply to Senior Officers in the Company.

For the entire document regarding the remuneration policy in the Company, see Addendum A to the Immediate Report including an invitation to the General Meeting, published on August 8th, 2013 (Reference No. 2013-01-112608) and complementary reports dated August 22nd, 2013 and September 2nd, 2013, Reference No. 2013-01-124023 and Reference No. 2013-01-134847, respectively, as well as the Report regarding the General Meeting Results, dated September 12th, 2013, reference No. 2013-01-144555.

32.6.2 **Policy and principles for the remuneration of Senior Officers in the Company, Senior Officers and Managers in the Group's institutional entities as well as investments employees in institutional entities who are entitled to a variable component based on performance**

(a) During August 2010 the Company's BoD adopted a remuneration policy for Senior Officers of the Company, Senior Officers and Managers in the institutional entities[63], as well as for investment employees in institutional entities who are entitled to a variable component that is based on their performance ("**participants**" or "**Senior Officers in institutional entities**"), inter alia, pursuant to the provisions of the Commissioner's Circular regarding the remuneration policy.

(b) Based on the remuneration policy and principles ("**remuneration policy in institutional entities**" or "**remuneration principles in institutional entities**"), as set forth by the Company BoD and also approved by each of the BoDs of the Group's institutional entities, annual remuneration plans will be set and approved individually every year by the relevant company BoD, as the case may be. It was clarified that the remuneration policy does not bind the BoD to set a remuneration policy, and at any time it may instruct conducting bonus calculations that are not detailed in

[63].The institutional entities in the Group include Migdal Insurance, Migdal Makefet and Yozma, and for this Clause (Human Capital), also Migdal Technologies Ltd. and Migdal Claims Management Ltd. In this Clause, wherever institutional entities are mentioned, this means all the companies set forth in this Note.

the plan, or decide that a bonus shall not be paid as per the plan, and it may also instruct changes or cancellations or suspensions of any plan, as determined by the Company BoD and under the conditions that were determined both in the policy and in the relevant plan.

(c) After approving the remuneration policy in the Company as set forth in Clause 32.6.1 above, there were changes in the remuneration policy for 2013 in institutional entities, regarding Senior Officers in the Company, as per the principles set forth in the Company's remuneration policy regarding the variable remuneration component.

(d) The remuneration policy for Senior Officers in institutional entities, as well as for investments employees in institutional entities who are entitled to a variable component, as updated in 2013, was published in the websites of the Company's institutional entities as per the provisions of the Commissioner's Circular regarding remuneration, and it is attached as an Appendix to the Periodic Report.

(e) It should be noted that in December 2013, the Commissioner published a Draft Circular on "remuneration policy in institutional entities", which intends to significantly expand the provisions of the Commissioner's Circular regarding remuneration, for the Draft Circular see Clause 27.3.6 above.

32.7 **Remuneration plan**

For details regarding the remuneration plan in effect, see Note 33b to the Financial Statements.

32.8 **Training and organizational development**

The Group invests many resources in professional training for employees and agents according to their position and the Discipline in which they work, and it operates based on an organizational training and development program, which supports obtaining the Group’s goals in all organizational units on an ongoing basis and with flexibility, according to needs, and inter alia, sends its employees and agents to professional courses, conferences and relevant training.

The Group has plans for the promotion of the managerial and professional development channel, as well as short term incubators suited for new employees in the LTS array, and development of a variety of programs for the various managerial levels, which are training and qualification programs adjusted to the Group's professional needs. Also, from time to time, the Group holds enrichment workshops for Group employees regarding various issues.

32.9 **Executive Senior Officers' group**

As of the date of this Report, the group of Executive Senior Officers (who are not Directors) in the Group comprises 17 employees detailed in regulation 26a to the Chapter of additional Data on the Corporation ("**Senior Executives**").

The Group's Executive Senior Officers[64] are also employed under personal contracts detailing their terms of employment. Often, executive Senior Officers are entitled, under such contracts, to an adaptation grant which usually amounts to up to 6 monthly salaries beyond the early notice period. Some Executive Senior Officers have different and additional arrangements, stemming from various circumstances related with historic agreements or unique circumstances of recruitment and employment.

For the remuneration policy for Senior Officers in the Company and Senior Officers in the Group's institutional entities, see Clause 32.6 above.

For additional details regarding the wages and remunerations in respect of 2013, including the terms of employment of the highest wages earners among the Executive Senior Officers of the Company and corporations controlled by it, including the terms of retirement of Messrs. Aharon Fogel and Yonel Cohen, see Regulation 21 in the Chapter of Additional Data on the Corporation.

For the appointment of Mr. Ofer Eliahu as the CEO of Migdal Insurance and the approval of his terms of office and salary, see the General Meeting Immediate Report dated February 25th, 2014, Reference No. 2014-01-046174.

For the appointment of Ms. Anath Levin as the Company's CEO and the CoB of Migdal Insurance and the approval of her terms of office and salary, see the General Meeting Immediate Report dated February 25th, 2014, Reference No. 2014-01-046174.

In the reported year, and up until the publication of this Report, there were additional changes in the Company's Executive Senior Officers, as detailed in Regulation 26a to the Chapter Additional Data on the Corporation.

33. Marketing and distribution

33.1 General

The Group's main marketing and distribution channels in its areas of activity (excluding the area of financial services) are as follows:

33.1.1 Insurance agents and agencies / pension marketing agents

Most of the Group's insurance plans are marketed via insurance agents and insurance agencies (pensionary marketing agents for pension products and insurance agents for non-pensionary products), including insurance agencies held by the Group.

The Group is in contact with about 2,600 insurance agencies (corporations[65]) and insurance agents ("**agents**") around the country. The Group is engaged with most agents in life, pension and provident insurance business, health and general insurance business, and they conduct most of the Group sales.

[64] Since 2010 the Group classifies managers as "Senior Officers" in the Company and institutional entities in the Group under the Companies Law if they carry the title Assistant to CEO and actually report to the CEO. Furthermore, the classification includes managers whose position in terms of content and significance, including regarding institutional entities in consolidated companies as per the legislative arrangement that applies to them, require reporting to the CEO or regarding whom there are regulatory provisions indicating that their position, as far as significance is concerned, are "Senior Officers". On the other hand, managers titled Assistant to CEO who do not actually report to the CEO, whose position in terms of content and significance does not suit their title, no longer fall under the category of those considered "Senior Officers" in the Company as per the Companies Law, all this in light of reviewing the content and significance accompanying the types of positions fulfilled by the managers. The above mentioned classification had no implication on the managers included under "the Corporation's Executive Senior Officers", as detailed in Regulation 26 a in the Chapter Additional Data on the Corporation.

[65] Some insurance agents are corporations employing workers, who are not included in the figure stated above.

Most agreements with agents are not exclusive and agents, including agencies held by the Group, also work with other insurance companies. The channel of distribution via agents is the most significant distribution channel in the Group.

Some of the marketing and distribution activity via agents is also performed via insurance agencies controlled by the Group. Migdal Agencies concentrates most holdings in them. Mivtach Simon, Sagi Yogev and Shaham are insurance agencies that concentrate the marketing and distribution activity in the area of life assurance and LTS and health insurance, while Peltours Insurance Agency concentrates most of the marketing and distribution activity in the area of general insurance.

33.1.2 **Direct distribution** – directly, via Group employees.
Most activity is in the pension and provident lines, in which, due to the mandatory pensionary insurance, there are direct engagements vis-à-vis employers, employees' organizations, for directly joining pension and provident funds managed by the Group, as well as participation in tenders published by employers/employees' organizations. Some collective policies in life assurance and health insurance are marketed via direct sale by the Group, mostly by participating in tenders. In general insurance – most activity is with large customers such as companies dealing with vehicles, or having car fleets, mortgage banks, or participation in various customers' tenders.

33.1.3 **Banking corporations** – in pension and provident lines – distribution by pensionary advisors in bank branches (activity which is still non-material).

The Customers and Distribution Channels Division centralizes, manages and operates the Group's various distribution channels, and as of the end of February 2014, the marketing and distribution activity of Mivtach Simon and the operations array of B-Diyuk are concentrated in the LTS, Health and Quality of Life Division, see Clause 32.1 above.

In 2013 the Group does not have a single agent whose scope of sales exceeds 10% of the premiums in any relevant area of activity.

33.1.4 In the pension and provident lines, where there is direct activity, the share of distribution channels is as follows:

Pension – distribution via agents – approx. 66% of contributions (approx. 67% in 2012 and about 69% in 2011), direct distribution – approx. 33% of contributions (approx. 32% in 2012 and about 30% in 2011), and distribution via banking corporations – approx. 1% of contributions (similar to 2012 and 2011).

Provident – distribution via agents – approx. 32% of AuM (approx. 29% in 2012 and about 27% in 2011), direct distribution – approx. 49% of AuM (approx. 50% in 2012 and about 53% in 2011), and banking corporations – approx. 19% of AuM (approx. 21% in 2012 and approx. 20% in 2011).

33.1.5 The premiums and contributions received in 2013 from the agencies controlled by the Group (including data regarding these agencies' sub-agents) are as follows: 29% of the total life assurance businesses (vs. approx. 31% in 2012 and about 32% in 2011), approx. 30% of the total pension businesses (vs. approx. 34% in 2012 and about 37% in 2011), approx. 27% of health businesses (vs. approx. 26% in 2012 and about 23% in 2011) and approx. 8% of general insurance businesses (vs. approx. 11% in 2012 and about 10% in 2011).

For details regarding the work force of insurance agencies controlled by the Group, see the Table in Clause 32.2 above.

33.2 **Regulation of agents / pensionary marketers / pensionary advisors**

Agents' activity is supervised by the Commissioner of Insurance, and the provisions of the Insurance Contract Law, the Supervision Law and the Marketing and Advice Law (related to pensionary products), apply to their activity. These relate to licenses required for their activity and the way they operate.

The Supervision Law requires the existence of a written engagement agreement between the insurer and the insurance agent. Insurance agents must keep the insurance fees collected from the insureds in a separate account until they are transferred to the insurer, and provisions were set as to the dates upon which insurance agents must transfer such monies to insurers. The granting of loans and advance payments to agents by the insurance companies is also regulated in regulations and circulars.

The Regulations of the Supervision of Financial Services (Provident Funds) (Distribution Commissions) – 2006 set the maximal commission rates that will be paid to pensionary advisors for provident and pension products. A draft for the amendment of these Regulations is pending, proposing to also regulate the maximum commission for insurance products included under the definition of pensionary products.

In the reported period the Supervision of Insurance Business Regulations (Maximum Commissions in House Insurance for Housing Loans) - 2012 also came into effect. The Regulations state the maximum commissions that will be paid by insurers to insurance agents, including mortgage banks, for comprehensive structure insurance required as collateral for a housing loan.

The third draft of **the Supervision of Financial Services (Insurance) (Commissions) Law - 2012** is pending. The draft is aimed at regulating the commission payment to insurance agents and inter alia, the following issues: the composition of the commissions paid to insurance agents; restrictions as regards the ratio between commissions of different types paid to insurance agents; the payment of commissions to several licensees simultaneously and instructions as to the discontinuation of payment for insureds with whom contact has been lost or undetected beneficiaries, commissions paid not related to sales objectives ("service commissions") shall be paid directly to insurance agents.

33.3 **Below is the structure of commissions and average commission rates as per areas of activity**

33.3.1 **Area of life assurance and LTS**

(a) Insurance agents

The Group pays variable commissions to insurance agents in respect of marketing its products; the commission rate varies according to the plan sold and to individual agreements entered with the agents.

(1) The commission structure in life assurance:
Current commissions from premium - the commissions paid to agents are “flat commissions”, i.e. the same commission is paid for several years, after which, in most agreements, a collection fee usually lower than the flat commission is paid (in most of the Group-marketed insurance plans, the commission is paid for 15 years and in others, for 10 years). However, in certain products the commission is paid at a fixed rate throughout the entire insurance period. In addition, in certain products a fixed commission out of the management fees from accruals and/or from management fees on premiums is paid throughout the entire insurance period.

“Portfolio persistency commission” – this is usually based on the agents’ portfolio persistency rate in respect of insurance plans sold after June 2001 and the meeting of sales objectives, and in addition a commission is paid from accrued savings in respect of paid up insurance plans sold after June 2001, subject to compliance with objectives.

Prizes/grants –usually this commission is based on the amount of sales and the agents' meeting sales targets set for them, and in some savings policies the commission is calculated as a function of parameters that affect the product profitability, and it is paid subject to arrangements with respect to cancellation of policies in a predetermined period.

In addition, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants; in certain insurance products – fixed commissions are paid, which are based on the accrual in the policy or on the accrual transferred as a lump sum deposit.

(2) The structure of commissions in respect of pension products' marketing:

Current commissions from contributions at a fixed rate from the contribution actually paid.

Prizes/grants – the Group pays agents a commission which is usually based on the amount of sales and the agents' meeting sales targets set for them, as a function of parameters that affect the product profitability, and it is paid subject to cancellations as described above regarding life assurance commissions.

In addition, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants; sometimes the Group pays fixed commissions derived from the accrual.

(3) The structure of commissions in respect of marketing provident funds: Commissions paid to insurance agents in respect of marketing **provident funds** are, usually, at a fixed rate of the management fees on accrual actually collected.

Starting from January 2013, the following changes were made: the portfolio persistency commission in life assurance was cancelled, and on the other hand remuneration in the form of prizes/grants at product level, based on meeting targets regarding an increase in sales and profitability of the various products, were added.

(b) **Pension advisors**

Banking corporations are entitled to a distribution commission pursuant to the Distribution regulations.

(c) **Average commission rates**
Below are average commission rates in percentages:

	2013	2012	2011
Life assurance			
Rate from premium	7.3	8.1	8.2
In the first year – rate from new annualized premium	27.7	25.4	28.2
Pension funds			
Rate from contributions	2.8	2.8	2.8
Provident funds			
Rate from average AuM	0.2	0.2	0.2

33.3.2 **Area of health insurance**

In individual health insurance – the Group pays insurance agents variable commissions in respect of marketing products, and the commissions vary depending on the plan sold.

The commission structure is usually as follows:

Current commissions from premium - the commissions paid to agents are "flat commissions", set forth in individual agreements with agents.

"Portfolio persistency commission" in respect of insurance plans sold starting from June 2001, usually based on the agents' portfolio persistency rate, and the meeting of sales targets.

Prizes/grants –usually this commission is derived from the amount of sales and the agents' meeting the sales targets set for them, and subject to the arrangements regarding cancellation of policies in a predetermined period.

In addition, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants.

From January 2014, the following changes have been introduced: the portfolio persistency commission was cancelled in health insurance, and on the other hand, there are additional prizes/grants at product level, based on sales growth targets, and based on the profitability of various products.

In collective health insurances – commissions at a specific rate of premiums are paid.

Below are average commission rates in percentages:

	2013	2012	2011
Rate from premium	25.8	24.2	21.9

33.3.2 **Area of general insurance**

The commissions paid to agents in this area are calculated at predetermined percentages of premium, and the commission rate varies depending on the specific line.

Below are average commission rates from premium in percentages:

	2013	2012	2011
CMBI line	5.5	6.2	5.0
Casco lines	19.5	20.7	19.7
Property lines (not motorcar)	15.9	16.3	16.6
Liability lines	14.9	14.3	12.2
Total	14.0	15.1	14.6

34. Suppliers and service providers

34.1 General

The Group acquires products and services from many suppliers and service providers[66], and they are selected based on the quality of service, availability, areas of expertise, commercial conditions, etc. Usually, such engagements are made for unlimited periods of time, and do not contain an exclusiveness arrangement. In general, the Group avoids "dependence on one supplier", as per the definition of this term in the Commissioner Circular regarding the update of instructions in insurance companies' Periodic Report, and acts towards creating diversification among its suppliers.

34.2 Assistance services

Migdal Insurance has agreements with Femi Premium Ltd. ("**Femi**"), which provides assistance services granted to insureds under the riders sold in the motor casco insurance area, as well as most of the related services in the health and homeowners policies. The purchases from Femi in 2013 amounted to approx. NIS 60 million, vs. approx. NIS 47 million in 2012[67]. The cost of services purchased from Femi is included in the costs of insurance claims.

34.3 Computerization and software providers

The Group is engaged with several hardware and software suppliers, which provide it with equipment and services, as well as in other agreements for the rendering of maintenance services in respect of data base and manpower services for development and maintenance of software. Some of these suppliers are designated hardware and software companies, with which the Company may need to collaborate in the event of a material shutdown. Ongoing payments to each of these suppliers are non-material. The suppliers included in this category are: Microsoft Group, IBM Group, Oracle Software Systems Israel, SAP, SPL Software, Hilan Tech, Sungard and Hitachi Data Systems Israel. For details regarding a designated software company in the area of financial services (FMR), see Clause 24 above.

[66] It is hereby clarified that the Group does not include marketing agents / advisors, who are included in the distribution and marketing channel as described in Clause 3 above, under "suppliers and service providers", and does not include reinsurers described in Clause 31 above.

[67] The increase is due to the increase of its share as a result of the absorption of Eliahu's general insurance portfolio.

34.4 **Operation services in provident activity**

Migdal Makefet is engaged with Leumi Capital Markets Services Ltd. ("**Leumi Services**"), pursuant to which Leumi Services provides Migdal Makefet with operation, computer and members' rights management services for all provident funds managed by Migdal Makefet. The first engagement with Leumi Services was regarding operation services for Kahal Educational Fund (acquired from Bank Leumi and Discount Bank in 2007), and the engagement with it was expanded, from January 1st, 2013, to include all provident funds managed by Migdal Makefet (previously, Migdal Provident received operation services for other provident funds from another supplier). For the description of the engagement with Leumi Services, see Note 38 g 1 b to the Financial Statements.

35. Fixed assets and information about investments in computerized systems

35.1 The main real estate assets owned or rented by the Company and included under fixed assets are presented below:

Location	Area in sq. m	Main use	Owned / rented
Petach Tikva	52,148	The main office buildings of the Group, including most of the activity of insurance agencies held by the Group	Owned
	6,228	Offices, warehouses / parking lots	Rented
	13,100	Not completed yet / not populated yet	Owned
Tel Aviv	5,500	Capital Markets Group's office buildings	Long term leasing
Jerusalem	1,476	The Group's branch office in Jerusalem	Owned
Haifa	1,608	The Group's branch office in Haifa	Owned

For details regarding the depreciated cost of land and office buildings and leasehold improvements and additional information regarding the Group's fixed assets, see Note 6 to the Financial Statements.

35.2 Data regarding the buildings that are part of Migdal Insurance[68]'s Nostro investments portfolio:

Location	Sq. m as of December 31st, 2013	Sq. m as of December 31st, 2012
Dan area	37,769	31,873
Northern area	35,194	34,859
Southern area	135	135
Lowland and Jerusalem	3,604	3,604
Total	76,702	70,471

The buildings detailed above serve mostly as office buildings and for retail.

In 2013 there was an increase in the rental property, mainly in the Dan area, mostly due to progress in construction and an increase in the rate of investments in projects.

[68] In addition, Migdal Insurance holds real estate assets managed for insureds, for details see Note No. 8 to the Financial Statements.

35.3 **Information regarding the Company's investments in the computerized system**

The Group's computerized and information systems are essential for managing its businesses, and it has a variety of computerized equipment, including servers, infrastructures, communication equipment, terminals, and other peripheral equipment, as well as a wide variety of ownership and/or usage rights in various software, including software in self-development.

The Group has a designated unit, Migdal Technologies, which serves as the internal information technologies unit, that provides most of the various computerization services to the Group's various units and uses, whenever needed, the services of various suppliers and software companies in order to provide the Group's computerization services. For the personnel employed in this unit, see Clause 32.2 above.

The institutional entities' main computer room is located in the Group's headquarters in Petach Tikva. Within the project for technological deployment towards crises (DRP – Disaster Recovery Plan) completed in 2013, the Group has a remote backup site in MED-1 at Tirat HaCarmel. The aforementioned DRP is a significant technological infrastructure regarding the Company's Business Continuity Plan (BCP) in crises, including in emergency.

The Group has IT systems that include hardware, software and additional equipment, whose amortized cost as of December 31st, 2013 totals approx. NIS 369 million, vs. approx. NIS 421 million as of December 31st, 2012.

In 2013, the Group invested approx. NIS 114 million in computers and information system development, vs. approx. NIS 164 million in 2012.

The decrease in the Group's investments in 2013 is attributed to two large projects, in which most of the investment ended in 2012, namely: DRP aimed at upgrading and developing technological recovery abilities (infrastructure and IT systems), and a project for investment management (Back + Front + Middle Office).

Investments in IT systems are designated both for supporting the Group's strategic objectives and supporting regulatory demands from time to time.

In the reported period, the Group's investments in computerized systems focused mainly in the following areas: support and improvement of systems in general insurance, aimed at supporting the Group's intention to expand its activity in general insurance, including following the absorption of Eliahu Insurance's new business in general insurance, completing the DRP project, supporting the development of products in life assurance and health insurance, strengthening the sales and services activity in the digital channels, the continued development of CRM systems aimed at improving service, customer satisfaction and loyalty (insureds, employers) and distribution channels.

As set forth above, investment in computerization systems are also aimed at supporting and providing solutions to regulation, both business regulation due to provisions published by the Commissioner from time to time, and regulatory demands regarding information security, IT systems management in institutional entities and control processes over IT systems.

The Group strives in an ongoing basis towards improving and upgrading computerization systems for technological innovations, also in order to improve service and information given to customers, regarding the various products in the Group, and support marketing capabilities of various products in the Group.

36. Seasonality

36.1 LTS

Revenues from life assurance (as well as health insurance premiums), and revenues from management fees from pension funds and provident funds are not characterized by seasonality. However, because of the timing of the tax year, there is a certain seasonality in deposits of premiums / contributions to pensionary savings products in December, since in this month significant amounts are deposited in order to exhaust tax benefits.

Following is the breakdown of the quarterly gross premium earned in life assurance in 2011, 2012 and 2013 (in NIS million and percent):

	2013		2012		2011	
	NIS million	%	NIS million	%	NIS million	%
First quarter	1,946	25.8	1,804	24.5	1,694	24.7
Second quarter	1,774	23.5	1,763	24.0	1,722	25.1
Third quarter	1,749	23.2	1,899	25.8	1,683	24.6
Fourth quarter	2,078	27.5	1,891	25.7	1,748	25.6
Total per year	7,547	100.0	7,357	100.0	6,847	100.0

Following is the breakdown of the quarterly contributions in pension funds in 2011, 2012 and 2013 (in NIS million and percent):

	2013		2012		2011	
	NIS million	%	NIS million	%	NIS million	%
First quarter	1,074	22.6	1,030	23.5	901	23.0
Second quarter	1,210	25.4	1,102	25.1	942	24.0
Third quarter	1,168	24.6	1,065	24.3	1,007	25.7
Fourth quarter	1,305	27.4	1,189	27.1	1,069	27.3
Total per year	4,757	100.0	4,386	100.0	3,919	100.0

Following is the breakdown of the quarterly contributions in provident funds in 2011, 2012 and 2013 (in NIS million and percent):

	2013		2012		2011	
	NIS million	%	NIS million	%	NIS million	%
First quarter	366	20.7	392	22.2	376	22.3
Second quarter	418	23.6	385	21.8	361	21.4
Third quarter	386	21.8	386	21.9	366	21.6
Fourth quarter	601	33.9	602	34.1	586	34.7
Total per year	1,771	100.0	1,765	100.0	1,689	100.0

36.2 General insurance

Revenue turnover from gross premium in general insurance are characterized by seasonality, which stems mainly from motorcar insurances of various employee groups and businesses' vehicle fleets, whose renewal dates usually fall in January, as well as various business policies, whose renewal dates usually fall in January or April. The impact of such seasonality on the income for the period fall before tax is mostly offset through the reserve for unexpired risks.

In the other expense categories, such as claims and other income categories, such as revenues from investments, there is no significant seasonality, which is why there is no income-significant seasonality. However, it should be mentioned that a harsh winter may bring about an increase in claims, mainly in the property line, during the first and fourth quarters of the year, which in turn, leads to a reduction in income before tax for the period.

In this context, it should be noted that in 1Q13 and 4Q13 there were winter-related damages, estimated at approx. NIS 29 million in gross terms and approx. NIS 9 million in terms of retention in 1Q13, and approx. NIS 25 million in gross terms and approx. NIS 7 million in terms of retention in 4Q13.

Following is the breakdown of the quarterly gross premiums in general insurance in 2011, 2012 and 2013 (in NIS million and percent):

	2013		2012		2011	
	NIS million	%	NIS million	%	NIS million	%
First quarter	782	38.7	478	34.0	491	34.0
Second quarter	472	23.3	369	26.2	382	26.4
Third quarter	418	20.7	306	21.8	310	21.5
Fourth quarter	350	17.3	253	18.0	262	18.1
Total per year	2,022	100.0	1,406	100.0	1,445	100.0

The data for 2013 include, inter alia, the absorption of Eliahu Insurance's new business in Migdal.

37. Intangible assets

37.1 General

For its activity, the Group uses the companies' names and logos, part of which were not registered as trademarks.

37.2 Data warehouses

The institutional entities in the Group have various registered data warehouses, where the data submitted by the Group's customers are saved. The data stored in the warehouses, regarding customers, includes data submitted by them when acquiring one of the Group's products, as well as additional data submitted to the Group, or located by the Group in relation with services it provides (such as information about handling insurance claims etc.). Furthermore, the institutional entities in the Group have registered data warehouses regarding the Group's agents, suppliers, Group employees etc., whose storage and registration in a computerized repository are mandatory by law. The databases serve the Group in the ongoing operation of its businesses.

37.3 Goodwill and initial difference

The Company accumulated goodwill and initial difference, mainly upon the acquisition of insurance companies, insurance agencies, insurance portfolios, managing companies of pension funds, educational funds and activities of mutual funds, and in the reported year the absorption of new business in general insurance was recorded as an intangible asset.

In Notes 2 and 4 to the Financial Statements details are provided regarding intangible assets, including regarding the way the consideration of about NIS 260 million paid to Eliahu in respect of the new business in general insurance, was allocated, their impact, life and costs invested in them, and the amounts recognized in their respect as an asset in the Financial Statements.

38. Discussion on risk factors

38.1 Presented below is the table of risk factors regarding insurance and LTS activity:

		The effect of risk factors on the Group's activity		
	Risk factors	**Great effect**	**Medium effect**	**Little effect**
Macro risks	Economic situation	V		
	Market risks	V		
	- Interest rate risk	V		
	- Market risks (capital instruments / real assets)	V		
	- Risks related to CPI		V	
	- Currency risk		V	
	Credit risks		V	
Sectorial risks	Insurance risks			
	-Longevity and morbidity	V		
	-Earthquake risk		V	
	-Other insurance risks		V	
	Portfolio persistency level	V		
	Reinsurance		V	
	Competition and competitors	V		
	Public preferences	V		
	Regulatory changes	V		
	Legal precedents (class actions and Commissioner's authorities)	V		
Risks unique to the Group	Business mix		V	
	Liquidity risks			V
	Legal procedures including the Commissioner's authorities		V	
	Goodwill		V	
	Operation risks			
	-Dependence on IT systems	V		
	-Other operation risks		V	
	Work relations and negotiations for a collective agreement		V	

The effect of risk factors on the Group is pursuant to the Group management's estimate, taking into account the scope and characteristics of its activity as of the date of this Report. The extent of effect may be different in reality, in light of changes in the characteristics of the Group's activity or market conditions and/or decisions made by regulators.

38.2 For the description of key risk factors in the Group's insurance activity and their management – see Note 37 to the Financial Statements.

38.3 **Key risk factors in the financial services activity**

The financial services area deals with various areas of the capital market, some of which are characterized by high volatility, inter alia due to the impact of political and economic events in Israel and abroad. The various risks to which the financial services area is exposed are related to trading activities in the Nostro accounts managed by the Group, to assets managed for various customers (mutual funds and portfolio management), to the activity of customers who receive brokerage services (including credit extended to them), to legal risks and additional risks related to operational exposures in activity.

For the description of exposure to market risks and the way they are managed, see Clause 6 to the BoD Report.

The key risks in the financial services activity are:

38.4 **Macro risks**

38.4.1 **Market risks** - political and economic events in Israel and abroad affect the scope of activity on the capital market, and as a result, the activity of the financial services' area, its assets and business results.

Companies engaged in the financial services area perform their own transactions in negotiable assets in Nostro accounts. These transactions expose the financial services area to risks stemming from trading fluctuations in the various channels of the capital markets (share, bonds, currency, interest rates etc.), including due to changes in interest rates and exchange rates, political, security-related and economic events.

Activity in brokerage accounts – activity in brokerage accounts is performed only if a back-to-back transaction may be performed, with no inventory activity and without holding a position for a long time. Activity in these accounts is aimed at collecting the remuneration to which Migdal Capital Markets' subsidiary (Stock Exchange Services) is entitled, deriving from the spread between the execution of transactions between the two counter parties in the transaction. The subsidiary operates brokerage accounts in several types of securities. However, a failure in the clearance of one of these counter transactions might expose Migdal Capital Markets Group to risks stemming in fluctuations in assets in these transactions, since if there is a deterioration in the price of the relevant asset between the dates upon which the two counter transactions were supposed to be carried out and the execution date of the alternative transaction, Migdal Capital Markets Group shall bear this damage, and its ability to collect the damage from the violating party requires a legal claim.

38.4.2 **Sectorial risks**

Decline in the value of assets under management and scopes of activity – the results of the financial services area are directly affected by the total value of AUM managed by the financial services area. The results and yields of mutual funds and investment portfolios under management, as well as customers' preferences, affect the scope of AUM. A decrease in the scope of AUM may materially affect the profitability of the financial services area. Stock Exchange Services is affected by the volumes of trade on the Stock Exchange. The volatility characterizing the primary market and changes in institutional entities' preferences may materially affect Migdal Underwriting's scope of activity.

Insolvency of Israeli and foreign financial institutions holding assets – Stock Exchange Services must keep its customers' cash in a customer trust account in banks, hence there is exposure in case of insolvency of such banks. In addition, the company holds foreign securities and financial assets of its customers with different foreign brokers, who provide the company with custodian services, hence there is exposure in case of insolvency of such brokers.

Capital market risks stemming from underwriting activity – a subsidiary (Migdal Underwriting) is exposed to the risk of a failure in an issuance, due to which Migdal Underwriting will have to meet its underwriting liability to buy some of the issued securities. When Migdal Underwriting serves as one of the managers of the consortium in the issuance, it orders, for its Nostro account, securities in these issuances. In addition, sometimes Migdal Underwriting receives options from the issuers as part of the consideration in respect of its services. All the above expose Migdal Underwriting to risks stemming from fluctuations in the trading of securities held in its Nostro account. Stock Exchange Services extends its customers credit in NIS or USD, unlinked, for the acquisition of securities and financial assets that serve as collateral or special credit which is not secured with collateral. On the other hand, Migdal Stock Exchange Services borrows from the banking system for its activities, and material changes in the CPI or interest rates paid by Migdal Capital Markets Group in respect of loans taken by it, without a similar adjustment in interest rate on NIS or USD credit granted to customers, might harm the area's profitability.

Regulation – the area of financial services is subject to very broad regulation, which is changed and updated frequently. Additional regulatory changes and/or more stringent demands with regard to existing regulatory requirements and/or non-compliance of financial services companies with regulatory demands might have a material impact on the businesses and/or results of the financial services area.

Underwriters' liability for misleading details in the prospectus - Migdal Underwriting is liable for the content of the prospectuses it signs towards anyone who purchased securities in the issuance and towards whoever sold and/or purchased securities during trade on the Stock Exchange or in off-floor transactions, for damage incurred by them in case of a misleading detail in the prospectus. Being the manager of an underwriters' consortium, Migdal Underwriting is exposed to indemnification claims on behalf of other underwriters in the consortium.

38.4.3 **Risks unique to the area of financial services**

Credit risks to customers – Stock Exchange Services extends credit to its customers on a regular basis in order to purchase securities and financial assets. Extending the credit is done under restrictions detailed in the Stock Exchange Articles of Association and directives and in accordance with a hierarchy of authority to grant credit in the Company. Credit is secured by the customers' securities portfolio, but from time to time credit is extended pursuant to Migdal Capital Markets Group's credit policy and depending on the credit amount that is extended, without full collateral (hereinafter "special credit"). In certain cases, the value of the customers' securities portfolio may be insufficient for covering credit. Granting special credit is made under a hierarchy of authority to grant credit approved by Migdal Capital Markets Group's BoD.

Credit risks to custodian customers – Stock Exchange Services provides certain customers, usually institutional entities, with execution services only (without custodian services), when at the end of the day, the transactions executed for them vis-à-vis the banks providing the custody services are cleared (for foreign customers, the TASE Articles of Association allows clearing the transactions at T + 2 without the transaction being considered as credit utilization) ("custodian customers"). If, for any reason, the clearing bank does not approve the transaction intake at the end of the day, Migdal Capital Markets Group is left with the position. In such case, the above risk is one of changes in the price of securities / derivatives until execution of the counter transaction to close the position (i.e. market risk). In case of loss as a result of closing the position, the custodian customer will owe Migdal Capital Markets Group the loss amount, and in fact, will be receiving credit from Migdal Capital Markets Group. Since custodian customers do not receive custody services from Migdal Capital Markets Group, in such cases Stock Exchange Services will not hold any collateral against such credit.

Credit risks in respect of activity in derivatives – Stock Exchange Services perform activity in Maof options and transactions in futures. As a result of these activities, Stock Exchange Services is exposed to the possibility that customers might exceed their collateral (mainly in Israel due to changes in the market).

Legal risks – The financial services area is exposed to claims filed against it by customers, supervising authorities, suppliers or employees, claiming alleged incompliance with the provisions of the law and/or agreements and/or professional negligence.

Operational risks – the financial services area is exposed to risks related to the operation of its activity and to the functioning of various arrays under its responsibility, both computerized and human. Furthermore, the financial services area is exposed to negligence and embezzlements on the part of its employees, and to fraud on the part of customers. Flaws in trading systems and/or in communication lines along with human errors made by traders, may bring about non-execution or wrong execution of transactions, and expose the area to fluctuations in asset trade ordered by customers, and claims in material amounts. The area may be exposed to information security events, in which a third party tries to break into computer systems in order to perform unauthorized activity or to be exposed to unauthorized information.

The management of credit risks and market risks is performed through various online systems – flaws in these systems might bring about inaccurate control of activity. Flaws in the recording of phone calls received in the trade room of Stock Exchange Services may expose Stock Exchange Services to market risks, in case of clarifications with clients regarding their instructions. Stock Exchange Services allows its customers to perform Buy and Sell actions of securities and financial assets through the Internet. As a result, it is exposed to fraud on the part of customers and/or third parties.

Stock Exchange Services allows some of its customers to directly contact foreign brokers abroad, in order to give Buy and Sell orders for securities and financial assets. As a result, Stock Exchange Services is exposed to the possibility of foreign brokers allowing customers to execute transactions exceeding the customers' assets value with Stock Exchange Services, such that the customer will receive in practice unauthorized credit (without sufficient collateral) from Migdal Capital Markets Group.

Professional negligence of foreign brokers and/or clearing houses in Israel and abroad may expose the financial services area to material claims.

Execution errors – errors by Stock Exchange Services in executing customers' instructions bring about an exposure to risks stemming from fluctuations in the trading of assets set forth in customers' instructions, since if there is a decline in the price of the relevant asset between the date upon which the error in the instruction was made and the date of the correction, Stock Exchange Services shall absorb this damage.

Damage to goodwill – the goodwill of the financial services area and its reputation are an important factor in engaging with new customers and maintaining existing customers. Damage to reputation might affect the businesses of the financial services area.

38.5 **Presented below is the table of risk factors regarding the area of financial services**

		The effect of risk factor on the activity of financial services		
	Risk factors	**Great effect**	**Medium effect**	**Little effect**
Macro risks	Capital markets risks	V		
Sectorial risks	Decrease in the value of AuM and scopes of activity	V		
	Insolvency of Israeli and foreign financial institutions due to holding assets	V		
	Regulation	V		
	Underwriters' liability for misleading details in the prospectus			V
Risks unique for the area	Credit risks to ordinary customers		V	
	Credit risks to custodian customers			V
	Credit risks in respect of activity in derivatives		V	
	Legal risks		V	
	Operational risks	V		
	Execution errors			V
	Damage to goodwill		V	

38.6 The activities of Migdal Health and Migdal Management is non-material, therefore in the Company's estimation, the risk in their respect is non-material.

39. Material agreements and collaboration agreements

39.1 **Agreement for the absorption of Eliahu portfolio**

For the description of the agreement signed between Migdal Insurance and Eliahu Insurance regarding the absorption of new business in general insurance, see Note 38 d 1 a to the Financial Statements.

Part E – Corporate Governance Aspects[69]

[69] This Part and the description and data included thereof are brought pursuant to the Commissioner Circular regarding Corporation Businesses Description, Reference No. 2014-1-3.
For the attachment of the corporate governance questionnaire pursuant to the ISA's instruction as per Clause 36 a (b) to the Securities Law, see "Additional Details on the Corporation – corporate governance questionnaire".

40. External Directors

In Migdal holdings and Migdal Insurance there are 3 External Directors. In the reported period there was no change in the appointment of these External Directors.

41. Disclosure regarding the Chief Internal Auditor[70]

The Company's Chief Internal Auditor as of the date of this Report is Ms. Michal Leshem, who entered this office on February 1st, 2014. She also serves as Migdal Insurance's Chief Internal Auditor. Previously, Ms. Leshem served as the Strategy, Control and Compliance Discipline Manager. Ms. Leshem's appointment was approved by the Company's BoD on December 26th, 2013, see the Immediate Report dated December 26th, 2013, Reference No. 2013-109879. The Chief Internal Auditor reports to the Chairman of the Board of Directors.

To the best knowledge of the Corporation, the Chief Internal Auditor does not hold securities of the Corporation, except option warrants and shares included within remuneration plans for Senior Officers in the Company, as set forth in Note 33 to the Financial Statements[71].

Regarding holdings of securities by Chief Internal auditors who served in 2013, see details below.

In 2013 the following changes in the office of the Chief Internal Auditor occurred:

Mr. Shlomo Handel, who served as the Company's Chief Internal Auditor since 2001, terminated his office on February 26th, 2013. The circumstances for his departure – he reached retirement[72] age.

Ms. Osnat Manor-Zisman - served as the Chief Internal Auditor from March 1st, 2013 till March 31st, 2014. Prior to this office, she served as Deputy to the Chief Internal Auditor and as the Group's Chief Compliance Officer. The circumstances for her departure – her desire to start a new career.

Migdal Holdings' and Migdal Insurance's annual Work Plan regarding the internal audit work is submitted by the Chief Internal Auditor and approved by the Company's and Migdal Insurance's Audit Committee.

2014 Work Plan is derived from the multi-annual Work Plan for 2014-2018.

In 2013 there a risk survey was conducted in the Company, and the issues brought up in the risk survey constitute the basis for preparing the multi-annual Work Plan. In addition the Work Plan took into consideration the results of previous audits, changes and organizational and content-related events, laws and regulations and regulatory instructions. More issues are added to the Work Plan if they are deemed necessary by the Chief Internal auditor, and the Work Plan allows the Chief Internal Auditor to make changes thereof taking into account needs that arise from time to time due to the scope of activity, after notifying the Audit Committee.

The Chairman of the Board of Directors, the Chairman of the Audit Committee and its members, the Corporation's CEO and the CPAs are involved in determining the Work Plan.

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[70] The disclosure regarding the Chief auditor and the CPA as detailed herewith in this Part also refers to the area of financial services, and it is brought pursuant to the Commissioner Circular mentioned above.

[71] For details regarding shares and other securities held by Ms. Michal Leshem, as of March 10th, 2014 (to the best knowledge of the Corporation), see the Company's Immediate Report dated February 24th, 2014, Reference No. 2014-01-046069.

[72] Mr. Shlomo Handel serves as a Director in Migdal Investment Portfolios Management (1998) Ltd., in Migdal Capital Markets Group, since September 1st, 2013.

Transactions with interested parties are discussed and are submitted for approval by the authorized organs after they are examined by the professional departments. Within the Work Plan, the Audit Committee also examines transactions that were approved with interested parties. The examination of other material transactions is performed from time to time within Work Plan and as per generally accepted audit rules.

The Chief Internal Auditor's reports are submitted in writing. In general, upon the publication of audit reports by the Internal Audit Array, and as part of the ongoing work, discussions are held with the audited persons regarding the audit reports. The audit reports are submitted on a current basis to the Chairman of the Board of Directors, the CEO and the Heads of Divisions throughout the year. Audit reports submitted to subsidiaries are discussed in the subsidiaries' Audit Committees.

Furthermore, internal audit gives the Chairman of the Board of Directors, the CEO and the Chairman of the Audit Committee a report regarding the follow up on the execution of the annual Work Plan (execution vs. planning).

Migdal Holdings' Audit Committee held 20 meetings in 2013, and Migdal Insurance's Audit Committee held 23 meetings. Audit reports were discussed in 11 of these meetings.

The Chief Internal Auditor is employed full-time, in addition a team of 29 Group employees plus external consultants work in Internal Audit. These include Auditors in the Group's subsidiaries, in which there is a duty to appoint an Auditor or an Auditor was appointed in light of the scope of activities and exposures. The Group's Chief Auditor gives professional instructions to these auditors in order to maintain the general audit principles and professional standards implemented by him. In some of the tasks included in the Chief Internal Auditor's Work Plan, the internal audit is also assisted by external experts depending on the type of activity and its complexity.

The table below presents details of the number of audit hours invested in the Group in 2013:

Overall scope of audit in the Group	Scope of audit in Migdal Insurance	Scope of audit in Migdal Makefet and Yozma	Scope of audit in Migdal Capital Markets	Scope of audit in agencies
54,893	28,885	14,388	8,100	3,520

The amount of internal audit hours is derived from the Company's Work Plan.

The Chief Internal Auditor is assisted by other entities in the Group that are not the audit unit or professionals working in it.

Remuneration

The aforementioned Chief Internal Auditors were employed pursuant to personal employment contracts.

Total remuneration for the Group's Chief Internal auditors aforementioned, who terminated work in 2013, is as follows:

(1) **Mr. Shlomo Handel** – the total remuneration in respect of his employment as the Group's Chief Internal Auditor, including after his retirement, amounts to approx. NIS 1.2 million. As set forth above, on March 31st, 2013 Mr. Handel terminated his office in the Company and this amount refers to his employment starting from January 2013 till May 2013, and it includes payment in respect of an adaptation grant of approx. NIS 423 thousand. In respect of most of these items provisions were made in the Financial Statements in previous years. It also includes a special retirement grant in the amount of NIS 420 thousand, approved by Migdal Insurance's BoD on May 28th, 2013, following Migdal Insurance's Audit Committee's approval on May 7th, 2013. This grant was approved, inter alia, as a token of appreciation for his contribution to the Group in

his position during the years he worked in the Group. The aforementioned amount excludes the payment made to Mr. Shlomo Handel in respect of his office as a Director in Migdal Capital Markets Group, from September 2013[73].

(2) **Ms**. **Osnat Manor-Zisman** - the total remuneration in respect of her employment as the Group's Chief Internal Auditor, in the period starting from April to December 2013, amounts to approx. NIS 1.28 million, and it includes the sums received by Ms. Manor-Zisman as Deputy to Chief Internal Auditor and as Compliance Officer since January 2013. The amount does not include the amount that Ms. Manor-Zisman, who has resigned, received for the period, totaling approx. NIS 210 thousand in respect of a retirement grant in the amount of 3 monthly salaries (without payment in respect of accrued annual leave)[74].

In the BoD's estimation, the Internal Auditors' terms of remuneration as aforementioned do not constitute a cause for concern regarding their impact on the Auditors' professional judgment.

42. Auditing CPA

42.1 The name of the Company's CPA office and the name of the partner handling the audit

The Company’s CPAs are Kost, Forer, Gabbay & Kasierer and Somekh Chaikin, which are joint auditors in all the Group’s material companies.

The partner who handles the audit on behalf of Kost, Forer, Gabbay & Kasierer is Mr. Moshe Shachaf, CPA, and the partner on behalf of Somekh Chaikin is Mr. Avraham Fruchtman, CPA.

The CPAs started serving as joint auditors in April 1998.

The table below presents details of the CPAs fees (excluding VAT) for services provided by them for the years 2012-2013 and the number of hours invested:

[73] During 2013 Mr. Handel held 172,500 options allocated pursuant to the share-based payment plan for 2009, whose fair value as of the granting date is approx. NIS 331 thousand. Furthermore, Mr. Handel was allocated 208,160 eligibility deeds as per the 2010 long-term remuneration plan. The fair value of these eligibility deeds as at the granting date is approx. NIS 330 thousand. In respect of the 2010 plan, as of April 2013, 16,183 shares were issued to him, out of which 16,183 shares in respect of the persistency component, the other eligibility deeds that were granted to him were converted to cash. As of December 31st, 2013, Mr. Handel does not have any shares, options and eligibility deeds.

[74] During 2013 Ms. Manor-Zisman held 123,625 options allocated pursuant to the share-based payment plan for 2009, whose fair value as of the granting date is approx. NIS 237 thousand. Ms. Manor-Zisman was allocated 85,394 eligibility deeds as per the 2010 long-term remuneration plan. The fair value of these eligibility deeds as at the granting date is approx. NIS 135 thousand. In their respect, as of April 2013, 12,452 eligibility deeds expired, and Ms. Manor-Zisman still has 40,976 eligibility deeds in respect of which 31,966 shares were issued to her, out of which 11,478 shares in respect of the persistency component and 20,488 shares in respect of the profitability component, and the other eligibility deeds that were granted to here were converted to cash. As of December 31st, 2013, Ms. Manor-Zisman has eligibility deeds, shares and options as per the aforementioned data.

	2013				
	Audit services [(1)]	Audit-related services	Special tax services	Other services	Total [(2)]
	Fees (NIS thousand)				
Migdal Insurance and investees	4,378	497	111	847	5,833
Migdal Capital Markets	472	-	-	41	513
Migdal Health and Quality of Life and investees	80	-	-	-	80
The Company	160	-	-	-	160
Other	127	-	-	-	127
Total	5,217	497	111	888	6,713
	Hours				
Migdal Insurance and investees	19,921	1,402	288	2,423	24,034
Migdal Capital Markets	1,889	-	-	163	2,052
The Company	890	-	-	-	890
Migdal Health and Quality of Life and investees	469	-	-	-	469
Other	726	-	-	-	726
Total	23,895	1,402	288	2,586	28,171

(1) Audit services include fees in respect of SOX audit.

(2) Referring to all hours and fees in their respect.

About 3.3% of fees were paid to other CPAs.

In addition to the above, an amount of approx. NIS 1.8 million was paid to CPAs who are not the auditing CPAs of the Group, mainly in respect of services regarding SOX.

	2012				
	Audit services (1)	Audit-related services	Special tax services	Other services	Total (2)
	Fees (NIS thousand)				
The Company	160	-	-	-	160
Migdal Insurance and investees	4,930	371	86	1,121	6,508
Migdal Capital Markets	529	-	25	101	655
Migdal Health and Quality of Life and investees	80	-	-	-	80
Other	30	-	-	-	30
Total	5,729	371	111	1,222	7,433
	Hours				
The Company	885	-	-	-	885
Migdal Insurance and investees	20,996	1,003	136	5,607	27,742
Migdal Capital Markets	2,023	-	82	425	2,530
Migdal Health and Quality of Life and investees	400	-	-	-	400
Other	120	-	-	-	120
Total	24,424	1,003	218	6,032	31,677

(1) Audit services include fees in respect of SOX audit.

(2) Referring to all hours and fees in their respect.

About 2.4% of fees were paid to other CPAs.

In addition to the above, an amount of approx. NIS 2.7 million was paid to CPAs who are not the auditing CPAs of the Group, mainly in respect of services regarding SOX.

43. Effectiveness of internal control over financial reporting and disclosure

Management, under the BoD's supervision, conducted an examination and assessment of: Entity Level controls (ELC), controls on the closing and processing of reports, general controls over IT systems and controls over very critical processes (within Migdal Insurance).

Pursuant to Regulation 9b(f1) to the Securities Regulations (ISOX Amendment), the Company decided with respect to the internal control in all consolidated institutional entities, to implement the Circulars of the Commissioner of Capital Market, Insurance and Savings that apply to the Group's institutional entities. These Circulars provide instructions as to the implementation of requirements of Clause 302 and Clause 404 of the SOX-Act.

Accordingly, in addition to the managers' representations and the Report regarding the Effectiveness of Internal Control requested pursuant to the Securities Regulations, attached are disclosures and managers' representations regarding the internal audit in the consolidated institutional entities, to which the Commissioner's instructions apply. These are attached in Chapter 6 to the Periodic Report.

The institutional entities in the Group adopted the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), that is a defined and known framework that serves to assess the internal control.

43.1 **Controls and procedures regarding disclosure**

The managements of the institutional entities in the Group, together with their CEOs and CFOs, assessed the effectiveness of controls and procedures regarding the institutional entities' disclosure in their financial Statements. Based on this assessment, the CEOs and the CFOs of the Group's institutional entities, respectively, concluded that as of the end of this period, the controls and procedures regarding the disclosure of each institutional entity, are effective for the purpose of recording, processing, summarizing and reporting the information that the institutional entity is required to disclose in the annual report, as per the provisions of the law and the reporting instructions set by the Commissioner of Capital Markets, Insurance & Savings and on the date stated in these instructions.

43.2 **Internal control over financial reporting**

During the covered period ending on December 31st, 2013, there was no change in the Group’s institutional entities' internal control over financial reporting, which materially affected, or is likely to materially affect, the institutional entity’s internal control over financial reporting. However, the institutional entities in the Group are developing, upgrading and/or replacing several information systems, inter alia, in order to improve and increase the efficiency of various processes and/or the internal control and/or service to customers.

Attached to the Group's institutional entities' Financial Statements are the required reports and representations regarding the relevant processes, pursuant to the provisions of Management Responsibility Circulars and interim stages set forth in them for the Circulars' implementation.

At the same time, the Group's institutional entities continue to prepare for the implementation of the next stages included in the Management Responsibility Circular, regarding financial reports to members and insureds.

44. Preparation towards the implementation of the Solvency II Directive

Since July 2008, the Commissioner has issued circulars and instructions regarding the preparation towards adopting the Solvency II provisions (“**the Directive**”). Due to the uncertainty regarding the timetables for the implementation of Solvency II in Europe, the Commissioner clarified that he would not wait till the Directive's update procedure in Europe is completed, and suggested developing a risk-based solvency governance pursuant to the Directive, with the necessary adjustments for Israel.

During the preparations period, instructions are issued as to the calculation of capital requirements as per the Quantitative Impact Study (QIS), which includes a quantification of the various insurance and financial risks that the insurance companies face, as per the requirements set forth in the relevant Commissioner Circulars.

Below are details regarding the Company's progress as to preparations towards the Directive's implementation during 2013:

In February 2013 a meeting was held between the Commissioner and the insurance companies' representatives, in order to establish steering committees for the implementation of an Israeli solvency governance. Presentations from that meeting were published on the Commissioner's website.

During 2013 the Company held discussions in the BoD Committee established as per the Commissioner's instructions in order to supervise and control the process of preparations towards the Directive's implementation ("**Committee next to the BoD for the Accompaniment of the Directive Implementation**"), and in the BoD, regarding the progress in the preparations towards the Directive's implementation.

During December 2013 the Commissioner published an instruction circular for the execution of IQIS as of December 31st, 2012. The survey's results were submitted to the Commissioner (including a special report by the Auditing CPA).

The Company held a discussion on the survey's results in the Committee next to the BoD for the Accompaniment of the Directive Implementation and in the BoD, before reporting to the Commissioner.

Within the preparations towards the first layer, Migdal Insurance is studying the results of the Quantitative Impact Study and their expected effect on its activity, and it is examining the computerized and procedural deployment involved in its implementation, and it even acquired at the end of 2013 a system that increases the efficiency of the work of calculation of capital requirements as per the IQIS model.

The implementation of the Solvency II provisions, as per the current IQIS model, may bring about a significant increase in capital requirements. The model, as of now, has a very high sensitivity to changes in market and other variables, hence the capital requirements reflected thereof may be very volatile.

The model has not been approved yet, and there are material issues which are being deliberated in Europe as well as in Israel. Furthermore, it should be noted that the period over which capital will be supplemented, if necessary, has not yet been determined.

The Company is unable to assess the outcome of these deliberations, and the deriving regulatory decisions on future capital requirements and their business effect on insurance companies' activity components in general, and those of the Company in particular, in the future.

Migdal Insurance and Financial Holdings Ltd.

March 18th, 2014

Shlomo Eliahu
Chairman of the Board of Directors

Anath Levin
CEO

Appendix – Remuneration Policy in the Group

1. General

The Company's BoD adopted a resolution regarding the remuneration policy for Senior Officers in the Company (hereinafter: "**remuneration policy**").

The remuneration policy was outlined within an orderly internal process, such that it would realize, on the one hand, the Group's desire to remunerate its Senior Officers (as defined below) for their successes and keep them in the Group for the long run, tie the Senior Officers' remuneration to the Group's long term objectives in order to promote the Company's objectives and increase their sense of belonging by creating a common interest. On the other hand, the remuneration policy would make sure that the remuneration takes risk into account, and comply with the benefit of insureds, members and savers as well as the Group's overall entity-wide strategy[75].

In order to make sure that the above is applied, the BoD set forth emphases reflected in the remuneration policy via various mechanisms and instruments, all as detailed below.

The remuneration policy is an advanced instrument, based on objectives and indices, which derive, inter alia, from the Group's annual Work Plan and the Group's long-term strategy.

This document serves as a publication regarding the general principles of the remuneration policy for Senior Officers in the Company, pursuant to the provisions of the Circular of the Commissioner of Capital Market, Insurance and Savings as to the remuneration policy of Senior Officers in institutional entities, dated November 29th, 2009 ("**Commissioner Circular**").

Its content is in addition to what is required as per the provisions of the Law in general, including the Companies Law (as defined below)[76].

It is hereby clarified that this document does not grant any right to Senior Officers to whom the remuneration policy applies and/or to any third party.

2. Definitions

"**Institutional entities in the Group**" – Migdal Insurance Company Ltd., Mikgdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for the Self-Employed, as well as Migdal Technologies Ltd. and Migdal Claims Management Ltd., which operate for and on behalf of institutional entities in the area of information technology and the management of insurance claims, respectively.

"**The Company**" – Migdal Insurance Company Ltd.[77]

"**The Board of Directors**" – the Company's BoD.

"**The CEO**" – the Company's CEO.

"**The Companies Law**" – the Companies Law – 1999, as in effect at the relevant date.

[75] As detailed in the Supervision of Financial Services (Insurance) BoD and Committees) Regulations – 2007, regarding setting the remuneration policy for Senior Officers in insurers, while making sure that the remuneration mechanism promotes the insurer's objectives and takes risks related to insurers' activity into account.

[76] Thus, whenever there are provisions regarding the Company's BoD, and as per the provisions of the Law in general, including Clause 270 to the Companies Law as to remuneration for Senior Officers, the Audit Committee's approval is requested, the document should be read as stating "the Audit Committee, and then the BoD", for his matter.

[77] This Clause shall be adapted in every institutional entity in the Group, such that the relevant institutional entity will be "the Company".

"Senior Officer[78]" – if one of the following is met:

As per its definition in the Companies Law.

Employees and managers actually engaged in investment management in the Group, and who receive a bonus.

"**The bonus**" or "**the grant**"[79] – the portion of the remuneration which is based on the Senior Officers' performance.

3. The supervision and control policy over Senior Officers' remuneration

3.1 The BoD is in charge of the remuneration policy and of all the actions necessary for its implementation, including the authority to interpret the provisions of the remuneration policy whenever there are doubts as to its implementation. Without derogating from the above, the Bod shall approve the extent by which the remuneration policy plans' objectives have been met which shall be determined based on the remuneration principles before the amounts of grants to be extended to Senior Officers are determined.

3.2 The BoD shall deliberate and decide on the way to supervise the proper implementation of the remuneration policy, in order to make sure that it is implemented as the basis for all annual remuneration plans set forth based on it. Within the above, the BoD shall determine rules for the control and reporting and the correction of deviations. Once a year, the BoD will examine the remuneration policy, both as to the performance level and the risk level in the Group, and shall update it if necessary.

3.3 As aforementioned, based on the remuneration policy, the BoD may set forth annual remuneration plans for Senior Officers, that will be approved individually by the authorized organs in the Company for each year. **Without derogating from the above, the Bod may instruct, at any time, that no bonus should be paid pursuant to the annual plan, and may also instruct on a change or delay of the annual plan, as per explanations deemed worthy by the BoD and pursuant to the Company's discretion and the Group's benefit and subject to the Law.** It is also clarified that the inclusion of a Senior Officer in the plan in a certain year does not bind any of the institutional entities in the Group to continue including such Senior Officer in the plans in upcoming years, if there will be such plans, or if such plans apply to him/her or if the plans contain the same conditions as in previous years, or if he/she would be included in future plans.

3.4 Furthermore, any payment made to the Senior Officer, if paid, is not and will not be considered as part of the Senior Officer's ordinary wage for all intents and purposes, and shall not serve as the basis for the calculation and/or entitlement and/or for the accrual of any ancillary right, including and without prejudice to the generality of the above, shall not serve as a component for the payment of annual leave, severance pay, provisions for provident funds etc.

3.5 In the approval procedure for every grant plan for Senior Officers, the members of the Audit Committee and the BoD shall examine the components of the grant, the parameters (indices), in light of which it will be determined, and the objectives that would be set forth within these parameters (indices), in light of market conditions, the situation of the Company, and similar issues.

It is hereby clarified, for the avoidance of doubt, that the BoD, after approving certain annual remuneration plans, may decide that no bonus should be paid pursuant to the plan, and may also instruct about a change, cancellation or

[78] As per its definition in the Commissioner Circular.
[79] As per its definition in the Commissioner Circular.

delay of the plan, as per explanations deemed worthy by the BoD and pursuant to the Company's discretion and the Group's benefit ("deviation from the annual bonus plan"). This authority may be exercised also for a plan whose objectives for a certain year have already been approved and brought to the knowledge of participants, as long as the payment thereof has not already been made.

4. Emphases of the BoD for the remuneration policy

The remuneration policy reflects the BoD emphases, aimed at making sure that there is an appropriate balance between the desire to incentivize and keep Senior Officers in the Company, and the need to make sure that the remuneration principles comply with the insureds', members' and savers' benefit and with the Company's strategy. The BoD emphases are reflected in the remuneration policy as follows:

4.1 Adjusting the remuneration policy to the Company's financial situation and long-term goals – the remuneration policy includes entry requirements for the distribution of a bonus as well as personal caps for Senior Officers for whom the remuneration policy applies. The Company objectives component included within the annual grant shall be based on Company/Group wide objectives, which reflect, according to the BoD, the Company's financial situation, and which are able to reflect its success.

4.2 The remuneration of Senior Officers shall be adjusted in order to reflect the Senior Officer's contribution within his/her Unit, to the Group's and Company's activity and results, in a way that is not disconnected from the Company and the Group in its entirety – the remuneration objectives included in the remuneration policy are divided into the following components: (a) Objectives related to the Group/Company level; (b) Objectives and evaluation of the Senior Officer himself/herself and his/her functioning, within the discretion and general evaluation component and if included, measurable personal/unit objectives component.

4.3 The remuneration policy shall take into account an appropriate balance between the bonus and the fixed component[80]. In order to make sure that the bonus shall not create a conflict of interests with the Company – the remuneration components are calculated based on an eligibility key based on a number of monthly salaries, subject to a cap, and this maintains the relation between the fixed component and the variable one. Whenever the eligibility key is set in an amount/tranches or in any other parameter that is not based on a number of salaries, the key shall be examined in light of the Senior Officer's specific wage. Also, all remuneration components have personal caps.

4.4 The remuneration policy shall examine the Senior Officers' performance, compared with performance and risk levels set in advance, and will examine the Senior Officers' performance in a long-term perspective – the remuneration policy includes a number of components in order to prevent risk in considerations taken when using judgment. Furthermore, it was set that 30% of the annual bonus is deferred and would be granted after 3 years, if a minimal yield objective is achieved. This deferred component allows a long-term measurement of the grant, in a way that encourages achieving objectives in the long run, over taking risks in the short term. This is in addition to the control mechanisms that currently exist in the Group. In the Discipline of investments, a significant part of the grant components are performance indices measured over a period of the last three years, which, as aforementioned, may encourage achieving objectives over time instead of taking risks in order to achieve objectives in the short term. Also, within the bonus objectives in the area of investments of yield-dependent monies, the risk component is included as part of the objectives.

[80] A fixed component means the wage to which the Senior Officers are entitled as per their employment agreement in the Group, and which does not depend on performance.

4.5 The remuneration policy shall examine the Senior Officers' performance also by non-financial criteria – the manager's evaluation component within the short-term remuneration plan shall include reference to subjective and qualitative indices such as: building, developing and establishing various arrays in the institutional entity and compliance with legal provisions, as well as initiative, innovation, management quality, loyalty to the organization, decisiveness, team work, etc.

5. Remuneration policy - general

The remuneration policy for 2013 includes a remuneration mechanism via annual grants to Senior Officers.

5.1 The short term remuneration for 2013 includes two secondary plans based on meeting objectives, that apply to participants as per their organizational affiliation:

a. General bonus plan for Senior Officers.

b. Bonus plan for participants from the Investments Discipline.

The existence of the two secondary plans is due to the various types of activity existing in the Group, which require adjusting the plan to the area of activity in light of their different characteristics and the Company's desire to relate between the participants' remuneration and the performance of the Company and its Units. In light of the above, each secondary plan refers to different participants so that at any given time, only one of the two plans applies to the participant.

5.2 **Remuneration plan for Senior Officers**

5.2.1 **General**

The sum of the bonus to which Senior Officers are entitled shall be determined as per the following components, the compliance with which is examined on an annual basis, as follows: a. Company objectives; b. Evaluation objectives (including qualitative personal objectives and general evaluation/manager's evaluation).

If it is possible to set measurable personal/unit objectives, the bonus amount may be derived from these components of personal/unit objectives, in addition to the evaluation objective as set forth above.

The bonus amount to which participants will be entitled shall be determined based on the rate of meeting objectives as set forth above, as per an eligibility key (hereinafter in this Clause: "**eligibility key**") set forth as a number of tranches with a par value or absolute[81] monetary value for each participant (hereinafter in this Clause: "**bonus objective**").

5.2.2 **Company objectives (<u>up to 80%</u> of the eligibility key)**

The meeting of Company objectives components shall be examined by the end of the year to which the plan applies, via indices that should be predefined for every annual plan as per the Group's annual Work Plan. The Company objectives are strategic-quantitative objectives that serve the Company's goals in the medium and long term, that may be measured and checked from the Company's Financial Statements and/or other quantitative publications by the Company, and that shall be included within the Company's annual Work Plan. Within the Company's objectives, two or more of the following quantitative indices shall be chosen: annual comprehensive

[81] In the event of an eligibility key in absolute terms or tranches, the Company BoD shall examine the number of wages included in this grant in order to make sure that there is an adequacy between the ratio of fixed salary and variable salary.

income (before tax), NBV[82], annual comprehensive income before tax as per areas of activity[83] and expenses objective[84].

The Company objectives component for 2013 includes the following indices and weights[85].

(a) Annual comprehensive income before tax in general insurance – 20% of the Company objectives component.

(b) Annual comprehensive income before tax from the results of the Company's activity excluding general insurance – 40% of the Company objectives component.

(c) NBV – 40% of the Company objectives component.

5.2.3 **Measurable personal/Unit objectives component[86] (up to 30% of the eligibility key)**

The personal/Unit objectives may be measured, and they will be predetermined as per the business/organizational unit to which the Senior Officers belong, and their specific position. Within the personal/Unit objectives, for each Senior Officer at least two personal/Unit objectives will be chosen. The personal/Unit objectives may include, for example, the following indices: the index of profitability or growth of the business unit; operations and service indices; an index as to the completion of milestones in significant projects.

5.2.4 **Evaluation component (up to 20% of the eligibility key)**

This component shall reflect the Company CEO's evaluation of the Senior Officers (and for the Company CEO and CoB – the evaluation of the BoD, and for the Chief Internal Auditor – the evaluation of the Audit Committee and the BoD), or – if the relevant Senior Officer does not report to the CEO – the evaluation of the direct manager and the CEO, with an emphasis, inter alia, on qualitative personal/Unit objectives, that are not necessarily quantitative and/or measurable, including objectives as set forth in Clause 4.5 above, as well as managerial skills and group leadership, being task-oriented and leaders, business drive, effectiveness and leading changes, human relations, serviceability vis-à-vis internal and external work relations, implementation of audit reports and correction of flaws arising from these reports, etc.

5.2.5 **The way the annual grant is calculated and the annual grant cap**

On approval of the Company's annual Work Plan, and setting the annual grants plan and budget, if it is set, the Company BoD shall set the Company indices and the personal indices and their weights for each Senior Officer, and their achievement (as per the provisions set forth above and below) will entitle the Senior Officers with annual grants for that calendar year.

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82 New Business Value (businesses included in life assurance and health insurance, as well as the businesses of pension funds management) as defined in the Embedded Value Report, prepared regarding Migdal Insurance and Financial Holdings Ltd.'s Financial Statements.

83 Such as life assurance and LTS, general insurance, health insurance, financial services, and other activity (such as investment in subsidiaries, capital etc.)

84 Total G&A expenses, before their classification into the item of commissions, marketing expenses and other acquisition expenses.

85 All pursuant to Migdal Insurance and Financial Holdings Ltd.'s consolidated Financial Statements.

86 This component shall be included within the grant to Senior Officers in Migdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for the Self-Employed Ltd., and shall include objectives that are specific for these entities.

All objectives within the evaluation component and the personal/unit component (if they exist) have a performance range, i.e. a minimum below which the performance does not entitle to a grant in respect of this index, a performance objective – if it is met, the Senior Officer's score is 100% in respect of this index ("**target objective**"), and a maximum, beyond which no additional remuneration is given, and between the minimum and the maximum there is a performance range that will be calculated in a linear manner (at a 1:1 ratio), which entitles to between 70% at the minimum, and 140% at the maximum, of the eligibility key. Accordingly, any index in the performance range receives a score between 0.7 and 1.4 (a score of 0 if the achieved index has not reached the minimum objective and a score of 1.4 if the performance reached the maximum or exceeded it).

For each index within the Company objectives – the target objective less 25% shall be scored 70%, and a performance below it shall not entitle to a grant in respect of this index, and the maximum will be the target objective plus 25%, and shall entitle to a score of 140%, and beyond it there will not be an additional remuneration. In other words, between the minimum and the target objective the ratio is linear, but at 1:1.2 (30/25), and between the target objective and the maximum the ratio is linear, but at 1:1.6 (40/25).

5.2.6 The score of performance in all the grant's components shall be weighed as per the pro-rata weight of each index in determining the annual grant. The overall performance score shall be multiplied by the Senior Officer's eligibility key, that will be determined, as set forth above, within the annual grant plan, for the calculation of the grant to which the Senior Officer is entitled in respect of compliance with target objectives in the various components.

5.2.7 **Performance measurement and neutralizations**
In the calculation of the above objectives, the BoD shall neutralize non-recurring and exceptional events, that, if taken into account in the objectives, might bring about a result that does not serve the targets in the basis of granting the annual grant, and remunerates the Senior Officers with an amount that is too small or too large and not pursuant to their performances.

5.2.8 **Payment of the annual grant**

(a) 70% of the annual grant shall be paid to Senior Officers by the end of the second quarter in the year following the calendar year in respect of which the annual grant was calculated[87], provided the RoE achieved in the entire Company in the year in respect of which the grant is given is at least 7%.

(b) The remaining 30% of the annual grant ("**deferred payment**") shall not be paid on the above mentioned date, but immediate after the approval of the Financial Statements of the second year after the year in respect of which the grant was calculated ("**deferred payment period**"[88]), provided the average RoE achieved in the entire Company in the year in respect of which the grant is given along with the years in the deferred payment period (i.e., an average that includes the year in respect of which the grant is paid and the two following years) is at least 7%.

[87] However, after the publication of the Financial Statements for the calendar year in respect of which the annual grant was calculated, and if part of the objectives' results are not published in the annual reports, the Company may pay advance payment at the expense of the annual grant to Senior Officers, based on the calculation of the data at its disposal at the time, and based on an estimate of objectives not published yet.

[88] For example, regarding the grant in respect of 2013, 30% of this grant, as determined immediately after the approval of 2013 Financial Statements shall be deferred up until immediately after the approval of 2015 Financial Statements, based on the average RoE that will be determined, as aforementioned, by the BoD.

5.3 **Remuneration plan – participants from the Disciplines of investments**

5.3.1 **General**

The amount of the annual grant to which the Senior Officers in the Investment Disciplines are entitled, shall be pursuant to the eligibility key set forth as a number of salaries, a number of tranches[89] with a par value or on absolute monetary value, in respect of achieving objectives in each of the bonus components (hereafter: "**eligibility key per component**"). The annual bonus shall be calculated by the end of the year to which the plan applies as per the achievement of four bonus components, as follows: a. Company wide component; b. multidisciplinary component; c. manager's evaluation; d. personal component.

The annual bonus amount to which Senior Officers from the Investment Disciplines are entitled shall not exceed a cap defined as a product of wages for each participant, as set forth.

5.3.2 **Company wide component (20% of the eligibility key for this component)**

Meeting the Company wide component shall be examined in a way identical to the way the compliance with the Company objectives component is examined in the short term remuneration plan for Senior Officers as detailed in Clause 5.2.2 above.

5.3.3 **Manager's evaluation component (20% of the eligibility key for this component)**

The manager's evaluation shall be outlined in a way identical to the way the manager's evaluation is outlined in the remuneration plan for Senior Officers as detailed in Clause 5.2.4 above.

5.3.4 **Multi-disciplinary component (20% of the eligibility key for this component)**

The multi-disciplinary component includes a multi-disciplinary objective determined based on the weighted average yields achieved by the assets managed by the Company in a measurement period of three (3) years, as per the weight of the assets managed in the same Discipline for the relevant period, including negative yields and including the measurement of the non-yield dependent investments only (excluding designated bonds) compared with the weighted average for Nostro, profit-participating, pension and provident monies among competing companies, similar to the way the Discipline's objective is determined for the sake of calculating the personal component, (hereinafter: "**the multi-disciplinary objective**"). For yield-dependent pensionary savings monies (profit-participating, provident and pension), the savings component is also included within the aforementioned objectives and comparison.

The bonus objective in this component is set forth as the number of salaries in the event of full compliance with the multi-disciplinary component. Should the actual activity results be lower than the Discipline's objective/benchmark index, the Senior Officer shall not be entitled to any bonus in respect of this component. Should results exceed the Discipline's objective, there is a remuneration mechanism limited by a personal cap.

[89] In the event of an eligibility key in absolute terms or tranches, the Company BoD shall examine the number of wages included in this grant in order to make sure that there is an adequacy between the ratio of fixed salary and variable salary.

5.3.5 **The personal/Discipline component (40% of the eligibility key for this component)**

The personal component is determined according to the Senior Officer's belonging to a specific Discipline among the Disciplines in the investments area in the Group. For each Discipline, there is a bonus objective which will be stated as the number of salaries in the event of full achievement of the Discipline's objective, calculated as per a measurement period of three (3) calendar years ("**Discipline's objective**").

The Discipline's objective is a benchmark index, selected in accordance with each area of activity within investments, and it includes, inter alia, regarding yields in investment portfolios, a benchmark index composed of the weighted average of results of a parallel Discipline in a various number of competing companies selected for the relevant Discipline [Insurance (profit-participating / Nostro), pension or provident], any known index (such as TA-100 index, MSCI etc.) and/or any other benchmark index deemed appropriate if there is no satisfactory external benchmark. If the actual activity results are lower than the Discipline's objective/benchmark index, the Senior Officers shall not be entitled to any bonus in respect of this component. If results exceed the Discipline's objective, there is a mechanism for an additional remuneration, limited by a personal cap. The personal component of managers, who are in charge of more than one Discipline, is determined by the weights of the Disciplines managed by them, with a weight of 70% for the compliance with the benchmark of the investment portfolio managed by them (Nostro / yield-dependent monies), respectively. The remaining areas of responsibility of the managers (including real estate and credit) are measured as per a weight of 10%-20% for every Discipline.

6. Special grant

Under certain circumstances, the Audit Committee and the BoD may approve a special remuneration, without social provisions and ancillaries, during a calendar year, to Senior Officers in the Company (except the Company's Chairman of the Board of Directors or CEO), in respect of a special activity that is not an ongoing activity, such as unique projects or facing unexpected challenges that were not included within the Work Plan. The special grant shall not exceed 3 times the monthly salary.

7. The annual grant's approval process

Immediately after the approval of the Financial Statements for every year, the calculation will be made of the extent by which every Senior Officer met the target objectives set in for him/her in the calendar year to which the Financial Statements refer, as per the way for calculating the annual grant detailed above. The extent of achievement of the target objectives set in the calculation of the annual grant, and the annual grant actually given for such achievement, shall be brought to the approval of the Company's Audit Committee and BoD. However, the Audit Committee and the BoD may reduce the calculated grant, and may even decide not to pay a grant at all, to all Senior Officers or to individual officers, as per their discretion, taking into account, inter alia, the Company's overall business results, special market conditions, the budget approved by the BoD for this matter or special circumstances. The calculation of the final amount of the grant to Senior Officers shall be completed by the end of the second quarter of the year following the calendar year in respect of which the annual grant is calculated.

8. The calculation of annual grant in case of a partial calendar year

Subject to the approval of the Company's Audit Committee and BoD, Senior Officers who terminate their employment during a calendar year, not under circumstances that allow the Company to revoke severance pay pursuant to the Severance Pay Law – 1963 ("**revoking circumstances**"), and Senior Officers who start working in the Company in a calendar year, may receive the annual grant pro-rata to their employment period, provided they worked at least 6 months in the year in respect of which the grant is given (if, for example, he/she was employed 6 months during the calendar year, he/she may receive 50% of the grant to which he/she would have been entitled for the entire calendar year). In the event of a termination of employment during the calendar year as set forth above, the grant shall be calculated pursuant to the Financial Statements published immediately after the announcement of the termination of employer-employee relations, as per the relevant indices included thereof. The calculation of the pro-rata grant as set forth above shall rely on quarterly reports, and for this purpose there will be an estimate of the annual data based on the data in the relevant quarterly Financial Statements, or an adjustment of target objectives that were set (which are annual objectives) pro-rata to the Financial statements period in order to calculate the pro-rata grant (for example, if the pro-rata grant shall be calculated based on June's reports, then for the compliance with the profitability objective, the profitability objective that was determined as target objective shall be multiplied by 50%). Furthermore, it should be clarified that if there are annual indices which are not naturally included in the Company's quarterly Financial Statements (such as NBV), these indices shall not serve for the calculation of the pro-rata grant, and the weight of the other indices for the same Senior Officer shall increase accordingly. In spite of Clause 5.2.8 (b) above, if Senior Officers entitled to a deferred payment as set forth in that Clause terminate their employment before the date of the deferred payment, such deferred payment will be paid to them upon their terminating employment in the Company, pro-rata to the number of full calendar years in which they were employed out of the years in respect of which the RoE is calculated (such that one-third of the deferred payment shall be attributed to every full calendar year in which they were employed out of the years in respect of which RoE is calculated). In such a case, the examination of the RoE target as set forth above shall be based on the data of average RoE of the full calendar years in respect of which RoE has been calculated by the Company at the date of termination of employment of such Senior Officers in the Company.