BOD REPORT ON THE SITUATION OF THE CORPORATION BUSINESSES

Chapter 2 - BoD Report on the Situation of the Corporation Businesses

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

BOARD OF DIRECTORS' REPORT ON THE COMPANY'S BUSINESS POSITION AS AT DECEMBER 31st, 2013

The Board of Directors' Report as at December 31st, 2013 reviews the main changes in the activities of Migdal Group in the reported period (hereinafter – "**the reported period**"). The Board of Directors' Report is an integral part of the Periodic Report including all its parts, and the Periodic Report should be read as a whole.

1. Company description

1.1 General

The Company, via its subsidiaries ("**Migdal Group**", "**the Group**"), operates mainly in the area of insurance, pension, provident funds and financial services.

The Group's insurance, pension and provident fund activity is carried out via Migdal Insurance Company Ltd. ("**Migdal Insurance**" or "**Migdal**") and its subsidiaries. The Group's pension and provident fund 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 it 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, which is mainly performed via Migdal Holdings and Management of Insurance Agencies Ltd. ("**Migdal Agencies**"), fully controlled by Migdal Insurance.

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

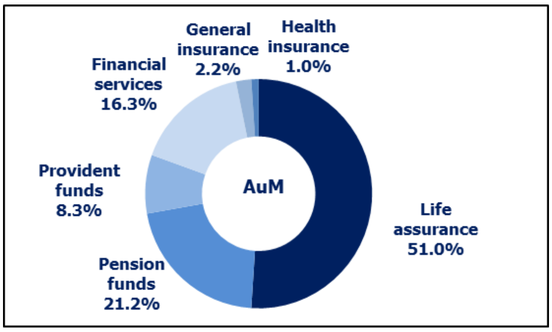
From October 29th, 2012 the Company's controlling shareholder is Mr. Shlomo Eliahu ("**controlling shareholder**"), who holds approx. 69% of the Company's issued and paid-up capital, directly and indirectly, via Eliahu Insurance Company Ltd. ("**Eliahu Insurance**").

For additional details regarding the controlling shareholders' holdings in the Company see Clause 2.1 to Part A in the Periodic Report – Corporation Businesses Description ("**Corporation Businesses Description**"). For the description of the Group's areas of activity and main holdings structure, see Clauses 2.2 and 3 to the Corporation Businesses Description.

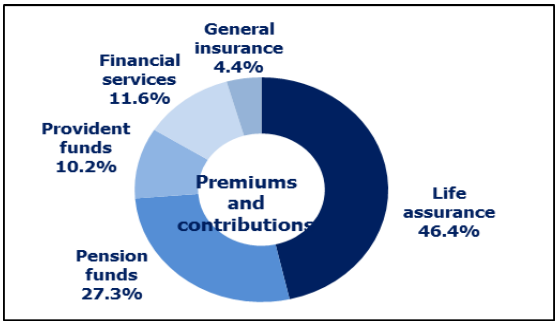
Migdal Insurance is the largest and leading insurance company in the area of life assurance and long term savings in Israel[1].

[1] As of September 30th, 2013, based on insurance liabilities in life assurance and AuM in pension and provident funds

The breakdown of (gross) insurance liabilities in insurance businesses and AUM in pension funds, provident funds and financial services ("AuM"), as well as the breakdown of premiums, receipts in respect of investment contracts and contributions by areas / lines of activity



As of December 31st, 2013



For 2013

The Company serves over 1.9 million private and business customers in the areas of insurance, pension and provident funds has business relations with approx. 2,600 insurance agencies and agents, and has over 4,300 employees.

1.2 Key developments since the last annual report

1.2.1 **Changes related to the BoD and Executive Senior Officers in the Group** – in the reported period, and pursuant to the change of control in the Group, there have been changes in the CoB and CEO, changes in the composition of the Board of Directors of the Company and Migdal Insurance, and additional changes in the Group's Senior Officers. For additional details as well as salary conditions and grants see Clause 2.3.3 to Part A in the Corporation Businesses Description Chapter, Clause 32.1 to Part D in the Corporation Businesses Description Chapter, Note 38 d 1 to the Financial Statements, and Regulation 26 in the Additional Data on the Corporation Chapter.

1.2.2 **The absorption of new business in general insurance from Eliahu Insurance** – on September 30th, 2013 the transaction of Migdal Insurance with the controlling company Eliahu Insurance regarding the absorption of Eliahu Insurance's new business in general insurance in Migdal, beginning from 2013 in consideration of NIS 260 million was approved.

This transaction is pursuant to an agreement signed between the parties in November 2012, and a special independent Committee next to the BoD was established for its implementation. The Committee asked for a valuation of new policies from Professor Yoram Eden, CPA ("**the assessor**") and a Fairness Opinion from Professor Amir Barnea. The valuation was prepared using the Discounted Cash Flow (DCF) methodology.

The assessor examined the recoverability of intangible assets recognized upon the acquisition of new insurance businesses in general insurance as of December 31st, 2013. He concluded that there are no material deviations from the assumptions made in the original opinion, and that there was no impairment as of the date of the Report.

For details see Clause 2.3.1 to Part A in the Corporation Businesses Description Chapter and Notes 4 b, 4 c and 38 d. 1. a) to the Financial Statements. See also the Company's Immediate Reports dated August 14th, 2013, Reference No. 2013-01-116766, and September 30th, 2013, Reference No. 2013-01-152673.

For the increase in gross premiums in the area of general insurance, reflected mainly in CMBI, casco and homeowners insurance, and the Company's strategy for the expansion of its activity in the area of general insurance, see Clauses 3.6 and 5 below.

1.2.3 **The transaction for the acquisition of PHI reinsurance treaty from Generali and selling it to another reinsurer**
In December 2013, transactions in which Migdal Insurance purchased from Generali its reinsurance portfolio regarding PHI policies for the period between January 1st, 1970 and up to December 31st, 2012, and sold it to another reinsurer was concluded. Further to this transaction, a gain of approx. NIS 52 million before tax was recognized by the Company. For additional details see Clause 31.2.1 in Part D to the Corporation Businesses Description Chapter and Note 38 e 1 c to the Financial Statements.

1.2.4 **Special grant –** in December 2013 a special grant in the amount of approx. NIS 97 million was distributed, for details see Clause 32.5 in Part D to the Corporation Businesses Description Chapter.

1.2.5 **Management fees reform and the discontinuation of the marketing of policies with annuity coefficient –** for details regarding the discontinuation of the marketing of life assurance policies with a guaranteed annuity coefficient and the management fees reform, see Clauses 6.2.3 and 6.2.6 in Part B to the Corporation Businesses Description Chapter.

1.2.6 **Employees' organization –** for details regarding the organization of employees and negotiations towards establishing a collective agreement in Migdal Insurance, see Clause 32.3 in Part D to the Corporation Businesses Description Chapter.

2. Description of the business environment

For the description of the business environment, see Clause 4 below.

3. BoD explanations to the Corporation's situation

3.1 Analysis of the financial situation and activity results

NIS million	2013	2012	Change in %	2011	10-12/13	10-12/12	Change in %
Area of LTS							
Gross earned premium, receipts in respect of investment contracts and contributions [(1)]	14,599.3	13,780.2	6%	12,454.7	3,989.8	3,954.6	1%
Income for the period before tax	781.2	88.4		405.7	300.1	101.4	
Comprehensive income before tax	905.9	216.1		143.2	389.7	100.5	
Area of health insurance							
Gross earned premium	770.2	692.5	11%	614.9	206.2	184.1	12%
Income for the period before tax	71.3	96.2		36.9	3.4	39.8	
Comprehensive income before tax	77.2	102.3		27.6	8.4	40.0	
Area of general insurance							
Gross earned premium	1,755.9	1,426.6	23%	1,430.5	490.5	352.6	39%
Gross premium	2,021.5	1,406.3	44%	1,446.2	349.7	253.1	38%
Premium in retention	1,508.6	952.0	58%	961.8	262.2	174.0	51%
Income (loss) for the period before tax	104.2	110.0		(15.6)	2.8	55.5	
Comprehensive income (loss) before tax	153.9	184.2		(95.6)	37.5	62.8	
Area of financial services							
Revenues	200.7	208.8	(4%)	235.9	53.0	55.6	(5%)
Income (loss) for the period before tax	(4.3)	10.6		18.6	(5.3)	3.3	
Comprehensive income (loss) before tax	(3.5)	10.8		19.6	(5.0)	3.2	
Total areas of activity							
Total gross earned premium, receipts in respect of investment contracts and contributions	17,125.3	15,899.2	8%	14,500.1	4,686.5	4,491.4	4%
Total gross premium, receipts in respect of investment contracts and contributions [(2)]	17,391.0	15,879.0	10%	14,515.8	4,545.7	4,391.8	4%
Total income for the period before tax	952.4	305.2		445.6	301.0	199.9	51%
Total comprehensive income before tax	1,133.5	513.3		94.8	430.7	206.5	109%
Other [(3)]							
Income (loss) for the period before tax	30.8	30.4		62.2	(11.0)	(1.8)	506%
Comprehensive income before tax	54.0	112.7		34.1	8.5	21.7	(61%)
Income for the period before tax	983.2	335.6	193%	507.7	290.0	198.1	
Comprehensive income for the period before tax [(4)]	1,187.6	626.1	90%	128.9	439.2	228.2	
Income tax							
Income tax – in terms of income for the period	366.5	117.5		212.2	104.1	73.0	
Income tax – in terms of comprehensive income	448.7	221.4		83.1	159.7	84.6	
Income for the period	**616.7**	**218.1**	**183%**	**295.5**	**185.9**	**125.2**	**49%**
Comprehensive income for the period	**738.9**	**404.6**	**83%**	**45.8**	**279.5**	**143.6**	**95%**
RoE (based on income for the period)[(5)]	**13.2%**	**4.9%**		**6.5%**	**3.7%**	**2.7%**	
RoE (based on comprehensive income)[(5)]	**15.9%**	**9.1%**		**1.0%**	**5.6%**	**3.1%**	

(1) Receipts in respect of investment contracts are not included in the premiums item, but are credited directly to liabilities in respect of insurance contracts and investment contracts. The data regarding contributions to pension and provident funds managed by the Group are not included in the Financial Statements.
(2) In general insurance, including data of gross premiums, and in life assurance and health insurance, including gross earned premiums.
(3) The "Other" item mainly includes the results of activity of insurance agencies in the Group, related Group activity, performed within Migdal Health and Migdal Management of an insignificant scope, as well as net investment income (including income from affiliates) not attributed to areas of activity, as well as adjustments within the reports consolidation.
(4) The comprehensive income/loss includes the results of investment activity of available for sale financial assets (Nostro portfolio) that have not yet been realized, vs. the income/loss for the period that includes the results of investment activity of securities that were realized in the reported period starting from the day of acquisition, therefore, the difference between the comprehensive income/loss for the period and the income/loss for the period is mainly affected by the timing of the realization of income or loss from securities, except in cases in which there is a provision for impairment that is recognized in the P & L report before the realization. The Company mainly utilizes comprehensive income for measuring its results.
(5) The calculation of RoE was made after adjustment of the equity balance for dividend distribution during the reported period.

The above Notes refer to the way the description is made throughout all the parts of the BoD Report.

3.2 Description of the development of activity results in 4Q13

In 4Q13, there was a significant increase in the Group's income vs. 4Q12, mainly due to an increase in the yields achieved by the Group on capital markets.

In 4Q13, variable management fees collected in life assurance totaled approx. NIS 304 million before tax, vs. approx. NIS 166 million before tax in 4Q12.

In life assurance, there was a special income of NIS 52 million in respect of the transaction for the acquisition of a reinsurance treaty and selling it to another reinsurer, as set forth in Clause 1.2.3 above.

Furthermore, the comprehensive financial spread from investments against guaranteed yield policies in life assurance increased compared with 4Q12 in the reported year, due to an increase in the yields achieved in investments that are not designated bonds. In addition, income from investments in the area of health insurance and the area of general insurance and income from investments against capital increased as well, due to higher yields achieved by the Group on capital markets in 4Q13, vs. 4Q12.

In 4Q13, a special grant of approx. NIS 97 million was distributed, as set forth in Clause 1.2.4 above.

In life assurance, in 4Q13 the significant decline in new sales (excluding increases) in life assurance plans continued, compared with 4Q12, mainly due to the reform in annuity coefficients, see Clause 3.4.3 below.

In 4Q13 there was an immediate provision to annuity in the amount of approx. NIS 63 million before tax vs. a provision of approx. NIS 77 million before tax in 4Q12. For details see Clause 3.4.4 (a) below and Note 37 b 3 b 5 to the Financial Statements. Revenues from fixed management fees in profit participating policies increased following an increase in the scope of AuM. Furthermore, there was an increase in risk income.

In the area of health insurance, the decrease in comprehensive income in 4Q13 vs. 4Q12 was mainly affected by an increase in claims.

In the area of general insurance there was a significant decrease in underwriting results compared with 4Q12, which was reflected mainly in the liability lines.

In the area of financial services, there was a decrease in comprehensive income compared with last year, mainly due to an increase in expenses due to the special grant that was distributed.

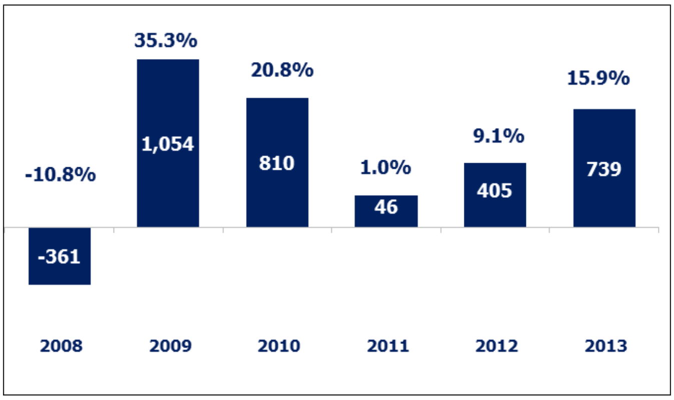
For additional details regarding the development of results in 4Q13, see within the areas of activity below.

For additional details regarding the development of premiums and income in quarters in 2013, see Regulation 10a to the Additional Data on the Corporation Chapter.

3.3 Description of the development of activity results in 2013

In 4Q13, there was a significant increase in the Group's income vs. 4Q12, mainly due to an increase in the yields achieved by the Group on capital markets.

Presented below is the development of comprehensive income for the period (in NIS million) and RoE in 2008-2013:



The results in 2012-2013 were affected by the high yields achieved by the Group on capital markets.

The increase in comprehensive income in the reported year was mainly affected by the collection of variable management fees in the profit participating polices in life assurance marketed until 2004, in the amount of approx. NIS 637 million before tax, vs. the collection of variable management fees last year of approx. NIS 172 million before tax, recorded mainly in 4Q12, after not collecting variable management fees during 2011.

On the other hand, the comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased in 2013 compared with 2012, due to a decrease in the yields achieved in investments that are not designated bonds. Also, revenues from investments against equity and from the general insurance area decreased due to higher yields achieved by the Group on capital markets in 2012. This decline is following an increase in the comprehensive financial spread and in investment income in 2012 vs. 2011. For additional details regarding the financial spread, including management fees, yields and management fees in the profit participating portfolio, see Note 18 to the Financial Statements, as well as Clause 3.4.6 below.

The Group's activity and results are greatly affected by capital markets, including by the low interest rate that affects embedded yields in the insurance portfolios and the other financial assets, and as a result, also management fees / financial spread in investments. For more details about the effect of investment income on the Group's income, see Clause 4.1.4 below.

Regarding the development on capital markets in Israel and abroad, in the reported year and after the balance sheet date, see Also Clause 4.1 below.

In 2013 there was an immediate provision to annuity in the amount of approx. NIS 63 million before tax vs. an immediate provision for annuity of approx. NIS 257 million before tax in 2012. For details see Clause 3.4.4 (a) below and Note 37 b 3 b 5 to the Financial Statements.

In 2013, comprehensive income decreased by approx. NIS 42 million following a 1% increase in profit tax in June 2013, and the coming into effect of the Arrangements Law that increased companies' tax from 25% to 26.5%. These changes brought an increase of approx. NIS 31 million in income tax, and a decrease in the Company's share of the profits of affiliates treated under the equity method, in the amount of approx. NIS 11 million. Furthermore, in 2011 there was a decrease of about NIS 101 million in net income, following an increase in tax rates. For details see Note 21 to the Financial Statements.

The Group's G&A expenses increased by approx. NIS 97 million due to a special grant, as set forth above.

In life assurance there was a special income of NIS 52 million in respect of the transaction for the acquisition of a reinsurance treaty and selling it to another reinsurer, as set forth in Clause 1.2.3 above. Furthermore, revenues from fixed management fees in profit participating policies increased following an increase in the scope of AuM. On the other hand, there was a decrease in risk income. In 2012 risk income decreased and operation cost increased compared with 2011.

In the area of health insurance the decline in comprehensive income in 2013 vs. 2012 was affected by an increase in claims, following 2012 in which underwriting income remained unchanged compared with 2011.

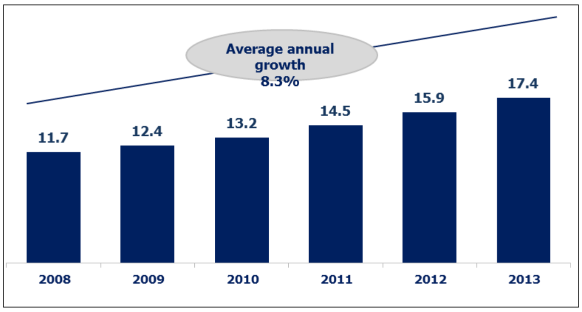
In the area of general insurance, in 2013 there was an increase in underwriting results (excluding investment income) compared with 2012, in the CMBI and casco lines, which was mainly offset due to a deterioration in the results of the liability lines, following 2012 in which there was an improvement in underwriting results compared with 2011.

In the area of financial services, in 2013 there was a decline in revenues from activity in negotiable securities, mainly abroad, and other financial transactions, as well as due to a decrease in revenues from portfolio management and underwriting activity, following a reduction in revenues in 2012, mainly due to a decrease in management fees in respect of mutual funds management.

For details regarding the financial results as per areas of activity see below. Furthermore, see Note 3 to the Financial Statements.

Description of the development in the Group's scope of activity in the reported year

Presented below is the development in premiums, receipts in respect of investment contracts and contributions from insurance, pension funds and provident funds businesses, in 2008-2013 (in NIS billion):

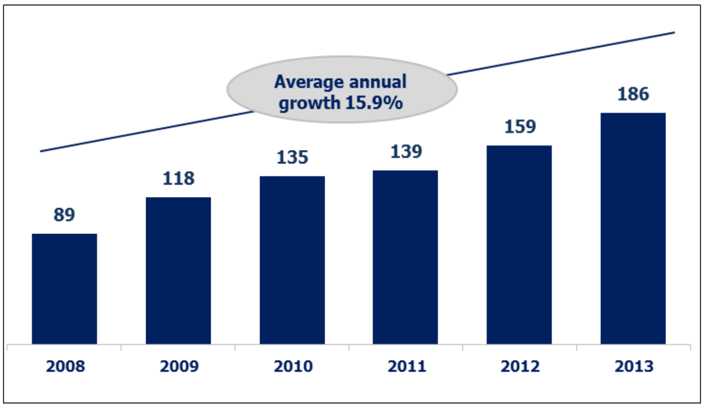


In 2013 there was a significant increase in premiums in the area of general insurance, reflected in all lines. The increase was mainly affected by the absorption of the new business of Eliahu Insurance in Migdal, which brought about an increase in CMBI, casco and homeowners insurance.

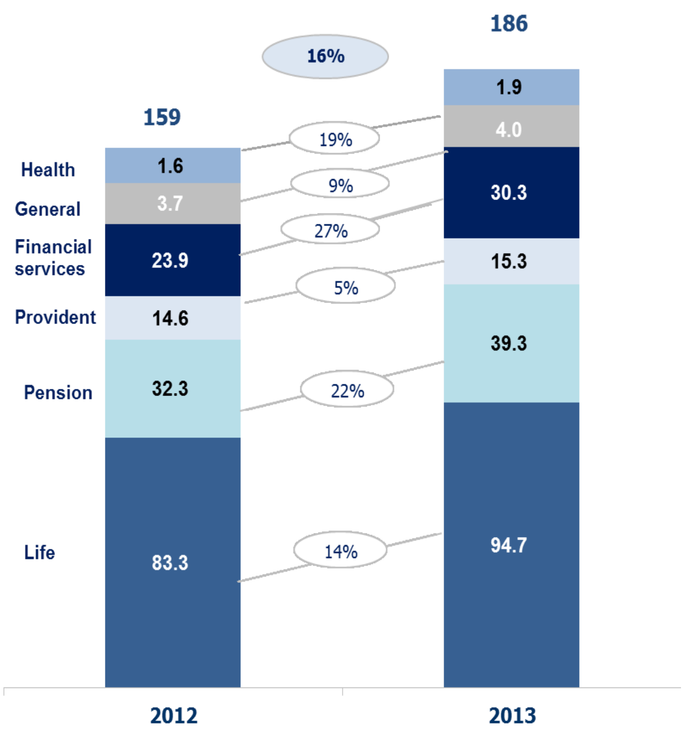
Furthermore, the increase in premiums and contributions in the area of life assurance and LTS and in the area of health insurance continued.

In 2013 there was a change in the mix of new sales in the Group, with a marked decline in new sales of life assurance, and on the other hand, an increase in new sales of pension funds, as well as a certain decrease in total new sales of pensionary savings products in the Group.

Presented below is the development of total AuM[2] in 2008-2013 (NIIS billion):



Presented below is the breakdown of AuM in the Group by area of activity as of the end of 2013, vs. the end of 2012 (NIS billion):



[2] AuM in pension funds, provident funds, mutual funds and portfolio management are not included in the Company's Consolidated Financial Statements.

3.4 Area of life assurance and LTS

3.4.1 Presented below is the breakdown of the condensed results of activity of the area in the reported year:

NIS million	2013	2012	Change in %	2011	10-12/13	10-12/12	Change in %
Life assurance							
Gross current earned premiums	6,657.2	6,268.8	6%	5,928.8	1,690.5	1,621.9	4%
Single premiums and receipts in respect of investment contracts	1,414.1	1,360.4	4%	917.9	393.3	541.8	(27%)
Gross earned premiums including investment contracts in life assurance	**8,071.3**	**7,629.2**	6%	**6,846.7**	**2,083.8**	**2,163.6**	(4%)
Management fees	1,115.1	574.2	94%	351.5	430.5	279.3	54%
Income (loss) for the period	686.3	(0.3)		316.6	282.3	84.3	
Comprehensive income	809.0	118.6		56.2	369.8	80.0	
Pension							
Contributions	4,757.0	4,386.0	8%	3,919.0	1,305.0	1,189.0	10%
Management fees	302.4	286.4	6%	252.2	84.4	76.6	10%
Income for the period	69.9	69.8		67.8	10.0	13.6	
Comprehensive income	71.9	77.9		65.9	12.0	17.1	
Provident							
Contributions	1,771.0	1,765.0	0%	1,689.0	601.0	602.0	(0%)
Management fees	138.7	140.0	(1%)	143.0	37.3	35.7	4%
Income for the period	25.0	18.8		21.3	7.8	3.4	
Comprehensive income	104.2	110.0		(15.6)	2.8	55.5	
Total gross earned premiums, receipts in respect of investment contracts and contributions	**14,599.3**	**13.780.0**	6%	**12,454.7**	**3,989.8**	**3,954.6**	1%
Total management fees	**1,566.1**	**1,000.5**	56%	**746.7**	**552.1**	**391.6**	41%
Total income for the period	**781.2**	**88.41**		**405.7**	**300.1**	**101.4**	
Total comprehensive income	**905.9**	**216.1**		**143.2**	**389.7**	**100.5**	

3.4.2 Presented below are data regarding insurance liabilities in life assurance and AuM in pension and provident funds in the Group as of the end of 2013 vs. the end of 2012, respectively:

NIS million	31.12.2013	31.12.2012	Change in %
Liabilities in respect of yield-dependent insurance and investment contracts	69.1	58.8	17.5%
Liabilities in respect of insurance and investment contracts that are not yield-dependent	25.6	24.5	4.8%
Total liabilities in respect of insurance and investment contracts – life assurance	94.7	83.3	13.7%
AuM in pension funds	39.3	32.3	21.6%
AuM in provident funds	15.3	14.6	5.3%
Total life assurance and LTS	149.3	130.2	14.8%

3.4.3 **Results of activity in the area of life assurance and LTS in 4Q13**

Scope of activity
In 4Q13, there was stability in total gross earned premiums, receipts in respect of investment contracts and contributions, mainly affected by an increase in current premiums in life assurance and contributions in pension, which was offset primarily by a decrease in single premium and receipts in respect of investment contracts in life assurance.

The reform in annuity coefficients and the restrictions imposed as to new insurance plans with guaranteed annuity coefficients, resulted in a continued significant decline in new sales in life assurance plans compared with 4Q12, and on the other hand there was an increase in the Group's new sales in pension funds, as well as a decline in total new sales of pensionary savings products in the Group.

The rate of surrenders to average reserve (in annual terms) in 4Q13 totaled approx. 2.2% vs. 2.4% in 4Q12.

Comprehensive income before tax
The increase in comprehensive income **in life assurance** in 4Q13 vs. 4Q12 was mainly affected by the collection of variable management fees in the profit participating polices in life assurance marketed until 2004, in the amount of approx. NIS 304 million before tax, vs. approx. NIS 166 million before tax in 4Q12.

The comprehensive financial spread from investments against guaranteed yield policies in life assurance increased compared to 4Q12, due to an increase in the yields achieved in investments that are not designated bonds.

In 4Q13 the Company recorded an immediate provision to annuity in the amount of approx. NIS 63 million before tax vs. a provision of approx. NIS 77 million before tax recorded in 4Q12. For details see Note 37 b 3 b 5 to the Financial Statements.

In addition, a special gain of NIS 52 million was recorded in respect of the transaction for the acquisition of a reinsurance treaty and selling it to another reinsurer, as set forth in Clause 1.2.3 above. Furthermore, there was an increase in risk income, and on the other hand, an increase in expenses compared with 4Q12, due to a special grant that was distributed, as set forth above.

The decrease in comprehensive income in **pension funds** in 4Q13 is affected by an increase in G&A expenses and acquisition expenses and a decrease in comprehensive income from Nostro investments.

The increase in comprehensive income in **provident funds** in 4Q13 is partly due to a decrease in G&A expenses following the update of agreements with service providers.

3.4.4 **Results of activity in reported year**

(a) Life assurance - scope of activity

The increase in current premiums in life assurance in 2013 was affected by a significant increase in new sales in 2H12, due to the reform in annuity coefficients that came into effect in January 2013, pursuant to which it is no longer possible to market life assurance plans that include guaranteed annuity coefficients to insureds under the age of 60. Such increase in premiums is mainly reflected in the increase in premiums from salaried insureds, see Clause 8.1 to the Corporation Businesses Description Chapter.

Furthermore, the increase in premiums was affected by a decrease in the cancellation rate in 2013 vs. 2012, following a slight increase in the cancellation rate in 2012 vs. 2011.

However, in light of the reform in annuity coefficients and the restrictions imposed as to new insurance plans regarding the inclusion of guaranteed annuity coefficients as set forth above, in 2013 there was a significant decline in new sales in life assurance plans, totaling approx. 32%, compared with a certain increase of approx. 21% in 2012 vs. 2011.

For additional details see also Clauses 6.2.6 in Part B to the Corporation Businesses Description Chapter and Clause 4.3.1 below.

The rate of surrenders to average reserve in life assurance (including outgoing transfer of funds) in 2013 totaled approx. 2.0% vs. 2.3% in 2012 and approx. 2.4% in 2011.

As per the MoF data[3], in the first nine months of 2013 there was an increase of approx. 5.4% in the aggregate amount of premiums in the life assurance line (excluding receipts in respect of investment contracts) compared with the same period in 2012, compared with stability in the Group in 2011. As a result, there was a decline in the Group's market share, for details see Clause 7.2 to the Corporation Businesses Description Chapter.

[3] The market data are based on the processing of the MoF reports published on the website ("**Managerial Reports**").

As per the MoF data[4], as of December 31st, 2013, the amount of managed assets in the life assurance line totaled approx. NIS 275 billion, an increase of approx. 13.4% compared with December 31st, 2012 (vs. approx. 13.7% in the Group). Out of the above, the scope of assets managed under profit participating policies totaled approx. NIS 197 billion, an increase of approx. 18.5% vs. December 31st, 2012 (vs. approx. 17.5% in the Group).

Comprehensive income before tax
The increase in comprehensive income in the reported period was mainly affected by the collection of variable management fees in the profit participating polices in life assurance marketed until 2004, in the amount of approx. NIS 637 million before tax, vs. approx. NIS 172 million before tax in the previous year, mainly in 4Q12. The variable management fees in 2012 were after not collecting variable management fees during 2011 due to investment losses accrued to the insureds' debit.

The comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased compared to 2012, due to a decrease in the yields achieved in investments that are not designated bonds compared with 2012.

In 2013 there was an immediate provision to annuity in the amount of approx. NIS 63 million before tax due to the experience accrued in the Company regarding annuity take-up rates, vs. an immediate provision to annuity of approx. NIS 257 million before tax recorded in 2012, due to the update of mortality estimates and the experience accrued by the Company. In 2011 the Company recorded an immediate provision for annuity in the amount of approx. NIS 50 million. For additional details see Note 37 b 3 b (5) to the Financial Statements.

In life assurance there was a special gain of NIS 52 million in respect of the transaction for the acquisition of a reinsurance treaty and selling it to another reinsurer

Furthermore, there was an increase in fixed management fees in profit participating policies, following an increase in the scope of AuM. On the other hand, there was an increase in operational expenses, partly due to expenses related to the special grant that was distributed, and a decrease in risk income.

In 2012 there was a decline in risk income and an increase in operational expenses vs. 2011.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 9.1% in 2013 vs. approx. 9.6% in 2012 and approx. 9.3% in 2011.

The rate of commissions to premiums decreased from approx. 8.1% in 2012 to approx. 7.3% in 2013, following a relative stability in 2012 compared to 2011. The decrease in 2013 was affected by the significant decrease in new sales in life assurance, see Clause 33.3.1 to the Corporation Businesses Description Chapter.

[4] Based on Bituah-Net website and the MoF monthly Investments Report.

G&A[5] expenses rate to gross earned premium totaled approx. 5.8% in 2013, vs. approx. 5.5% in 2012 and 2011. In 2013, the increase in expense rate to premium was affected by the special grant that was distributed.

For additional details regarding the life assurance businesses, the financial spread, including management fees, yields and the rate of management fees in the profit participating portfolio, see Clauses 3.4.5 and 3.6.5 below, as well as Note 18 b and d to the Financial Statements.

(b) Pension - scope of activity

The increase in contributions in the reported year was affected by an increase in new sales, including increases in mandatory pension contributions and salary increases, less cancellations.

The increase in pension sales in 2013 is in light of the reform in annuity coefficients and the restrictions imposed as to new insurance plans regarding the inclusion of guaranteed annuity coefficients, as set forth above.

As per the Ministry of Finance data[6,] the aggregate amount of contributions in the line of new pension funds in 2013 totaled approx. NIS 21,651 million, vs. NIS 18,684 million in 2012, an increase of about 16%.

The relatively moderate increase in contribution fees in both years in Group pension funds (approx. 8%), was partly affected by the discontinuation of an engagement with a group of members belonging to a large organization[7] ("**the group of members**"). The increase in contributions vs. 2012, excluding management fees attributed to this group, was about 11%.

Contributions in pension funds exclude money transfers in respect of the mobility of members from one fund to the other. Money transfers to the Group's new pension funds in 2013 totaled approx. NIS 288 million (vs. approx. NIS 297 million in 2012), and on the other hand, money transfers from the Group's new pension funds to other funds totaled about NIS 713 million (vs. NIS 1,066 in 2012, out of which approx. 490 million in respect of the above-mentioned group of members).

For details regarding surrender rates (including outgoing mobility of funds), see Clause 8.4 to the Corporation Businesses Description.

In the Group's scope of activity in terms of AuM there was an increase of approx. 22% in 2013, affected by increases in capital markets and the increase in net current accrual[8], vs. an increase of approx. 25% in the pension market.

[5] G&A expenses are after the allocation of expenses to the item of change in liabilities and payments in respect of insurance contracts and to the item of commissions, marketing expenses and other acquisition expenses.

[6] Based on data published on the "Pension-net" website.

[7] In July 2012 the engagement with the group of members was discontinued, after a tender published by that group. Following the discontinuation, the rights accrued in respect of the members in the Group, in the amount of approx. NIS 490 million, were transferred out of the pension fund. The contributions collected from the group of members in 1H12 totaled approx. NIS 106 million. This engagement and its discontinuation had a material impact on the Company's financial results.

[8] Net current accrual is defined as contributions plus the net movement of members and less surrenders and pension payments.

For details about the change in the Group's market shares, see Clause 7.2 to the Corporation Businesses Description.

Comprehensive income before tax

The increase in management fees in 2012 and 2013 was mainly affected by an increase in the scope of contributions and AuM. In 2013 the increase in management fees was partly offset due to the recording of a provision for the reimbursement of management fees as per the ruling in principle by the Commissioner as to the increase of management fees without advance notice, see Note 39.1.e. 39.a to the Financial Statements.

Furthermore, in 2013 the decline in average management rates continued, in light of the increased competition in pension plans that became the main product marketed. For details see Clause 6.5 to the Corporation Businesses Description Chapter and Clause 4.3.1 below.

The decline in comprehensive income in 2013 compared with 2012 was affected by the recording of a provision for the reimbursement of management fees as per the ruling in principle as set forth above, a decrease in total comprehensive investment income in the Nostro portfolio, as well as an increase in acquisition expenses and G&A expenses, partly non-recurring expenses.

In 2012 there was an increase in comprehensive income compared with 2011, which was mainly affected by an increase in total comprehensive income in the Nostro portfolio and revenues from management fees.

The average commission fees to contributions and to average AuM were stable in 2011-2013, see Clause 33.3.1 to the Corporation Businesses Description Chapter.

The rate of expenses and acquisition costs to contributions of all activity in pension funds in the Group totaled approx. 5.1% in 2013, similar to 2012, and vs. approx. 4.8% in 2011.

(c) Provident fund - scope of activity

Contributions were stable in the reported year. Contributions exclude money transfers in respect of the movement of members from one fund to another. In 2013, money transfers to the Group's provident funds totaled approx. NIS 235 million (vs. approx. NIS 592 million in 2012), and on the other hand, money transfers from the Group's provident funds to other funds totaled approx. NIS 1,113 million (vs. approx. NIS 1,026 million in 2012).

For details regarding surrender rates (including outgoing mobility), see Clause 8.4 to the Corporation Businesses Description Chapter.

As per the Ministry of Finance data[9], as of December 31st, 2013, the aggregate scope of AuM in the provident funds line totals about NIS 347 billion, vs. approx. NIS 318 billion on December 31st, 2012, an increase of approx. 9%.

The Group's AuM increased by approx. 5%, affected by increases in capital markets, partly offset due to net negative accrual. For details regarding the Group's market share, see Clause 7.2 to the Corporation Businesses Description.

[9] Based on data published on the "Provident-net" website.

Comprehensive income before tax
In the reported year, there was an increase in comprehensive income, mainly due to a decrease in G&A expenses, which was partly affected by an update of agreements with service providers.

In 2013 and 2012 there was a decrease in management fees, affected by an erosion in the average management fees rate. Furthermore, in 2013 management fees are after a deduction of a provision for the reimbursement of management fees, see Note 39.1.e.39.a to the Financial Statements.

For additional details regarding the development of average management fees in provident funds, see Clause 6.5 to the Corporation Businesses Description.

3.4.5 **Additional information regarding life assurance businesses' results**
Presented below is additional information regarding life assurance businesses' results (Note 18 to the Financial Statements):

NIS million	2013	2012	2011
Comprehensive income (loss) as per policy types			
Policies with a savings component			
Until underwriting year 1990	154	(25)	93
Until underwriting year 2003	736	241	15
From underwriting year 2004	(170)	(218)	(140)
Policies with no savings component			
Individual risk	112	145	90
Collective risk	(23)	(24)	(2)
Total comprehensive income	**809**	**119**	**56**
Out of which: financial spread including management fees [10]	1,447	926	476

The shift to comprehensive income in 2013 compared with a comprehensive loss in 2012 **in the policies written until 1990** (mainly guaranteed yield and backed by Hetz bonds), is mainly affected by a decrease in the recording of a non-recurring provision to supplementary annuity reserve (SAR) as compared with the provision recorded in 2012, and on the other hand, a decrease in the comprehensive financial spread from investments against guaranteed-yield policies. In 2012 there was a decrease in comprehensive income due to an increase in the provision for SAR, which was partly offset by the yields achieved by the Group on capital markets.

[10] The financial spread including other comprehensive income (loss) that was imputed to capital reserves.

The increase in income **in policies written until underwriting year 2003** (mainly profit participating policies) in the reported year vs. 2012 is mainly due to the collection of variable management fees in the amount of approx. NIS 637 million in these policies in 2013, vs. approx. NIS 172 million in 2012. In 2011 no variable management fees were collected, due to the aggregate negative yield achieved by the Company.

In **underwriting years from 2004** (both in profit participating policies and in guaranteed-yield policies), most of the profitability in these products is due to fixed management fees that depend on the amount of reserves, which, at this stage of the policies' life, is relatively low.

The decrease in loss in 2013 vs. 2012 stems, inter alia, from an increase in fixed management fees due to the increase in the size of the average reserve. In 2012 the increase in comprehensive loss is mainly due to an increase in expenses, along with an increase in the amount of new premiums, partly offset by an increase in investment income.

The decrease in income from individual risk in 2013 was affected by a deterioration in claims compared with 2012. Furthermore, the results are also affected by changes in income from investments in respect of assets held against reserves in these policies.

The comprehensive loss in collective risk in 2013 and 2012 was mainly affected by a deterioration in underwriting results compared with 2011.

The Note presents a breakdown of insurance liabilities from two aspects: a breakdown as per financial exposure (guaranteed-yield or participating in investment income) and a breakdown as per insurance exposure [the Company's undertaking at the end of the insurance period – a surrender in a lump amount (capital) or annuity]. Regarding the Company's financial exposure, see also Note 37 to the Financial Statements.

3.4.6 **Additional information regarding the development of income in life assurance**

(a) Weighted yields in profit participating policies (in %)

	Policies issued in 1992-2003 (J Fund)		
	2013	**2012**	**2011**
Gross positive (negative) real yield	10.33	9.67	(5.42)
Net positive (negative) real yield	8.24	8.60	(5.99)
Gross positive (negative) nominal yield	12.44	11.25	(3.01)
Net positive (negative nominal yield	10.31	10.16	(3.59)

	Policies issued from 2004		
	2013	**2012**	**2011**
Gross positive (negative) real yield	9.61	9.07	(6.41)
Net positive (negative) real yield	8.26	7.73	(7.57)
Gross positive (negative) nominal yield	11.71	10.64	(4.03)
Net positive (negative) nominal yield	10.33	9.28	(5.21)

Policies issued in 1992-2003 (J Fund)					
	4Q13	3Q13	2Q13	1Q13	4Q12
Gross positive real yield	4.63	2.34	0.35	2.67	3.64
Net gross positive real yield	3.84	1.88	0.17	2.14	3.08
Gross positive nominal yield	4.53	3.65	1.06	2.68	2.95
Net positive nominal yield	3.74	3.18	0.88	2.15	2.40

Policies issued from 2004					
	4Q13	3Q13	2Q13	1Q13	4Q12
Gross positive real yield	4.34	2.21	0.20	2.57	3.41
Net positive (negative) real yield	4.02	1.89	(0.11)	2.25	3.09
Gross positive nominal yield	4.25	3.52	0.91	2.59	2.73
Net positive nominal yield	3.92	3.20	0.60	2.27	2.41

(b) Investment income credited to insureds in profit participating policies and management fees in their respect

Presented below are details regarding the estimated amount of investment income credited to insureds in profit participating life assurance and management fees calculated pursuant to the instructions set forth by the Commissioner of Insurance, based on yield and quarterly balances of insurance reserves in the Company's business reports:

	2013	2012	2011
	NIS million		
Investment income (loss) credited to insureds after management fees	6,105	5,022	(1,785)
Management fees	1,115	574	352

	4Q13	3Q13	2Q13	1Q13	4Q12
	NIS million				
Investment income credited to insureds after management fees	2,392	1,984	485	1,244	1,296
Management fees	431	275	127	282	279

3.5 Area of health insurance

3.5.1 Presented below are condensed results in the area of health insurance (NIS million):

	2013	2012	Change in %	2011	10-12/2013	10-12/2012	Change in %
Gross earned premiums	770.2	692.5	11%	614.9	206.2	184.1	12%
Income for the period	71.3	96.2		36.9	3.4	39.8	
Comprehensive income for the period	77.2	102.3		27.6	8.4	40.0	

Composition of premiums and income by the main insurance lines

	2013	2012	Change in %	2011
LTC insurance				
Gross premiums	215.4	201.3	7%	180.5
Income (loss) for the period	9.8	2.8		(55.9)
Comprehensive income (loss) for the period	10.7	3.7		(57.4)
Other				
Gross premiums	554.8	491.2	13%	434.5
Income for the period	61.5	93.4		92.8
Comprehensive income for the period	66.5	98.6		85.0

3.5.2 Results of activity in 4Q13

The increase in premiums in 4Q13 vs. 4Q12 is mainly due to an increase in premiums from individual insurance, due to the continued growth in new sales. The upwards trend in premiums is evident in all products marketed by the Group.

The decrease in comprehensive income in 4Q13 vs. 4Q12 was mainly affected by an increase in claims. The decline was partly offset by an increase in investment income.

3.5.3 Results of activity in 2013

Scope of activity

The continued increase in gross earned premiums in 2013 and 2012 is mainly due to premiums from individual insurance, due to the continued increase in new sales. The upwards trend in premiums is evident in all products marketed by the Group.

The increase in premiums in 2013 vs. 2012 was affected by a decrease in cancellation rates, following an increase in cancellation rates in 2012. For details see Clause 11 to the Corporation Businesses Description Chapter.

As per the Ministry of Finance data[11], in the first nine months of 2013, there was an increase of approx. 11% in the aggregate amount of premiums in the health insurance line compared with the first nine months in 2012, similar to the increase rate in the amount of premiums in the Group.

In the Group's health insurance, new sales increased by approx. 48% in 2013 compared to 2012, following an increase of approx. 14% in 2012 compared to 2011.

In LTC insurance there was an increase of about 21% in 2013 compared to 2012. This follows a decline of approx. 12% in 2012 compared to 2011. In other new sales in the area there was an increase of approx. 56% in 2013 compared to 2012, following an increase of approx. 26% in 2012 vs. 2011.

Comprehensive income before tax
The decrease in comprehensive income in 2013 vs. 2012 was affected by an increase in claims, which was partly offset by an increase in investment income from investments held against insurance liabilities. The increase in claims was reflected both in LTC insurance and in other products.

In 2012 there was an increase in comprehensive income vs. 2011, mainly due to an increase in investment income from investments held against insurance liabilities and stability in underwriting income.

For additional details see Notes 3b and 19 to the Financial Statements.

3.6 Area of general insurance

3.6.1 General insurance – structure of profitability in the area

(a) **CMBI**

In the area of CMBI, in the first 3 years (“**the open years**”), the excess of income over expenses is not recorded as income, but is credited to outstanding claims (“**accumulation**”)[12]. As a result, income in this area mainly reflects the profitability of an underwriting year which ended 3 years before the reported year, plus the accumulated investment income, adjustments in respect of underwriting years released in previous years (“**old years**”), income (loss) in respect of "the open years" stemming from the difference between the investment-based income actually achieved in respect of these years and real 3% interest credited to excess reserves as per the Commissioner regulations, as well as activity not included in the reserves calculation.

This line is characterized by a relatively high reserve level stemming from the considerable time interval between receiving the premiums and completing the handling of claims and the accounting method of creating an accumulation reserve which is included in outstanding claims as aforesaid, which is why the investment results considerably affect income, see Clause 4.1.4 below.

For the regulations regarding the way to calculate reserves in general insurance, including the calculation of revenues in excess of expenses, which will come into effect starting from December 31st, 2014 Financial Statements, see Note 37b3c) (6) to the Financial Statements.

[11] The market data are based on the processing of the MoF reports published on the website ("**Managerial Reports**").
[12] Following the IFRS standards, income from investments credited to accumulation are calculated based on a real yield of 3% per year, regardless of the actual yield of investments.

(b) **Casco**

Profitability achieved on investments affect the line's profitability, however, the weight of reserves in the casco line is relatively low compared with the CMBI line, due to the short time required for the completion of handling of casco claims, therefore the impact of investment income on reserves in casco is lower than in CMBI.

(c) **Liabilities**

Liability insurances are characterized by a relatively high reserve level stemming from the considerable time interval between receiving the premiums and completing the handling of claims and the accounting method of creating an accumulation reserve which is included in outstanding claims. Therefore, profitability achieved from investments has a significant impact on profitability and it is affected by changes in capital markets, see Clause 4.1.4 below.

3.6.2 **Presented below are details of the condensed results in the area of general insurance (NIS million):**

NIS million	2013	2012	Change in %	2011	10-12/2013	10-12/2012	Change in %
CMBI							
Gross premiums	538.6	266.2	102%	258.4	95.5	42.5	125%
Premiums in retention	530.1	260.7	103%	253.0	93.9	41.2	128%
Income for the period	129.2	103.8		56.5	53.0	39.3	
Comprehensive income	155.9	142.4		13.5	71.9	43.8	
Casco							
Gross premiums	579.9	350.6	65%	371.1	108.4	70.9	53%
Premiums in retention	578.9	349.6	66%	370.4	108.2	70.1	54%
Income (loss) for the period	(0.9)	(13.1)		(45.3)	(4.2)	(4.0)	
Comprehensive income (loss)	2.4	(8.5)		(49.9)	(2.0)	(4.5)	
Other property							
Gross premiums	620.2	535.3	16%	550.2	101.1	93.4	8%
Premiums in retention	184.8	156.2	18%	159.6	33.4	33.6	(1%)
Income (loss) for the period	5.8	6.7		1.1	(4.5)	11.9	
Comprehensive income (loss)	7.3	9.7		(1.5)	(3.5)	12.2	
Liabilities							
Gross premiums	282.8	254.2	11%	266.5	44.7	46.4	(4%)
Premiums in retention	214.8	185.5	16%	178.8	26.8	29.2	(8%)
Income (loss) for the period	(29.9)	12.7		(27.9)	(41.5)	8.3	
Comprehensive income (loss)	(11.7)	40.5		(57.7)	(28.8)	11.3	
Total area of general insurance'							
Gross premiums	**2,021.5**	**1,406.3**	**44%**	**1,446.2**	**349.7**	**253.1**	**38%**
Premiums in retention	**1,508.6**	**952.0**	**58%**	**961.8**	**262.2**	**174.0**	**51%**
Income (loss) for the period	**104.2**	**110.0**		**(15.6)**	**2.8**	**55.5**	
Comprehensive income (loss)	**153.9**	**184.2**		**(95.6)**	**37.5**	**62.8**	

3.6.3 Below is information regarding underwriting profitability indices – Loss Ratio ("LR") and Combined Ratio ("CR") – in the property lines [13], [14]:

Casco line

	2013	2012	2011
Gross Loss Ratio	74.3%	76.9%	86.1%
Retention Loss Ratio	74.5%	77.1%	86.3%
Gross Combined Ratio	102.2%	106.2%	114.6%
Retention Combined Ratio	102.4%	106.5%	114.8%

Property lines (excluding motorcar)

	2013	2012	2011
Gross Loss Ratio	38.3%	37.7%	66.0%
Retention Loss Ratio	44.4%	37.9%	34.6%
Gross Combined Ratio	64.6%	65.0%	94.0%
Retention Combined Ratio	99.7%	99.2%	102.8%

Results of activity in 4Q13

Scope of activity

The increase in gross premiums in 4Q13 was mainly affected by the absorption of the new business of Eliahu Insurance in Migdal, which brought about an increase mainly in CMBI and casco.

In other property lines (excluding motorcar) the increase in gross premiums was affected by an increase in the scope of insured businesses, which are mainly covered by reinsurance, whereas in homeowners insurance growth stopped, upon the update of tariffs and the covers' composition.

In the liability lines, there was a decline in premiums, which was affected by a change in insurance periods in several large businesses.

Comprehensive income before tax

The decrease in comprehensive income in 4Q13 vs. 4Q12 was due to a deterioration in underwriting results, which concentrated mainly in liability insurances as well as in other property lines (excluding casco), inter alia, due to the damages following the winter storm, and it was partly offset by an increase in investment income.

Below is a breakdown of results by line:

In the CMBI line there was an increase in underwriting results, mainly stemming from the continued improvement in the claims experience, which led to a decrease in the actuarial valuation, for details see the Statement of the general insurance actuary.

[13] Loss ratio is defined as the ratio between payments and the change in liabilities in respect of insurance contracts and earned premiums. Combined Ratio is defined as the ratio between payments and the change in liabilities in respect of insurance contracts, commissions and acquisition costs less revenues from reinsurance commissions and G&A and between earned premiums.

[14] The data exclude a systematic amortization of intangible assets, recognized upon the acquisition of the Eliahu portfolio.

In the casco line there was a reduction in loss following a slight improvement in claims, in spite of the damages caused by the winter storm which occurred in this quarter, as well as a decrease in the acquisition costs rate.

In the property line (excluding motorcar) the shift from income to loss was mainly due to a decrease in revenues from reinsurance commissions, as well as due to an increase in the cost of claims due to the winter storm which occurred in the quarter.

In the liability lines the shift from income in 4Q12 to loss was due to the continued upwards trend in the claims experience, which led to an increase in the actuarial valuation, for details see the Statement of the general insurance actuary.

Results of activity in the reported year

Scope of activity

In 2013 there was a significant increase in gross premiums in all lines, which was affected mainly by the absorption of the new business of Eliahu Insurance in Migdal, which brought about an increase in CMBI, casco and homeowners insurance, see Clause 1.2.2 above.

In other property lines (excluding motorcar) the increase in premiums was also affected by an increase due to changes in insurance periods in several 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 updates and cover in homeowners insurance, reduced the above mentioned increase in the scope of premiums.

The increase in premiums in 2013 followed a decrease in gross premiums in 2012, reflected in all lines, except in CMBI.

The increase in premiums in CMBI in 2012 was reflected in an increase in the number of policies and was a result, inter alia, of a decrease in tariffs. On the other hand, in casco the decline in premiums was mostly affected by the discontinuation of the insurance of State employees in 2012. In other property insurances (excluding motorcar) the decrease was affected by a reduction in the scope of insured businesses and a change in insurance periods in several large businesses, which was partly offset by an increase in the scope of premiums in homeowners insurances. In the liability lines, the decrease was affected by the discontinuation of a large business fully covered by reinsurance.

As per the Ministry of Finance data[15], in the first nine months of 2013, there was an increase of approx. 1% in the aggregate scope of premiums in CMBI compared with the first nine months in 2012. In casco insurance there was an increase of approx. 6%, in property insurance (excluding motorcar) there was an increase of about 1%, and in liability insurances there was an increase of approx. 5%.

For details regarding the Group's market shares in the area of general insurance, see Clause 14.2 to the Corporation Businesses Description Chapter.

[15] The market data are based on the processing of the MoF reports published on the website ("**Managerial Reports**").

For details regarding the breakdown of activity in general insurance by type of costumer and regarding renewals, see Clause 15 to the Corporation Businesses Description Chapter.

Comprehensive income before tax

In 2013 there was a decrease in comprehensive income compared with 2012, which was affected by a decrease in investment income and a decrease in underwriting results (excluding investment income) in liability insurances, compared with an improvement in underwriting results in casco and CMBI lines.

In 2012 the Company moved to a comprehensive income, compared with a comprehensive loss in 2011, due to a significant increase in investment income, as well as due to an improvement in underwriting results (excluding investment income), mainly in the casco, CMBI and liability lines.

The business results attributed to the increase in new business, due to the absorption of Eliahu's general insurance portfolio in Migdal in 2013, will be mainly reflected in the Financial Statements of future periods, pursuant to the accounting rules and legislative arrangements regarding the recognition of income in the CMBI and liability lines.

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

Below is a breakdown of results by line:

In the CMBI line there was an increase in underwriting results in 2013, stemming from the continued improvement trend in the claims experience, which led to a decrease in the actuarial valuation, for details see the Statement of the general insurance actuary. On the other hand, there was decrease in income released in 2013 in respect of underwriting year 2010, compared with the income released in the previous year in respect of underwriting year 2009 due to a decline in underwriting income following the erosion in tariffs and a decrease in the scope of activity in underwriting year 2010.

In 2012, compared with 2011, there was an improvement in the claims experience in CMBI, which led to a decrease in the actuarial valuation of outstanding claims.

It should be noted that residual insurance ("**Pool**") losses decreased the Group's income in CMBI by approx. NIS 9 million in 2013, by approx. NIS 8 million in 2012 and by approx. NIS 20 million in 2011.

For details regarding the composition of income and the development of income by underwriting year in the CMBI line – see Clause 13.2 to the Corporation Businesses Description Chapter.

In the casco line in 2013 there was an improvement in underwriting results due to an improvement in acquisition costs and G&A expenses, as well as an improvement in the cost of claims, in spite of the damages caused by the winter storms which occurred in 1Q13 and 4Q13. The improvement in underwriting profitability follows the improvement recorded in 2012, see LR and CR data above.

In the property line (excluding motorcar) underwriting results in 2013 were affected by the winter storms which occurred in 1Q13 and 4Q13, as set forth above, and on the other hand, there was a decrease in the cost of reinsurance. In 2012 there was an improvement in underwriting results, mainly due to a decrease in expenses compared with 2011. For the changes in underwriting profitability rates, see LR and CR data above

In the liability lines the deterioration in underwriting results in 2013 was mostly due to the continued growth trend in the claims experience, which led to an increase in the actuarial valuation of outstanding claims in third party and employers' liability lines, for details see the Statement of the general insurance actuary.

In 2012 there was an improvement in underwriting results in liability insurances, since in 2011 there was a deterioration in the claims experience which led to an increase in the actuarial valuation of outstanding claims in respect of old underwriting years, and there was a loss in respect of underwriting year 2008.

For information regarding the composition of income and the development of income by underwriting years in liability lines – see Clause 13.3 to the Corporation Businesses Description Chapter.

The rate of commissions, marketing expenses and other acquisition expenses to gross premium totaled approx. 18.4% in 2013 vs. approx. 22.8% in 2012. The rate of G&A[16] to gross premium totaled approx. 2.1% in 2013, vs. about 2.9% in 2012.

The decrease in the rates of acquisition and expense costs was affected by an increase in premiums, as set forth above.

3.7 **The area of financial services**[17]

Below are details of the condensed results in the area of financial services (NIS million):

	2013	2012	Change in %	2011	10-12/2013	10-12/2012	Change in %
Revenues	200.7	208.8	(4%)	235.9	53.0	55.6	(5%)
Income (loss) for the period	(4.3)	10.6		18.6	(5.3)	3.3	
Comprehensive income (loss) for the period	(3.5)	10.8		19.6	(5.0)	3.2	

[16] G&A expenses are after the allocation of expenses to the item of change in liabilities and payments in respect of insurance contracts and the item of commissions, marketing expenses and other acquisition expenses.

[17] The data regarding revenues, expenses and income before tax include the results of activity in financial services performed within Migdal Capital Markets, as well as the activity of Arxcis Global Wealth Management Ltd, held by Mivtach Management, and other revenues/expenses.

Below is a breakdown of AuM and total assets in the balance sheet in the area of financial services as of the end of 2013 and 2012, respectively (NIS million):

	31.12.2013	31.12.2012	Change in %
AuM	30,282	23,933	27
Total assets in the balance sheet	883	727	21

AuM – the increase in the scope of AuM in the Group was mainly affected by an increase in the scope of mutual funds managed by the Group, as well as a certain increase in the scope of managed portfolios. For details see Clause 17.5 to the Corporation Businesses Description Chapter.

Total assets in the balance sheet – the increase in total assets in the balance sheet in the area is due to the fact that Nostro accounts started being managed via a designated subsidiary of Migdal Capital Markets and from the consolidation of dragon Hedge Fund for the first time.

In 4Q13 Migdal Capital Markets, via a designated subsidiary, Migdal L.B Ltd., started managing Nostro accounts based on models of investment in government bonds. As of the date of the balance sheet, Migdal Capital Markets has an asset balance (mortgaged cash and short term investments) in the amount of approx. NIS 139 million, and on the other hand, current liabilities (liabilities in respect of short sale) in the amount of approx. NIS 134 million in respect of this activity.

In the reported year, Dragon Variation Fund L.P ("**Dragon**") hedge fund was consolidated for the first time. As a result, in the Financial Statements as of December 31st, 2013 there was an increase of approx. NIS 21 million in current assets.

It should be noted that the scope of investments in securities, cash balances and cash equivalent of the area, the scope of short term credit from banks and the scope of credit to customers, vary significantly depending on the situation in the capital markets.

3.7.1 Results of activity in 4Q13

In 4Q13 the decrease in revenues was mainly due to a reduction in revenues from providing brokerage services and in revenues from portfolio management fees.

The shift from comprehensive income to comprehensive loss in 4Q13 vs. 4Q12 was mainly affected by a non-recurrent grant that was distributed, as well as a reduction in revenues, as set forth above.

3.7.2 Results of activity in 2013

Revenues

The reduction in the scope of revenues in the reported year was mainly affected by a decrease in revenues from activity in negotiable securities, mainly abroad, and other financial transactions, as well as a reduction in revenues from portfolio management and underwriting activity. On the other hand, there was an increase in revenues from management fees on mutual funds, following an increase in the scope of AuM, which was partly offset by a decline in the average rate of management fees, which was partly due to the fact that the amendment in the Distribution Commissions Regulations came into effect, leading to a reduction in management fees collected from customers as well as the continued rise in the tracking funds track, in which so far no management fees are collected.

The decrease in the scope of revenues in 2012 vs. 2011, in spite of the increase in the scope of AuM, was mainly due to a decrease in the average rate of management fees in respect of mutual funds management. This decrease was affected, inter alia, by a change in customers' preferences and a shift to money market funds in which low management fees are collected, in addition to investments in the tracking funds line, in which, so far, no management fees are collected. In addition, there was a decline in revenues from providing brokerage services pursuant to the coming into effect of Amendment No. 14 to the Joint Investment Trust Law, due to which no commissions were collected from mutual funds managed by Migdal Trust Funds.

Comprehensive income before tax

The decline in income in the years 2012-2013 was affected by a reduction in the area's revenues as described above. In addition, in 2013 there was an increase in expenses, stemming from a special grant distributed in 4Q13, following a decrease in expenses in 2012 vs. 2011, reflected in a decrease in the variable salary expenses and advertising expenses.

For additional details see Clause 16 to the Corporation Businesses Description Chapter.

3.8 G&A expenses

In 2013 the Group's G&A expenses[18] totaled approx. NIS 1,762 million vs. NIS 1,651 million in 2012 and approx. NIS 1,557 million in 2011.

The increase in 2013 was affected mainly by a special grant distributed in the amount of approx. NIS 97 million, as set forth in Clause 1.2.4 above.

For additional information regarding G&A expenses, see Note 32 to the Financial Statements.

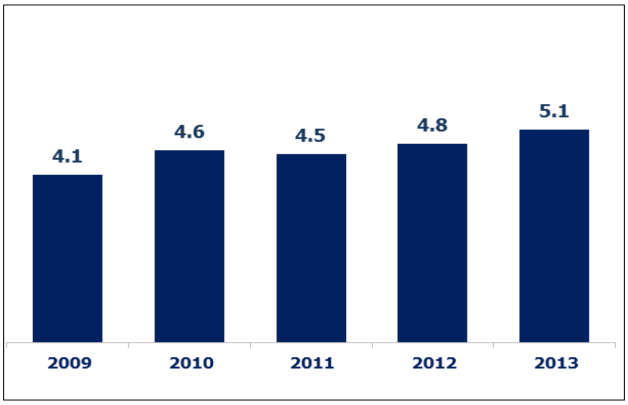
3.9 Key data sheet data from the Financial Statements

NIS million	31.12.2013	31.12.2012	Change in %
Total balance sheet	109,734	96,933	13%
Total assets for yield-dependent contracts	70,818	60,636	17%
Total equity	5,140	4,795	7%
Total liabilities in respect of insurance and investment contracts	100,686	88,611	14%
Out of which:			
Liabilities in respect of yield-dependent insurance and investment contracts	70,558	60,062	17%
Liabilities in respect of insurance and investment contracts that are not yield dependent	30,128	28,549	6%

[18] G&A expenses include expenses allocated to the item of change in liabilities and payments in respect of insurance contracts and to the item of commissions, marketing expenses and other acquisition expenses

The increase in both the scope of assets and the scope of liabilities in respect of insurance contracts and investment contracts was affected mainly by the yields achieved on capital markets, as well as due to the increase in net accruals in the asset portfolio.

Presented below is the development in equity as of the end of the year, in 2009-2013 (in NIS billion):



In 2012 a subsidiary of Migdal Insurance performed two private bond issuances to classified investors, in the total scope of approx. NIS 825 million, which serve as hybrid second tier capital in Migdal Insurance. Regarding the bond issuance, Midroog Ltd. gave Migdal Insurance a financial rating of Aaa, and these bonds were given a rating of Aa2. For details see Note 24e to the Financial Statements.

In November 2013 Midroog Ltd. left Migdal Insurance's financial rating unchanged at Aaa, with a stable horizon, and the subordinated bond undertakings (hybrid second tier capital) at Aa2 with a stable horizon.

On March 18th, 2014 the Company's BoD approved a dividend distribution of NIS 200 million, subject to the General Meeting approval. At that time, Migdal Insurance's BoD approved the distribution of a dividend in the amount of NIS 200 million. The dividend distribution date (both in the Company and in Migdal Insurance) was set at May 19th, 2014.

Equity in Migdal Insurance as of December 31st, 2013, pursuant to the Commissioner's Regulations and instructions, calculated as per the capital requirements is approx. NIS 5,414 million, including hybrid second tier capital of approx. NIS 844 million. Migdal Insurance has an equity surplus of about NIS 1,510 million over the required minimal equity as set forth above.

Migdal Insurance's capital surplus after the declaration of the dividend distribution subsequent to the balance sheet, as set forth above, is approx. NIS 1,310 million.

In 2013 dividends in the aggregate amount of NIS 367 million were distributed in Migdal Insurance.

The increase in equity is mainly due to a comprehensive income of approx. NIS 739 million in the reported year, less dividends in the amount of approx. NIS 400 million, which were distributed in the Company in June and November 2013.

For additional details regarding equity requirements, see Note 7e to the Financial Statements, that includes information regarding the amount that may not be distributed pursuant to the Investment Regulations.

3.10 **Financing sources**

NIS million	2013	2012	2011
Financial liabilities	1,220	1,044	780
Long term loans (1)	865	860	73
Short term loans (2)	108	81	164
Derivatives(3)	113	103	543
Short sales(4)	134	-	-
Out of which: liabilities for yield-dependent policies	97	80	509

(1) The increase in long term liabilities in 2012 and 2013 vs. 2011 was mainly due to two private issuances of bond undertakings in the total scope of approx. NIS 825 million par value, executed in the reported year, as set forth in Clause 3.9 above.
(2) In short term credit there are significant fluctuations pursuant to Migdal Capital Markets' current activity.
(3) The balance of derivatives included in the financial liabilities reflects the liability that was created as of the date of the balance sheet due to activity in derivatives, mainly regarding exposure to foreign exchange.
(4) Current liabilities in respect of short sales, attributed to Migdal Capital Markets activity in the management of Nostro accounts based on models of investment in government bonds, see Clause 3.7 above.

4. Trends, events and developments in the Group's activity and in its business environment

4.1 Macro-economic environment

Below is a concise description of trends, events and developments in the Group's macro-economic environment, which have or may have an impact on the Group[19].

4.1.1 Developments in the economy and employment

The Group acts within the Israeli market whose economic, political and security condition have an effect on sales in various areas, on the scope of insurance claims and on various costs involved in its operation. The level of salary and employment mainly affects the scope of life assurance businesses and long term savings.

Global environment - pursuant to the slowdown in the global economy recorded in the two previous years, during 2013 the global activity continued to be restrained and 2014 growth forecasts continued to be updated downwards, although by the end of the period we see signs of a certain improvement. The global monetary policy remained very expansionary. In the USA we see a recovery, along with a moderate growth in GDP and a decrease in the unemployment rate. In Europe, the published macro data started showing signs of gradual recovery, and in the European countries with financing difficulties the risk of insolvency continued to decrease. Emerging markets grew at a slower pace than the one that characterized them in recent years, and China continues to lead growth.

The Israeli economy - in 2013 the moderate growth in the economic activity level continued. Growth was affected both by an increase in domestic demand and by the beginning of gas production, and was moderated, inter alia, due to a stagnation in exports due to moderate global demand.

[19] The review is based, inter alia, on the BoI publications as well as those of the CBS.

As per the estimates of the Central Bureau of Statistics dated February 16th, 2014, in 2013 the GDP increased by approx. 3.3%, following an increase of approx. 3.4% in 2012 and approx. 4.6% in 2011. GDP per capita increased by approx. 1.4% in 2013, following an increase of approx. 1.5% in 2012 and an increase of approx. 2.7% in 2011. In 2013 the business GDP increased by approx. 3.6%, following an increase of approx. 3.4% in 2012 and an increase of approx. 4.7% in 2011.

The increase in GDP in 2013 is reflected by an increase of approx. 3.6% in expense for private consumption (vs. an increase of approx. 3.2% in 2012), an increase in expense for public consumption (approx. 3.2% in 2013 and 2012) and an increase of about 1.6% in investments in fixed assets (vs. an increase of approx. 3.5% in 2012). In the export of goods and services there was a moderate increase of about 0.8% (vs. an increase of approx. 0.9% in 2012).

The analysis of development according to quarters indicates that in 4Q13 GDP increased by approx. 2.3% in annual terms, following an increase of 2.1% in 3Q13, an increase of approx. 4.6% in 2Q13 and an increase of approx. 2.2% in 1Q13. The slight moderation in activity during 2H13, was mainly reflected in the export of goods and services, and in expense for public consumption.

Job market – during 2013 there was a decline in the unemployment rate, from approx. 6.8% in December 2012 to approx. 5.8% in December 2013. The average unemployment rate for the entire year was approx. 6.2%.

Furthermore, in 2013 there was an increase of approx. 1.1% in the average real wage compared with the average in 2012.

4.1.2 Capital market

Insurance companies, pension funds and provident funds, and companies operating in the financial services area, invest the larger part of their asset portfolio in the capital market. The yields in the capital market in the various channels materially affect both the achieved yield for the Group customers and the Group's income, see also Clause 4.1.4 below.

During 2013 there was a positive trend on most financial markets abroad and in Israel.

Following are the main trends recorded in 2013 in the key investment channels, and their impact:

Inflation – in 2013 there was an increase of approx. 1.9% in the CPI as per the known index at the end of the month and a 1.8% increase as per the index in respect of the month. In 4Q13 the CPI decreased by approx. 0.1% as per known index and the index in respect of the month was stable.

Interest rate– the monetary interest rate for December 2013 was 1.0%, vs. 2.0% in December 2012. The cuts in interest rates by the Bank of Israel ("**BoI**") throughout the year were due to the global and domestic moderate activity and the expansionary global monetary policy.

By the end of 2013 inflation expectations[20] (for the next 12 months) decreased to approx. 1.6%, compared with inflation expectations of 2.2% at the end of 2012. As a result, the real monetary interest rate as of the end of 2013 was negative, approx. 0.6%, vs. a real negative interest rate of approx. 0.2% at the end of 2012.

[20] Inflation expectations are based on gaps in yields between CPI-linked and unlinked government bonds.

Government bonds – in 2013, in light of interest rate cuts published by the BoI throughout the year, there were declines in yield to maturity of unlinked bonds in all ranges. In CPI-linked bonds, after recording increases in yield to maturity in the first nine months of the year, in 4Q13 there were decreases in yield to maturity in all ranges, such that by the end of 2013 there was a decrease in yield to maturity in the short and medium ranges, and on the other hand, there was a slight increase in yield to maturity in the long term.

The decrease in yields to maturity in 4Q13 is in light of the Fed's announcement that the gradual reduction of QE, with an undertaking for a low interest rate for the long run.

As a result, YTD Shahar NIS bonds recorded a real yield of approx. 2.4% on average, and in 4Q13 a real yield of approx. 1.5%. CPI-linked bonds recorded a real yield of approx. 1.14% on average, and in 4Q13 a real yield of approx. 1.7%.

Corporate bonds – in 2013, the yield gaps between corporate bonds and government bonds decreased due to a decrease in risk premium. As a result, the corporate bonds index increased by approx. 6.9% in real terms, and in 4Q13 by approx. 1.7%.

The changes in interest rates and in expected inflation, as already mentioned, brought about changes in the embedded yields in the financial asset portfolios held by insurance companies, including the asset portfolios held against profit participating policies, from which the insurance companies' investment income is derived.

The low interest rate levels decrease future yields when refinancing assets against liabilities and decrease the life assurance portfolio EV, as well as future yield on members' monies.

Shares (domestic market) – in 2013 there were price increases on the domestic equity market, along with volatility during the year, along with price increases in share indices worldwide. By the end of 2013, TA-100 index increased by approx. 13.0% in real terms, TA-25 index increased by approx. 10.0% in real terms, TA-75 index increased by approx. 22.4% in real terms and the Yeter increased by approx. 37.6% in real terms.

In 4Q13, TA-100 index increased by approx. 5.8% in real terms, TA-25 index increased by approx. 5.2% in real terms, TA-75 index increased by approx. 4.7% in real terms and the Yeter increased by approx. 5.8% in real terms.

Shares (foreign markets) – in 2013, most indices worldwide traded with increases, led by the American share market, in light of monetary expansion measures on leading markets worldwide. On the other hand, on emerging markets share indices remained almost unchanged.

In 2013, the MSCI worldwide share index produced a nominal yield of approx. 20.3% (11.8% including exchange rate effect), the NASDAQ-100 index increased by approx. 35.0% (25.5% including exchange rate effect) and the Dow Jones index recorded a nominal yield of approx. 26.5% (approx. 17.6% including exchange rate effect).

In 4Q13, the MSCI worldwide share index produced a nominal yield of approx. 6.9% (yield of approx. 4.9% including exchange rate effect), the NASDAQ-100 index increased by approx. 11.6% in nominal terms (an increase of approx. 9.5% including exchange rate effect) and the Dow

Jones index recorded a nominal yield of approx. 9.6% (a nominal yield of approx. 7.5% including exchange rate effect).

Foreign exchange – by the end of 2013, there was an appreciation in the rate of the NIS against most important currencies, affected by the positive interest rate gap compared with large global markets, along with the continued QE in these markets, as well as an expectation for an improvement in Israel's current account due to natural gas production. On the other hand, interest rate cuts executed by the BoI during the year were designated to moderate the strengthening of the NIS.

In 2013 the NIS strengthened against the USD at a nominal rate of approx. 7.6%, against the Euro it strengthened by approx. 2.9%, against the GBP it strengthened by approx. 5.1%, and against the Yen it strengthened by approx. 31.0%.

These changes include changes in exchange rates recorded in 4Q13, as follows: the NIS strengthened against the USD at a nominal rate of approx. 1.9%, against the Euro it weakened by approx. 0.2%, against the GBP it weakened by approx. 0.6%, and against the Yen it strengthened by approx. 9.6%.

4.1.3 **Developments in the macro-economic environment after the date of the balance sheet**

After the date of the balance sheet and until just before the publication of the report, there was a positive trend in Israel, compared with a mixed trend on financial markets worldwide.

In the interest rate decision for March 2014, BoI cut the interest rate by approx. 0.25% to 0.75%.

According to the BoI estimates as of December 2013, in 2014 we expect an increase of 3.3% in GPD, compared with an expected growth rate of 3.5% in 2013. Excluding the impact of the expected gas production from Tamar, in 2014 GDP is expected to grow by approx. 2.9%, vs. approx. 2.6% in 2013, in light of an improvement in the global environment and expectations for a continued improvement.

4.1.4 **Revenues from investments and their impact on the income of insurers and managing companies**

Revenues from investments against insurance liabilities and equity, as the case may be, have a material impact on insurance companies' income. The scope of the impact on income depends on the characteristics of insurance liabilities (Nostro, profit participating) and the terms of management fees in products against which the relevant reserve is held.

In profit participating policies issued from 2004, insurance companies are entitled to fixed management fees on accrual (the amount of AuM), which do not depend on investment's results. Yield on investments (less management fees) is credited to insureds in these policies and the impact of yields on the financial results of insurance companies is limited to the impact derived from the total amount of AuM, from which the insurers' fixed management fees are derived.

In the pension and provident businesses as well, managing companies are entitled to fixed management fees on accumulation, and the yield on investments, less management fees, is credited to the members. Therefore, the impact of yields on investments on the income of the managing company of the pension fund or the provident fund, is limited to the impact derived from the total scope of the accrual in the pension fund or the provident fund, from which the management fees of the managing company that manages the pension fund or provident fund insurers' are derived.

In profit participating policies issued until December 31st, 2003, insurance companies are entitled to fixed management fees on accrual, plus 15% of real yield, less fixed management fees ("**variable management fees**"). If real losses were accrued, insurance companies are not entitled to variable management fees, up until the aggregate loss is covered as per a mechanism set forth in this respect, pursuant to the Commissioner's instruction. In these products, insurance companies' financial results are also affected by the volatility in yield credited to insureds, in light of the fact that variable management fees are collected from the real yield achieved, after deducting fixed management fees.

In non-profit participating life assurance (in respect of the share of the life assurance portfolio not backed by designated bonds), in general insurance and in equity, there is no full matching between the assets' linkage basis and the liabilities' linkage basis.

A significant part of the Group's asset portfolio is invested in the capital market. Thus, the capital market yields in various channels and, inter alia, the low interest rates materially affect both the achieved yield for Group customers and Group income. Investment gains and losses reflect the behavior of capital markets in Israel and abroad and the behavior of the CPI and NIS exchange rates vis-à-vis the key currencies, whose aggregate impact on management fees / financial spread is the main reason for the volatility in the reported results.

4.2 **Taxation**

In July 2013 the Arrangements Law was approved, and in its framework, as of January 2014, companies tax was increased by 1.5% to 26.5%. The above follows the increase in VAT, including profit tax and payroll tax of financial institutions, by 1% to 18%, that came into effect in the beginning of June 2013. For additional details and the impact of these changes on the Financial Statements, see Clause 3.3 above and Note 21 to the Financial Statements.

4.3 **The area of life assurance and LTS**

4.3.1 **The reform in management fees of pensionary products and regulation regarding annuity coefficients**

In January 2013 legislative arrangements with a material impact on the area of life assurance and LTS came into effect. One of them - the structure of management fees 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, in addition to the update of the demographic assumptions for the calculation of reserves for annuity payment that was implemented in 2012.

The regulation in this respect also set forth interim provisions with respect to the marketing of insurance plans that include a guaranteed conversion coefficient in 2013, pursuant to which the scope of life assurance contracts with guaranteed coefficients that may be sold to insureds under the age of 60 shall not exceed NIS 75 million for each company, and the number of such life assurance contracts shall not exceed 6,000.

Therefore, in 2013 there was a change in the mix of products sold by the Group beginning from January 1st, 2013, with a significant decrease in the weight of life assurance new sales out of total pensionary savings sales in the Company, and on the other hand, there was an increase in the new sales of pension funds, as well as a certain decrease in total new sales of pensionary products in the Group. For details regarding the trends in new sales in the area, see Clause 3.4.4 (a) above and Note 18 to the Financial Statements.

At the same time, there was an additional acceleration in the competition on management fees in pension plans, which became the most dominant pensionary product marketed, as well as the continuation of the trend in mobility of accruals between pension funds in the market. For details regarding the management fees rate and the movement of accruals in pension funds in the Group, see Clause 6.5 to the Corporate Businesses Description Chapter and Clause 3.4.4 (b) above.

Pursuant to the management fees reform, there was a decrease in the rate of management fees in life assurance products sold starting from January 2013. The average rate of management fees collected in these policies in 2013 is approx. 1.01% from accrual and approx. 2.6% from premium.

Also in the life assurance plans marketed starting from 2004 to the end of 2012 there was a slight erosion in management fees, in light of the increase in competition. The average rate of management fees collected in these policies in 2013 is approx. 1.22% from accrual and about 3.59% from premium, vs. average management fees of approx. 1.23% from accrual and about 3.85% from premium in 2012.

The area of life assurance and LTS, which is the main area of activity in the Company, is affected by frequent legislative arrangements in recent years, the last of which being the regulation regarding the annuity coefficients and management fees reform, that came into effect in January 2013. These recent changes are a "**destabilizing change**" that might change this area in a material manner. The legislative arrangements in this area are aimed at making the market more efficient, along with increasing consumer awareness and competition in the area.

In addition, regarding the Company's estimate as to the changes expected in the pensionary savings market and in the products mix described in Clause 6.3 to the Corporation Businesses Description Chapter, it estimates that the reform in annuity coefficients may contribute to the differentiation of the current portfolio, which includes life assurance plans sold as of 2001, which include guaranteed annuity coefficients. As long as there are no additional changes, it is possible that this current portfolio will be less exposed to risks of cancellations and surrenders.

The competition in this area is increasing, and it focuses on pension plans that have become the key products at the expense of managers' insurance. In addition, the competition focuses on the sale of risk and individual products.

In the Company's estimation, the competition around the products that the players on the market will offer to their customers, both till the age of retirement and after this age, shall focus on several key parameters, such as: service quality, management fees, yield achieved compared to risk level, the structure and remuneration of distribution channels, operational streamlining of the institutional entity in adaptation to the changing reality, the IT, organizational and operational infrastructure at their disposal, the stability of the institutional entities, including their ability to comply with equity requirements, the marketing and distribution system at the institutional entities' disposal, insureds' behavior regarding the choice of products, etc.

The legislative arrangements in the area affect and will affect the entire value chain in the area, including the Company's expenses structure and rate, whether as a result of internal streamlining or due to the need to cope with this changing market, by the management fee reduction, the increased competition in the area and the inability to achieve excess yields in a market with low interest rates, including the search for and finding income sources in new markets / areas.

Organization and the coping of players in this changing market, including by the Company, shall be performed, in the Company's estimation, gradually over a long period, and it involves complex processes, including some that will be reflected in the long run. The extent of the impact shall be determined by business developments in the market, on the one hand, and the organization and adjustments implemented by the Group pursuant to these developments, on the other hand.

For the Group's coping with competition in the area, in light of the changes in this area, and for the Company's strategy, see Clause 7.3 to the Corporation Businesses Description Chapter and Clause 5 below,

Information in this paragraph as regards the implementation and/or the Company's expectations regarding the proposed changes 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 expectations, assumptions and forecasts regarding future events whose realization is uncertain, and which are not under the control of the Company. All these may not take place if the regulations are changed, amended or are implemented in a manner different than that forecasted, or if they are not realized.

4.3.2 **Changes in the scope of activity on the market**

Based on life assurance premium data in the years 2011 till September 2013 and contributions and net accruals[21] in 2011-2013, we see an upward trend in the aggregate activity of the life assurance and LTS[22] area, along with an accelerated growth in pension.

In life assurance, in the first nine months of 2013 there was growth in the market (approx. 5%), similar to the growth recorded in 2012.

In the pension line activity, in the last two years there was accelerated growth (in 2013 approx. 16% and in 2012 approx. 18%) as compared with growth in life assurance activity. In provident funds (including educational funds activity), there was moderate growth in contributions (approx. 4% in 2013 and approx. 3% in 2012) and a net positive acrual in 2013, which follows a net negative accrual in 2011 and 2012.

In the aggregate scope of activity in terms of AuM, in 2013 there was also an increase in the area's products (approx. 14%), affected by increases on capital markets and net current accrual, similar to the increase in 2012.

The weight of the life assurance line, in terms of AuM, maintained its stability vs. 2012 and was approx. 35%, the weight of the new pension funds line increased from approx. 19% as of December 31st, 2012 to approx. 21% as of December 31st, 2013, and the weight of the provident line

[21] Net accruals are defined as contributions plus net transfers of members.
[22] Based on the data published on the Ministry of Finances website, including "Insurance-net", "Pension-net" and "Provident-net".

decreased from about 46% as of December 31st, 2012 to approx. 44% as of December 31st, 2013.

5. The Company's objectives and business strategy

The business environment and the increasing competition require the Company to examine, from time to time, its thinking and deployment as to its objectives and business strategy. The material changes that occurred in the area of life assurance and LTS, which is the main area in the Company, and came into effect in January 2013, namely – the discontinuation of the marketing of insurance plans that combine savings with guaranteed annuity coefficients and the decrease in management fees, mainly in life assurance plans – pose challenges to the Group in setting its strategic objectives, in light of this changing reality.

Although the Group strives towards adjusting its activity to its strategy, obviously, there is some uncertainty in any strategic planning. Exercising the strategic planning depends on many changing factors, including the economic and employment situation, capital markets, competition level, as well as continued impact of regulatory changes, whose scope and focus cannot be assessed with any certainty for years to come, including the effect of additional regulatory changes.

The Company's main strategic objectives, as set forth by its BoD, are:

Preserving and strengthening the Group's status as a leading entity in the area of life assurance and LTS.

Maintaining good profitability over time, along with strengthening the general insurance arm.

Constant improvement in customers' loyalty and satisfaction and distribution channels.

In order to maintain good profitability, the Group will diversify profit sources, will adjust the insurance sales mix in order to improve profitability, will improve operational efficiency and resource management, and investment management that allows providing yields along with adjustment to the risk level.

In the area of life assurance and LTS, the Company acts towards changing the sales mix along with deepening the sales of the pension product that has become the leading product in the area, and a focus on the sale of risk and individual products, including the development of products that will be adjusted to the new changing reality. In addition, the Group strives towards adjusting the distribution systems in order to leverage sales abilities by adjusting the remuneration method and assimilating sales tools that will produce profitable businesses, and expanding sales to existing customers along with preserving the life assurance and LTS portfolio and preventing surrenders and policy cancellations.

In order to diversify the sources of profit, the Company strives towards expanding its activity in the area of general insurance, expressed in 2013 by absorbing Eliahu's new business in general insurance in the Company's activity, while trying to improve profitability in this area. In addition, the Company wants to expand its activity in the area of health insurance, along with expanding its business activity basis and target populations.

In addition, the Company will try to develop non-insurance activities in areas that are related to quality of life, health services and Third Age, including all their aspects. The Company considers the population of insureds after the age of retirement (the Third Age) and its various aspects, as a developing market, and it will exercise the Group synergetic potential in respect of this developing market segment.

In light of the regulatory changes and the increased competition in the area, the Group strives towards improving the operational efficiency and service to customers and the

Group's distribution channels, inter alia by implementing advanced IT systems, including the development of various digital tools, as well as via organizational changes.

The Company is working for a constant improvement in customers' loyalty and satisfaction and distribution channels, that will be achieved via leadership in service provided to customers and to distribution channels and via deepening customer share, while creating a long-term basis for its relations with the end customers. In order to deepen the customer share, the Group emphasizes the simplification of selling processes, the development of appropriate products and services and utilizing the synergy between the Group's various activities and products.

The Company continues to strive towards achieving good yields for insureds and members relative to the risk level. For this purpose, the Group strives towards diversifying its investments, including expanding investment activity in foreign markets and increasing investments in channels which in the Group's estimation, will have excess yields, inter alia, in the areas of real estate and credit.

The information included in this Part includes future forecasting information, and reflects the Group's estimates. These estimates are based, inter alia, on all the facts and data detailed in this Part. Actual results may be different from estimates in a material way due to changes that will occur in any of the aforesaid facts and data, and/or as a result of changes that may occur in the risk factors applicable to the Group in general, detailed in Note 37 to the Financial Statements and Clause 38 to part D to the Corporation Businesses Description.

6. Report regarding exposure to market risks and the manner of their management

The report enclosed herewith regarding risk management refers to the investments of the Company and its material consolidated companies, except insurance companies, pursuant to the Securities regulations (Periodic and Immediate Reports) – 1970.

For details regarding Migdal Insurance's risk management, see Note 37 to the Financial Statements as well as Clause 38 to the Corporation Businesses Description Chapter.

6.1 The persons in charge of market risks management in the Corporation

Mr. Itzhak Ben Menachem is the risk manager in Migdal Holdings, Migdal Insurance and of the institutional entities managed by it, from October 1st, 2013.

The persons in charge of market risk management in Migdal Capital Markets are the CEOs of every subsidiary. In addition, in MCM there is a Chief Risk Manager who operates a plan of independent controls over the Company's activities, including investment management and compliance with the risk policy and appetite as set forth.

6.2 Market risks description

Except for Migdal Insurance Group businesses, the Company has additional main investments, concentrated in Migdal Holdings itself as well as in Migdal Capital Markets, a consolidated company, as detailed hereinafter:

6.2.1 The Company (Migdal Holdings)

As of December 31st, 2013, the Company's scope of financial assets is non-material, therefore the Company has no material exposure to market risks.

In general, the Company is exposed to market risks, such as: changes in interest rates, in CPI, foreign exchange rates and share prices in Israel and abroad, in light of its holdings in various financial assets.

6.2.2 Migdal Capital Markets

Migdal Capital Markets Group is active in various areas of the capital market, characterized with volatility as a result of political and economic events in Israel and overseas. These fluctuations affect securities' prices on the Stock Exchange and the scope of activity on the capital market, and as a result, its activity, assets and business results. Furthermore, Migdal Capital Markets Group results are also affected by the decisions made by regulators and various legislative entities.

The tables herewith describe the impact of changes in market factors on the value of net financial assets of Migdal Capital Markets (in NIS in thousands):

Market factor – Foreign exchange

	Income (loss) from changes			Income (loss) from changes	
Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	10% decrease in market factor	5% decrease in market factor
Cash and cash equivalent	2,264	1,132	22,635	(2,264)	(1,132)
Options and future contracts	(7,680)	(3,160)	(5,111)	(2,700)	(560)
Customers	800	400	7,998	(800)	(400)
Receivables	1,335	667	13,348	(1,335)	(667)
Credit from banking corporations	(960)	(480)	(9,595)	960	480
Payables	(745)	(373)	(7,449)	745	373
Total	(4,986)	(1,814)	21,826	(5,394)	(1,906)

Market factor - CPI

	Income (loss) from changes			Income (loss) from changes	
Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	10% decrease in market factor	5% decrease in market factor
Securities	3,651	1,826	36,515	(3,651)	(1,826)
Receivables and debit balances	561	281	5,611	(561)	(281)
Current taxes	93	46	928	(93)	(46)
Payables and credit balances	(3,100)	(1,550)	(31,000)	3,100	1,550
Total	1,205	603	12,054	(1,205)	(603)

Market factor – interest rate (*)

Sensitive instrument	Income (loss) from changes				Income (loss) from changes		
	10% increase in market factor (multiplica-tive)	5% increase in market factor (multiplica-tive)	2% (**) increase in market factor (additional)	Fair value	10% decrease in market factor (multiplica-tive)	5% decrease in market factor (multiplica-tive)	2% decrease in market factor (additional)
Government bonds and Sort Term Bonds	11	5	1,341	(12,079)	1	(1)	(1,140)
Derivatives	(492)	269	(14,803)	(3,300)	(3,856)	(7,052)	(40,468)
Total	(481)	274	(13,462)	(15,379)	(3,855)	(7,053)	(41,608)

(*) In interest rate scenarios - the changes of 5% and 10% are changes of the interest rate itself (for example, at basic interest of 4% the 10% increase is to 4.4%), while a change of 2% is an additional change (for example, if the basic interest rate is 4%, the change is to 6%).

(**) The Company`s estimate is that 2% is the maximum representative increase rate over long periods

Market factor – shares (***)

Sensitive instrument	Income (loss) from changes				Income (loss) from changes		
	Maximum increase in market factor (17%)	10% increase in market factor	5% increase in market factor	Fair value	Maximum decrease in market factor (17%)	10% decrease in market factor	5% decrease in market factor
Options and future contracts on commodities	(170)	170	240	(789)	(5,100)	(2,300)	(800)
Total	(170)	170	240	(789)	(5,100)	(2,300)	(800)

(***) Below is a list of risk factors in which the maximum daily change (in absolute terms) detected during the last ten years before the report date exceeds 10%, with the date of the report and the daily change.

Risk factor	Maximum change rate	Date of change
TA-75 Index	17.0%	21.9.2008
TA-100 Index	10.3%	21.9.2008
S&P - 500	11.6%	13.10.2008

6.2.3 **Assumptions used for sensitivity calculations**

Derivatives calculation methodology

Options are calculated using the Black & Scholes model, and their pricing is affected by the following factors: time to maturity, exercise price, standard deviation, currency, base asset (such as currency, share, bond), interest to maturity range.

In order to calculate risk indices, the option value in the scenario is affected by the change in the relevant risk factors. When the base asset is a share (that is not a risk factor), the reference to a change in it is the same as in shares.

Future contracts are represented by splitting them into two: changes in the base asset and changes in interest rates relevant to the maturity range.

Extreme scenarios

Extreme values in the volatility of risk factors were examined as the maximum daily changes in the last 10 years. The extreme scenario for interest rates as of December 31st, 2013 is an absolute (additional) change of 2% in interest rate, pursuant to the Securities instructions. This scenario was set after examining the databases of interest rate curves, which indicated that during the last ten years there were no absolute changes exceeding 2% for a day horizon.

In several risk factors that are not interest rate and which were examined, we found changes exceeding 10% as set forth above.

6.2.4 **Other activity**

As of December 31st, 2013, the activity of Migdal Health and Mivtach Management is not material, therefore according to the Company's evaluation, the risk in their respect is not material.

6.3 **Fair value at risk**

As per the Securities Regulations (Periodic and Immediate Reports – 1970) the value at risk for Migdal Capital Markets' Nostro portfolios is measured at a significance level of 95% as of December 31st, 2013.

NIS thousand	Stock Exchange Services	Nostro State bonds	Dragon
VaR value as of 31.12.2013	5	81	926
Nominal VaR value in the reported period	5		
Maximum VaR value in the reported period	9		
Average VaR value in the reported period	7		
The number of times in which the actual loss rate exceeded the (Backtest) VaR	-		

Below are the main model assumptions used in the VaR model adopted by Migdal Capital Markets.

The VaR model reported by Migdal Capital Markets is a daily one with a 95% significance rate.

The period used in the historic simulation period is about two years back (500 observations).

6.4 Corporate policy in market risk management

6.4.1 Migdal Holdings

The market risk management policy is set by the Board of Directors and investment committee of Migdal Holdings' asset portfolio ("**investment Committee**"), these organs receive reports on the exposure of the Group's various investment portfolios to changes in the financial and capital markets, interest rates, foreign exchange rates and inflation, and accordingly, they determine exposure levels to the various investment channels as a framework for the execution of investments by the Group's Investment Discipline.

6.4.2 Migdal Capital Markets

Migdal Capital Markets and its subsidiaries, through their employees, supervise the various exposures stemming from market risks of Migdal Capital Markets Group as detailed hereinafter:

Exposure to inflation, changes in foreign exchange and interest rates – Migdal Capital Markets and its subsidiaries do not fully hedge themselves against an inflation environment, but partially (in scopes as per their discretion), by buying CPI-linked and foreign exchange-linked assets. In cases where the interest rate paid by a subsidiary of Migdal Capital Markets to banks in respect of short term loans increases, the subsidiary raises the interest rate it charges its customers if the change is material.

Credit risks in respect of customers – a subsidiary of Migdal Capital Markets ("**the subsidiary**") may grant credit to its customers for the purchase of securities / financial assets only (in Israel or abroad). Most of the credit that is granted is backed by collateral, and the remaining part is credit with no collateral (**"exceptional credit"**). The subsidiary uses several mechanisms for managing the amount of credit extended to customers and pursuant to the limits set forth by the TASE and in accordance with the hierarchy of authority for granting credit in the Company. The subsidiary does not allow customers to use exceptional credit. Customers who would like to obtain credit file a request. The requests are reviewed by a credit committee which examines the details of the request and approves the credit amount extended. Customers who would like to finance an activity and have signed credit documents, may automatically use monetary credit in NIS by the system up to the lower of: the excess of collateral in the account (as per safety margins) or NIS 100,000. Should customers want to increase the credit limit beyond NIS 100,000, their request is brought before the Credit Committee for approval.

The subsidiary puts a lien on credit amounts that are equal or exceed NIS 750 thousand, pursuant to the Company BoD resolution. The Company BoD may approve a four-fold increase of this amount. The subsidiary's management may request the recording of a lien also on amounts that are lower than NIS 750 thousand.

In the subsidiary there is a credit controller whose role is making sure that customers do not exceed the credit limits assigned to them, and if there is such a deviation, the Company operates in order to reduce it immediately.

The subsidiary's equity as of December 31st, 2013 was approx. NIS 347 million and the scope of overall credit (both exceptional and ordinary) was approx. NIS 345 million.

The main risk embedded in the subsidiary's activity is the inability of a customer to pay back credit received from the Company. If this is non-exceptional credit, this could happen during sharp volatility on the markets, which would lead to a significant reduction in the collateral at the customer's disposal, which may then lead to a situation of a lack of collateral.

Another situation is in respect of customers who use "exceptional credit" – such a customer might, with higher probability, not meet his/her undertakings towards the subsidiary during sharp volatility in markets, since a-priori he/she suffers from a lack of collateral.

Credit risks for custodian customers – in respect of activity in derivatives by custodian customers, an approval is received in advance from the clearing bank, that it would absorb the transactions of up to a certain amount. If there is no approval from the clearing bank, the transaction shall be perceived as a credit transaction with no collateral, and will be approved by the BoD Committee. If there is any failure in clearance, there will be a credit exposure in the amount of the negative market movement in the position.

The subsidiary decreases credit risks by providing execution services (without custodian) only to customers with financial strength such as mutual funds, provident funds, insurance companies, banks' Nostro, companies that operate Nostro in a wide scope, ETFs etc. The credit facility for each custodian customer is approved individually by the subsidiary's BoD.

Customers' activity in derivatives - a subsidiary of Migdal Capital Markets demands collateral from its customers as per the provisions of the Articles of Association of the Stock Exchange and its instructions. Furthermore, the subsidiary performs ongoing control procedures during trading, through human and computerized tools

Execution errors – instructions received in the trading room of Migdal Capital Markets' subsidiary are documented. If there are disputes with a customer regarding the content of an instruction, the tape of the conversation is examined, and if indeed there was an error in the execution of the customer's order, the subsidiary corrects the error at its own expense.

Capital market risks stemming from underwriting activity – the BoD of a subsidiary of Migdal Capital Markets limited the scope of underwriting liabilities that the subsidiary takes upon itself in various issuances, whereby taking an underwriting liability in a scope exceeding NIS 15 million requires approval in advance of Migdal Capital Markets.

Capital market risks (Nostro and brokerage accounts) - Migdal Capital Markets, via a company owned by it, serves as a general partner in hedge funds, and inter alia, it also invests in funds as a limited partner, for itself, alongside investments of other limited partners in these funds as per their investment policy. These monies shall constitute most of MCM's investments, and within the above mentioned investment principles, restrictions were set as per MCM's BoD resolution, as to the size of maximal position size, the leverage level, an exposure limit for single issuers, a limit on the total exposure in the account, limits as to the issuers rating, limits of maximum loss allowed in every trading day, as well as an independent control for the examination of the compliance with the investment policy and in order to calculate the expected potential loss via VaR. These restrictions were also set regarding the Nostro accounts management activity not via such hedge funds, in lower volumes, with an emphasis on overseas activity.

Activity in State bonds Nostro – during 4Q13, the Company began managing a Nostro account in government bonds in a designated company established for this purpose. Most of the activity in this account is in State bonds and the main working model of the Nostro manager is utilizing opportunities due to the shift of the bond yield curve, along with a long term holding in bonds, in which he expects excess yield against having a short position in bonds, for which he forecasts a low yield.

The investment manager in this activity acts subject to a procedure setting forth, inter alia, VaR restrictions, 1DVO restrictions and leverage coefficients, as well as additional operational restrictions imposed on him and on his work.

Activity in brokerage accounts – trading activity in brokerage accounts was limited, such that the subsidiary carries out activity in them only if, at the same time, there is a counter transaction back-to-back, so that the buying transaction and the selling transaction are cleared at the same time, so in fact the subsidiary does not hold and manage an inventory. In addition, the subsidiary stipulates brokerage transactions in selling structured products from an Israeli seller to a foreign buyer, by mandating the Israeli seller to take the foreign buyer's insolvency risk (such that the transaction is executed only if the foreign buyer transfers the payment in respect of the structured product to the subsidiary), except for those exceptions in which, after receiving the advance approval of the subsidiary's CEO, such a stipulation is not made.

In transactions in foreign bonds vis-à-vis financial institutions there is a clearance difference T+3, so that if the other party does not execute its share in the transaction ("does not report to the transaction"), the transaction will not be actually completed. In such a case, the subsidiary of Migdal Capital Markets will remain with the foreign bonds, or with cash (depending on whether it is selling or buying), the risk is the risk of a change in the prices of foreign bonds until the execution of an alternative transaction.

Cases of insolvency to Israeli and foreign financial institutions due to holding assets – the Company received from all custodians with whom it operates abroad a written certificate stating that the assets are held separately from the custodian assets, and are insured within deposits insurance (in relatively small amounts compared with the scope of assets they hold), although in light of the expert opinion that the Company received from an external Law Office, there is doubt as to the ability of institutions such as the Company to activate this insurance if needed. The Company makes sure it works with custodians supervised by the local Securities Authority and by self-regulatory organizations (SROs). In recent years, the Company transferred clearance from several small custodians to larger custodians. Regarding banks in Israel, although, in Israel there is no deposits insurance, the Finance Minister and BoI announced that the State of Israel shall back the banks in Israel. In light of the TASE's Articles of Association, the Company can only deposit customers' cash in Israeli banks, and it does it pursuant to the policy set forth by the Company's BoD.

6.5 Supervision of the market risks management policy and the way it is implemented

6.5.1 Migdal Holdings

The supervision of the Group’s market risk management is performed through the investment committees that convene on a regular basis.

The committees report investment portfolio's exposure levels both through measuring value at risk (VaR), which measures the maximum potential damage at a given probability, as well as by examining the expected damage to the Group in various market scenarios.

As mentioned above, as of the date of the report, the scope of financial assets in the Company is non-material.

The Company BoD receives a report regarding market risks once a year.

6.5.2 **Migdal Capital Markets**

The Company's BoD receives a report regarding market risks once a year. The person in charge of market risks in MCM receives an ongoing report regarding risks in the various areas.

6.6 Linkage bases report as of December 31st, 2013

For data regarding linkage bases, see Note 37 c to the Financial Statements.

6.7 Derivative data as of December 31st, 2013

As of December 31st, 2013 and throughout the year, the Company did not hold derivatives in significant amounts.

As of December 31st, 2013 and throughout the year, Migdal Capital Markets had a liability balance of approx. NIS 2.2 million, net, in respect of derivatives.

As of the date of the balance sheet, Migdal Capital Markets has an investment as a limited partner in the hedge fund Dragon, managed by Dragon Hedge Funds Management Ltd. (that the Company controls) in the amount of approx. NIS 10 million in Dragon's USD fund, that was converted to an investment in Dragon's NIS fund, and another amount of approx. NIS 20 million in Dragon's NIS hedge fund, out of which about NIS 10 million was invested in 2013.

On March 1st, 2013 there was a material change in the policy for the management of the funds' investment. As of the date of this Report, after the surrender requests that were received, the balance of funds' assets is approx. NIS 49 million.

The hedge funds managed by Dragon Hedge Funds Management Ltd. routinely perform short sales in order to leverage their activity. Investment in this hedge fund was not aimed at hedging any market risks, but it was performed from a marketing and business perspective (investment as a limited partner was aimed, inter alia, at allowing a better and more efficient marketing of the hedge fund to various institutional investors).

During November 2013, a Nostro management activity in the scope of approx. NIS 30 million began, and it relies on certain investment models, with an emphasis on overseas activity.

Except for this investment, activity in Nostro government bonds and in Nostro foreign activity mentioned above, the Company does not have a policy for investing in institutions whose main activity is executing transactions in derivatives and short sales (whether for themselves or as managers of others' investments).

7 Corporate governance aspects

7.1 Group companies' involvement in the community and donations

The Group's companies integrate their social plans in their core business activity, and incorporate an organizational culture based on encouraging employees' volunteering, environmental responsibility, and creating partnerships with a focus on the Third Age population, financial education, and the empowerment of weakened populations from low socio-economic strata. In 2013 the scope of the Company's social involvement in monetary terms totaled approx. NIS 3 million.

7.2 The Internal Auditor

For information regarding the Internal Auditor, see Clause 41 to the Corporation Businesses Description Chapter.

7.3 The Auditing CPA

For information regarding the Auditing CPA, see Clause 42 to the Corporation Businesses Description Chapter.

7.4 Report regarding Directors with accounting and financial skills

For details regarding Directors with accounting and financial skills, including their education, experience, skills and knowledge, based on which the BoD perceives them as Directors with accounting and financial expertise, see Regulation 26 and Clause 12 to the Corporate Governance Questionnaire in the Additional Data on the Corporation Chapter.

7.5 Disclosure regarding exclusive authorized signatories

As of the date of this Report, there are no exclusive authorized signatories in the Company.

7.6 Deliberation and examination of remunerations to interested parties and Senior Officers

Within the process for the approval of 2013 Periodic Report, the Company's BoD deliberated the terms of employment and office of each Senior Officer and interested parties, detailed in Regulation 21 to the fifth chapter in 2013 Periodic Report ("**Senior Officers**"). The examination of these remunerations was performed as per the following: (a) if the Senior Officers serve in the Company, the BoD examined whether the remunerations to Senior Officers comply with the Company's remuneration policy, approved by the Company's authorized organs on September 12th, 2013 ("**the Company's remuneration policy**"), and the principles on which it is based (for the Company's remuneration policy, see Clause 32.6 to the Corporation Businesses Description Chapter); (b) if the Senior Officers do not serve in the Company and are not subject to the provisions of the Company's remuneration policy, the Company BoD examined whether the remunerations granted to them are fair and reasonable, pursuant to the criteria and parameters detailed below, which are also based on the general principles of remuneration adopted in the remuneration policy.

7.6.1 **Criteria and parameters for the examination of the overall remuneration to reported Senior Officers who do not serve in the Company**

(a) The reported Senior Officers' education, skills, expertise and professional experience.

(b) The reported Senior Officers' position, areas of responsibility and the authorities within their position.

(c) The reported Senior Officers' contribution to achieving the Company's objectives and recording profitability for the long term.

(d) Comparing the reported Senior Officers' remuneration to the terms of remuneration of similar position holders in the Group, if any.

(e) Regarding Senior Officers serving in institutional entities – the BoD examined the annual grant as per the remuneration policy in institutional entities, although as of the date of this Report, bonuses in respect of 2013 have not been granted yet, and such granting shall be, if at all, after the publication of the results of all business parameters included within the objectives set forth in this grant plan, except regarding reported Senior Officers who terminated their office during the reported year / by the year end[23].

[23] Regarding Senior Officers serving in the Company and in institutional entities who retired during 2013 and/or by its end, annual grants were already extended, pursuant to the provisions of the remuneration policy, and the data in his Report include these grants.

Regarding Senior Officers not serving in the Company and / or institutional entities, the BoD examined business performance of the Company in which the reported Senior Officer serves during the year and its compliance with the Work Plan set forth by the BoD taking into account the business environment, the Group's results of activity and the economic situation.

(f) Comparative data vs. terms of employment of similar position holders in companies similar to the company in which the reported Senior Officers serve, both as regards its area of activity and its scope of activity ("**peer companies**"), if such a comparison is possible.

(g) Within the examination of comparative data, if this was possible, the position of the relevant company compared with the peer companies was taken into account, inter alia, based on the following criteria: market value, equity, comprehensive income and total balance sheet and revenues.

(h) The ratio between the cost of overall remuneration of the reported Senior Officers' terms of employment and the average and median remuneration cost of other Company and Group employees[24] (together), including contractors' workers employed in these companies, and its implications, if possible, on working relations in Migdal.

(i) How do the terms of employment promote the objectives of the Company in which the reported Senior Officers serve, the Work Plan and its policy in a long term perspective, taking into account also the Company's size and nature of activity.

It should be noted that the basic assumption is that insofar as there has been not been a material change in the position or functioning of the reported Senior Officer during the year, his/her current terms of employment are fair and reasonable.

7.6.2 **BoD evaluation of the Senior Officers' remuneration pursuant to Regulation 21**

In the BoD meeting held on March 18th, 2014, the relevant data for each Senior Officer and interested party in the Company were presented as requested pursuant to Regulation 21, and the BoD received a comparative survey conducted by CompVision Ltd. as regards the terms of office and employment of Senior Officers whose rank is similar to Senior Officers serving in public companies of the same scale as the Company. The BoD deliberated on Senior Officers' terms of office and remuneration and the relationship between the remuneration amounts paid in 2013 to each Senior Officer and interested party in the Company, and his/her contribution to the Company during the reported period, and according to the BoD's estimation the remuneration of each of the reported Senior Officers reflects his / her contribution to the Group and is fair and reasonable:

(a) **Mr. Yonel Cohen**

Mr. Yonel Cohen has served as the Company and Migdal Insurance CEO up to December 31st, 2013. He also held other positions in the Group (see details within Regulation 21 to the Corporation Businesses Description Chapter).

In general, Mr. Yonel Cohen's terms of office complied with the provisions of the Company's remuneration policy except for the deviations specified herewith:

[24] Except companies that are non-material in the Group and employ under 50 employees.

- The monthly salary – Mr. Cohen's monthly salary was equivalent to approx. NIS 190 thousand in terms of salary[25], while the Company's remuneration policy sets forth that the maximum monthly salary of the company CEO should be NIS 170 thousand.

- Consultation and non-competition arrangement – as detailed within Regulation 21 to the Corporation Businesses Description Chapter, upon the resignation of Mr. Cohen, he is entitled to a monthly CPI-linked payment in respect of a consultation and non-competition arrangement for 56 months.

- Special grant - on February 24th, 2014 the Company's BoD and Migdal Insurance BoD, after the approval of Migdal Insurance's Audit Committee and the Company's Compensation Committee on December 3rd, 2013, approved granting a special two monthly salary to Mr. Cohen, i.e. NIS 388,343 plus VAT as due, as granted in December 2013 salary to all Company employees and Senior Officers in the Group companies, as a token of appreciation to all Companies' employees and Senior Officers in the Group companies, for their contribution to the Company's achievements during the transition period in which the control in the Company changed. The payment of the grant to Mr. Cohen is subject to the approval of the General Meeting, which will convene on April 1st, 2014.

The Company BoD examined Mr. Cohen's terms of employment and office, and decided, inter alia, pursuant to the perception that the Company's remuneration policy may not undermine existing engagements, at the time the remuneration policy was approved, between the Company and Senior Officers, that in spite of the existing deviations between the terms of office and employment of the Company's CEO and the provisions of the Company's remuneration policy, that his terms of employment are fair and reasonable under these circumstances, all due to the following arguments:

- The salary of Mr. Cohen, as the Company CEO, is within the customary range among CEOs of peer companies. In addition, the reported year was a very challenging period for the Company, both as far as its position in the market, as well as the changes the Company underwent pursuant to the change in control in the Company. Mr. Cohen led the Company successfully during this period, therefore as per the Compensation Committee and the BoD estimation, the monthly remuneration to which he is entitled as per his terms of office is appropriate, although it is a deviation from the Company's remuneration policy.

- The consultation and non-competition arrangement set forth within the Company CEO employment agreement is an arrangement signed with him within his employment agreement in the Group before he was appointed as the Company CEO, and there was a full provision in its respect prior to the appointment of Mr. Cohen as the CEO, and its current annual cost (2 months of payment of an amount which equals NIS 153 thousand per month as of December 31st, 2013), is equivalent, according to the Compensation Committee and the BoD to the advantages and benefits had the implementation of the agreement been postponed until after the end of his office in the Group.

[25] Mr. Yonel Cohen receives a salary in management fees and in in wage. The amounts to which he is entitled were translated into wage terms.

Furthermore, it should be noted that pursuant to the resignation of Mr. Cohen and the agreement's termination, there was no longer a point in examining an agreed-upon change in this arrangement for the future.

- Also, upon Mr. Cohen's resignation as set forth above, Mr. Cohen agreed to adjust the adaptation grant to which he is entitled by virtue of the service agreement to the adaptation remuneration set forth in the remuneration policy, although the Company explicitly set forth in its remuneration policy that the adoption of the remuneration policy might not harm existing engagements, at the time of the policy adoption, between the Company and Senior Officers serving in it.

  In light of Mr. Cohen's consent as set forth above, his adaptation grant is subject to: (1) the determination of the Compensation Committee that in light of Mr. Cohen's contribution to the Company, the time he served as the Company CEO, he is entitled to a 6-months adaptation period; (2) the adaptation grant shall be paid to Mr. Cohen during 6 months, every month, until the end of the adaptation period or up until he starts working and/or rendering services elsewhere, the early of the two (unlike the adaptation grant to which he was entitled as per his engagement agreement, which is paid at once and regardless of whether he starts rendering services and/or works elsewhere).

- The BoD mentioned its satisfaction with the CEO performance during 2013 and his contribution to the Group activity. Specifically, its satisfaction with the achievement of the objectives set forth by the CEO as to the Group's activity as derived from the 2013 annual Work Plan, the promotion of processes defined by the Group management as significant processes, as well as his activity and vast contribution towards the Company's success in 2013 in light of the various challenges it encountered in that year, especially after the change of control in the Company.

  The members of the Compensation Committee and the BoD praised Mr. Cohen's achievements also during all the time he served as the Company CEO and the CEO of Migdal Insurance, and especially in the period in which control was changed, and Mr. Cohen's personal and determining contribution to the success of the change in control and the Company's stability and its continued success and profitability in this challenging period.

In light of the examination of the remuneration paid to CEOs of other companies, , the BoD estimates that the overall remuneration to which the CEO is eligible is customary among CEOs in public companies of the same size as the Company.

The BoD is of the opinion that taking into account all the considerations detailed above as well as the complexity of the position, his skills, experience and contribution to the Group in the reported period, the CEO's remuneration is fair and reasonable under the circumstances.

(b) **Mr. Jacob Weinstein – Migdal Capital Markets' Chief Investments Manager**

Mr. Weinstein does not serve as a Senior Officer in the Company and is not a Senior Officer in the institutional entities.

For Mr. Weinstein's terms of employment, see the details presented in Regulation 21.

Mr. Jacob Weinstein started working in Migdal Capital Markets in 2006 following the acquisition of the investment house Afikim managed by him, as MCM's Chief Investments Manager. The engagement with Mr. Weinstein is unique, as detailed below, both in light of his expertise as well as in light of the background for this engagement, upon which, inter alia, the scope of his remuneration is based, since Mr. Weinstein's scope of remuneration is directly related to the activity sold and transferred to MCM, as per the acquisition agreement, and to ancillary activities transferred to his management after the acquisition's completion, pursuant to the agreements signed with him.

The BoD approval was granted after the BoD examined the scope of assets managed by Mr. Weinstein, the average management fees collected in mutual funds compared with other funds managed by Migdal Funds and in the industry, the high profitability stemming from funds managed by Mr. Weinstein and his high contribution to Migdal Funds' profitability, the fact that Mr. Weinstein manages the most complex mutual funds in Migdal Funds, in a unique manner, the large assistance given by Mr. Weinstein in branding MCM Group and the lack of another alternative.

Mr. Weinstein has very few peers in the capital market. These are not salaried employees, since they own investment houses, such as Messrs. Gilad Altshuler, Yair Lapidot and Dov Yalin. There are no peers to Mr. Weinstein in the capital market who are salaried employees and/or who provide services who do not control investment houses, therefore it is difficult to compare the remuneration paid to him to the others.

It should be noted that Mr. Weinstein's employment agreement is in effect until May 15th, 2014, and will terminate at that date.

According to the BoD, taking into account all the considerations set forth above, Mr. Weinstein's reputation and contribution to the activity of MCM Group, the remuneration paid to Mr. Weinstein is reasonable and fair under the circumstances.

(c) **Mr. Aharon Fogel**

Mr. Aharon Fogel has served as the Company CoB and Migdal Insurance CoB, as well as the CoB of Migdal Capital Markets, up to September 30th, 2013. He terminated his office in the Group after 13 years.

For Mr. Fogel's terms of employment, see the details presented in Regulation 21.

Mr. Fogel's terms of employment complied with the provisions of the Company's remuneration policy, except regarding the retirement grant extended to him in the reported year, upon the termination of his office, which deviated from the Company's remuneration policy (the Company's remuneration policy does not determine arrangements regarding retirement grants, except granting a maximum adaptation grant of 6 months). This retirement grant was approved by all the Company's authorized organs, including the shareholders' General Meeting, and it was granted to him as a token of appreciation for his large contribution to the Company's business development, success and meeting the various challenges faced, especially during his last years in these positions, in light of vast reforms in the area of LTS and the change in the control of the Company.

Furthermore, the retirement grant complies with the Company's remuneration policy that was customary before the adoption of the Company's remuneration policy regarding extending retirement grants to Senior Executives who retired from the Company, and its amount is appropriate to the CoB's senior standing, as the CoB of the three main companies in the Group, his seniority in the Group, the circumstances of his resignation and his vast contribution in promoting the Company and increasing its profitability during his entire term of office in the Company.

(d) **Mr. Arik Yogev**

Mr. Arik Yogev served as the Deputy to the CEO of Migdal Insurance, the Customer and Distribution Channels Division Manager, as well as Migdal Agencies' CEO until September 9th, 2013. He terminated his office in the Group after 24 years, in which he served in senior managerial positions in the Group.

For Mr. Yogev's terms of employment, see the details presented in Regulation 21.

In his position, Mr. Yogev was in charge of the Group's Customer and Distribution Channels Division, in which he is in charge of marketing, sales and services to the distribution channels and Company customers, including agencies held by the Migdal Group.

Within the approval of Mr. Yogev's terms of resignation, the BoD referred to Mr. Yogev's vast contribution to achieving the Company's objectives and increasing profitability within his positions in the Group throughout the years, the complexity of his positions and his seniority in the Group, his many years in the Group, the circumstances of the termination of his employment, and that this payment as in order to fully settle all the Company's liabilities towards Mr. Yogev in relation with the end of his employment, including the Company's undertaking as per the terms of engagement with him for an adaptation grant.

Furthermore, the Company BoD stated that no annual grant in respect of 2013 was extended to Mr. Yogev in addition to the retirement grant, although as per the institutional entities' remuneration policy, an office exceeding 6 months allows granting an annual grant pro rata to the office period.

Taking into account all the considerations set forth above, as well as taking into account the fact that the remuneration paid to the Senior Officer is within the range of remuneration data to similar managers in the Company who resigned in the past, in the BoD's estimation, the remuneration extended to Mr. Yogev is fair and reasonable under the circumstances.

(e) **Mr. Eran Czerninski**

Mr. Eran Czerninski serves as Deputy to the CEO, CFO in the Company and as the Finances and Actuarial Division Manager of Migdal Insurance since January 1st, 2013. Previously, he served as Migdal Insurance's Finances Discipline Manager and he has filled various positions in the Group starting from November 7th, 2002. It should be noted that since the end of February 2014 additional units report to the Finances and Actuarial Division, and accordingly, the authority and areas of responsibility of his position have been expanded.

In his position, Mr. Czerninski is in charge of the Group's financial array, including management of control and the business, financial and accounting reporting. His involvement is expressed, inter alia, in preparing the Company's Financial Statements, raising capital for the Company, coordination and supervision vis-à-vis the various authorities regarding financial and accounting issues, and managing the Group's financial systems.

For Mr. Eran Czerninski's terms of employment, see the details presented in Regulation 21.

In general, Mr. Czerninski's terms of employment comply with the Company's remuneration policy, including the terms of employment that were updated in the Periodic Report year, except deviations which the Compensation Committee and the BoD have determined as being immaterial deviations.

According to the BoD, taking into account all the considerations set forth above, the remuneration paid to Mr. Czerninski is fair and reasonable under the circumstances.

7.7 Company policy regarding negligible transactions

For details regarding the Company's policy regarding negligible transactions, see Note 38 I to the Financial Statements.

8. Developments after the date of the balance sheet

For details regarding the declaration of a dividend distribution after the date of the balance sheet, see Note 40 to the Financial Statements and Clause 3.9 above.

The Board of Directors wishes to thank the managements of the Group companies, the Group employees and agents, for their contribution to the Group's achievements.

The Chairman of the Board of Directors, the Company BoD and management would like to thank the Company's departing CoB, Mr. Aharon Fogel, and the Company's previous CEO, Mr. Yonel Cohen, for leading the Group to remarkable achievements, and for their significant contribution to its success during all the years of their activity, as well as in the reported year.

Shlomo Eliahu **Chairman of the Board**	**Anath Levin** **CEO**

March 18th, 2014