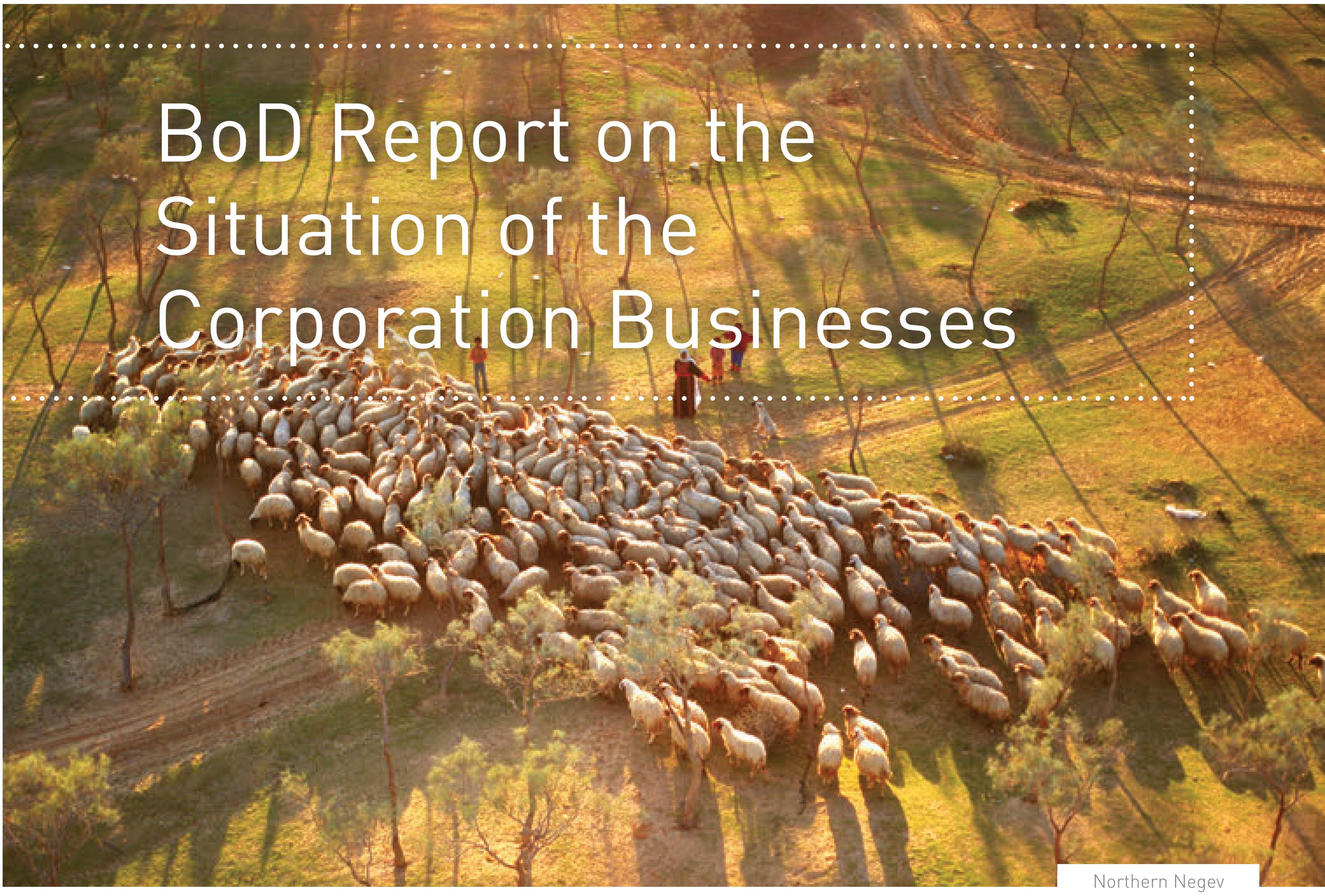


BoD Report on the Situation of the Corporation Businesses

Northern Negev

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

BOARD OF DIRECTORS' REPORT ON THE COMPANY'S BUSINESS POSITION AS AT DECEMBER 31st, 2012

The Board of Directors' Report as at December 31st, 2012, 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. BoD explanations regarding the Corporation's business situation

1.1 General

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

The Company serves over 1.7 million private and business customers in the areas of insurance, pension and provident, and has business relations with approx. 2,200 insurance agencies and agents, and employs over 4,300 workers.

This year, the control in the Company changed

On October 29th, 2012 the control in the Company changed from Generali to Eliahu Insurance Company Ltd. ("**Eliahu Insurance**"), controlled by Mr. Shlomo Eliahu.

In addition, Bank Leumi le-Israel Ltd., which held approx. 9.8% of the Company's issued share capital, sold a significant share of its holdings in the Company both in the reported year and in 1Q13, and as of January 8th, 2013, it holds approx. 4.7% of the Company's share capital.

For additional details regarding the transfer of control in the Company and the changes in the Company's holdings structure, see Clauses 2.1 and 5.2 in Part A to the Corporation Business Description Chapter.

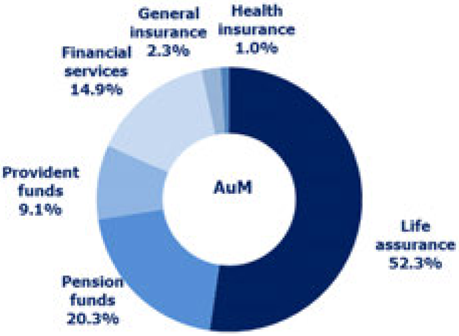
The absorption of new business in general insurance – on November 18th, 2012 an agreement was signed between Migdal Insurance and Eliahu Insurance, regarding the absorption of Eliahu Insurance's "new business in general insurance" in Migdal Insurance, starting from January 2013. For additional details regarding the absorption of new business in general insurance see Clause 3.1 in Part A to the Corporation Business Description Chapter and Note 38d to the Financial Statements.

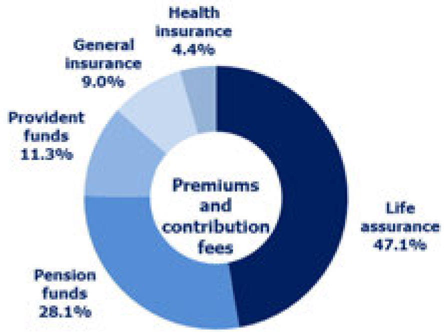
The Group's main areas of activity

The Group operates in the area of life assurance and LTS, which is its main area of activity, as well as in the area of health insurance, the area of general insurance and the area of financial services.

Migdal Insurance is the largest and leading insurance company in the line of life assurance in Israel. Furthermore, Migdal Insurance also holds Migdal Makefet Pension and Provident Funds Ltd., which manages the new pension fund "Makefet Ishit", which is the largest new pension fund in Israel.

The breakdown of (gross) insurance liabilities in insurance businesses and AUM in pension funds, provident funds and financial services ("assets under management"), as well as the breakdown of premiums and contributions fees as per areas / lines of activity



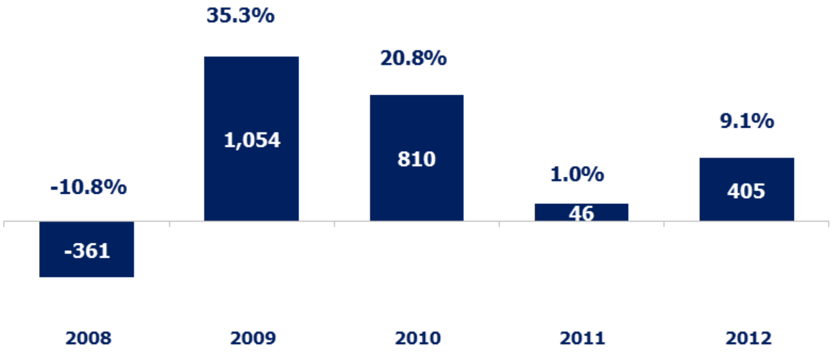


* As of December 31st, 2012 * For 2012

Results of activity
Migdal Group's **income for the period** in 2012 totaled approx. NIS 227 million, vs. approx. NIS 297 million in 2011.

The Group's **comprehensive income for the period**[1] in 2012 totaled approx. NIS 405 million, vs. approx. NIS 46 million in 2011.

Enclosed is the development in comprehensive income for the period (in NIS million) and RoE in 2008-2012:



In 2012, income was mostly affected by the yields achieved by the Group on capital markets (for details regarding the changes on the capital market, see Clause 2 below). The Company achieved a positive real yield in profit participating policies marketed up to 2004, which covered investment losses accrued to the insureds' debit, and in the reported period the Company started to collect variable

[1] The comprehensive income/loss includes the results of investment activity of financial assets classified as available for sale (Nostro portfolio) that have not been realized yet, 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 the cases in which there is a provision for impairment that is imputed to the P & L report before the realization. The Company mainly utilizes the comprehensive income for measuring its results.

management fees in the amount of approx. NIS 172 million before tax. For details see Clause 1.3.2 (b) below.

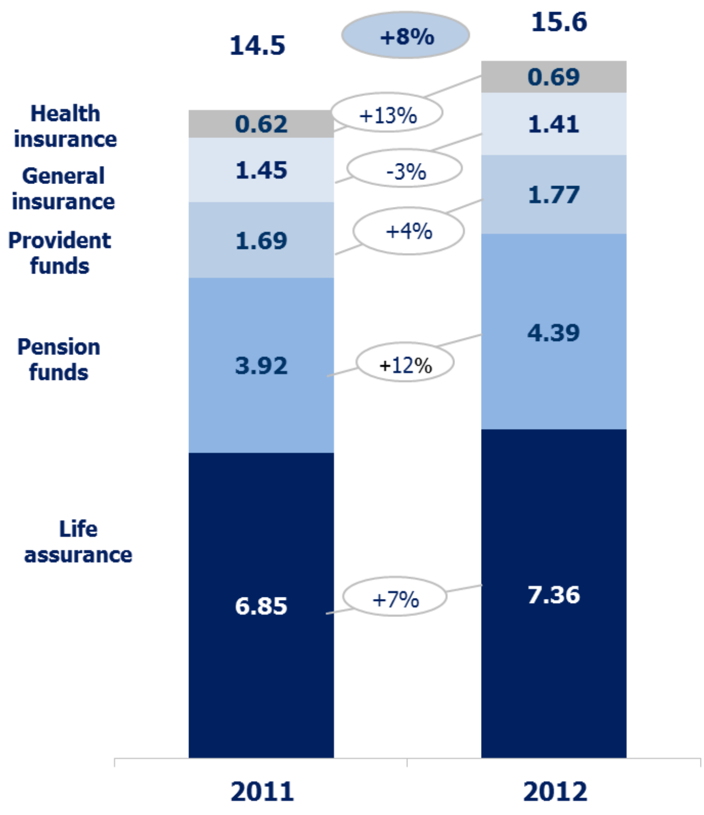
On the other hand, there was an immediate provision to annuity, due to an update of life expectancy estimates and the experience accrued by the Company, in the amount of approx. NIS 257 million before tax, due to the reform in annuity coefficients, following which a Circular was also issued in March 2013. Based on this Circular, the reserves for annuity payment in life assurance policies were calculated. For details see Clause 1.3.2 (b) below, Note 37 b 3 b (5) to the FS, as well as Clause 9.2.9 in Part C to the Corporation Businesses Description Chapter.

The underwriting income (excluding investment gains) decreased in life assurance, and on the other hand there was an improvement in the area of general insurance. In the area of health insurance, underwriting income remained unchanged. In addition, there was a decline in income from the area of financial services.

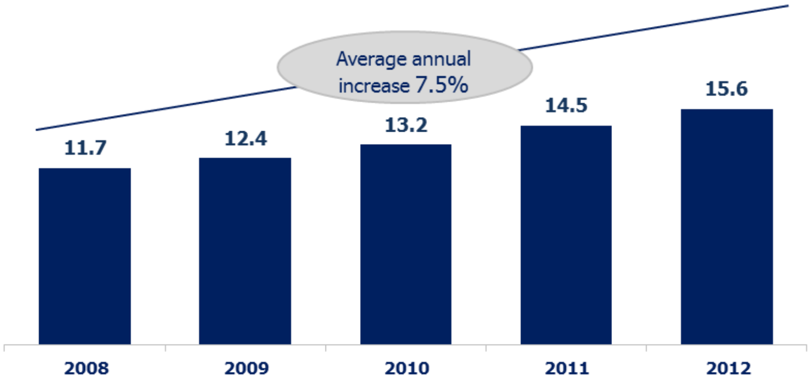
For details regarding results of activity, see Clause 1.3 below.

In 2012, growth in the Group's activity continued, and it was reflected in an increase in premiums and contribution fees and an increase in new sales in the area of life assurance and LTS and the area of health insurance. Following that growth, the Group's the total AUM amounted to approx. NIS 160 billion by the end of 2012, an increase of approx. 14% compared with the end of 2011.

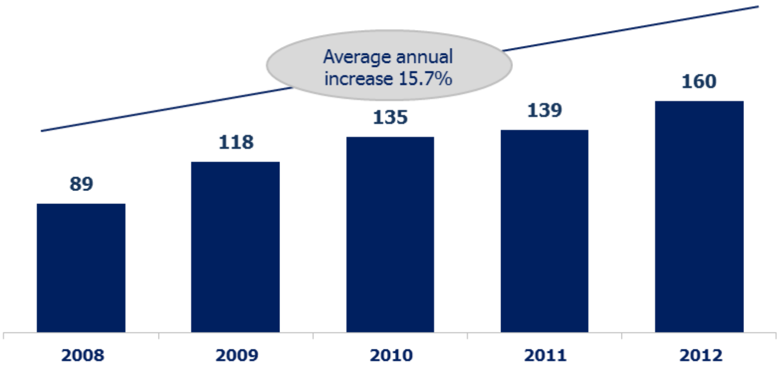
Enclosed are premiums and contribution fees from insurance businesses, pension funds and provident funds businesses as per areas / lines of activity in 2012 vs. 2011 (in NIS billion):



Enclosed is the development in premiums and contribution fees from insurance businesses, pension funds and provident funds businesses, in 2008-2012 (in NIS billion):

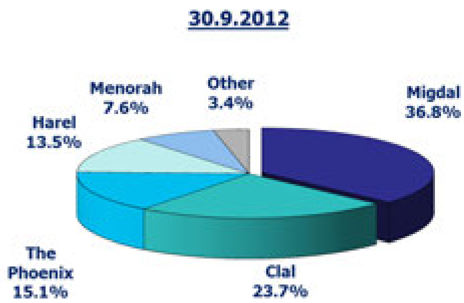


Enclosed is the Group's total AUM as of the end of the year, in 2008-2012 (in NIS billion):

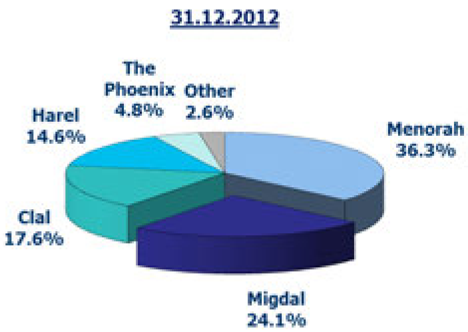


Migdal Group's share in the line of life assurance in Israel, in terms of insurance liabilities as of September 30th, 2012, is the largest and totaled approx. 36.8%. The Group's share in new pension funds in Israel, in terms of AUM as of December 31st, 2012, totaled approx. 24.1%.

The Group's share in the life assurance line in terms of insurance liabilities

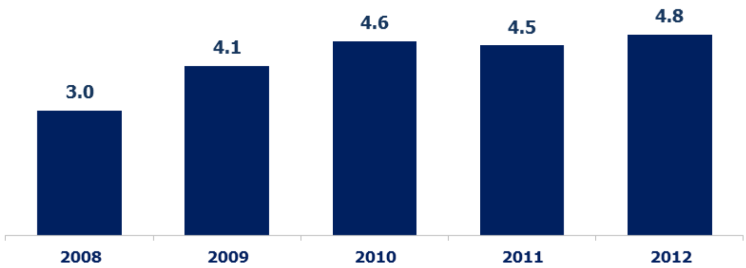


The Group's share in the pension funds line in terms of AuM



Migdal manages a large asset portfolio for its insureds in profit participating policies in life assurance and for Makefet pension fund beneficiaries, and is characterized with investment management over time with a balance between risk level and yield both in periods of price increases in the capital market and in periods of declines. For details regarding weighted yields in profit participating policies, see clause 1.7.4 below.

Along all the above, the Company maintained its capital basis. **Enclosed please find the development of capital as of the end of the year, in 2008-2012 (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. rated Migdal Insurance's financial robustness as Aaa, and these bonds were rated as Aa2.

Migdal Insurance has a capital surplus in the amount of approx. NIS 1,449 million over the capital requirements as of December 31st, 2012.

After the date of the balance sheet, the capital surplus taking into account the capital requirements after the reporting date due to the Investment Regulation's transitory provision is approx. NIS 1,379 million.

In May 2012 the Company distributed a dividend of NIS 150 million to its shareholders.

Emphases regarding significant changes in the area of life assurance and LTS

The Group's activity is affected by continuous regulation and changes and regulatory reforms. The Group acts in a complex and varying reality in which it should deploy towards these regulatory changes and the increased competition thereof, especially in the area of life assurance and LTS - which is the main area of activity in the Group.

In the reported year, two material issues were regulated and came into effect in January 2013, and they would materially affect the area of insurance and LTS. One is the reform in management fees, in which 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 second – the regulation regarding annuity coefficients, in which, inter alia, the demographic assumptions for the calculation of reserves for annuity payment were updated, and as of January 2013, the marketing of insurance plans that combine savings with annuity coefficients that embed a life expectancy guarantee ("**guaranteed annuity coefficients**") to anyone who is not 60 years old at the time of sale, is prohibited. For additional details regarding these arrangements, as well as regarding the Company's assessments referring to influences / implications of these arrangements and other arrangements carried out in the area, see Clauses 9.2.8, 9.2.9 and 9.2.12 in Part C to the Corporation Businesses Description Chapter.

In light of this changing reality, the Company examined its thinking and deployment regarding the Group's business objectives and strategy, and regarding this matter, see Clause 57 in Part E to the Corporation Businesses Description Chapter.

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.

1.2 Description of the development in the Group's income for the period and comprehensive income

In NIS million	**10-12/2012**	**10-12/2011**
Income for the period	131.2	13.5
Comprehensive income for the period	143.6	66.2

The increase in the comprehensive income in 4Q12 was mainly affected by the fact that the Company started collecting variable management fees in the profit participating polices in life assurance, that were marketed until 2004. The amount of variable management fees collected in 4Q12 was approx. NIS 166 million (before tax).

In addition, in 4Q12 the Company updated its estimates regarding its liabilities to annuity following its accrued experience, and it recorded an immediate provision of approx. NIS 77 million before tax, vs. approx. NIS 50 million before tax in 4Q11. For details see Clause 1.3.2 (b) and Note 37 b 3 b (5) to the FS.

In 4Q12, there was a decrease of approx. NIS 101 million in net income, due to an increase in tax rates due to the Law of Economic-Social Change (Taxes) (Legislative Amendments) – 2011. Out of this amount, approx. NIS 53 million, due to an increase in liabilities in respect of deferred taxes, was imputed to the item of tax on income and approx. NIS 48 million was imputed to the results of investees.

In life assurance, in 4Q12 there was an increase in expenses and a decline in risk income. Furthermore, there was an increase in the level of cancellations vs. 4Q11.

In the area of health insurance, there was an increase in underwriting income in 4Q12 vs. 4Q11 due to an improvement in claims.

In the area of general insurance there was an increase in underwriting results (excluding investment gains) vs. 4Q11, reflected mainly in the lines of liabilities, property motorcar and CMBI.

In the area of financial services, there was an increase in income, mostly due to income from negotiable securities.

Enclosed please find the composition of **income (loss) for the period before tax** in the Group's FS as per areas of activity in which the Group engages, as well as **income (loss) for the period** (in NIS million):

	4Q12	**3Q12**	**2Q12**	**1Q12**	**4Q11**
Income (loss) from the area of activity:					
Life assurance and LTS	106.1	30.9	(115.6)	74.1	74.8
Health insurance	40.2	31.3	3.2	22.2	18.7
General insurance	56.8	17.4	4.9	32.8	2.6
Financial services	3.2	1.1	1.2	5.3	(4.0)
Total income (loss) before tax from areas of activity	**206.3**	**80.7**	**(106.3)**	**134.4**	**92.1**
Other[2]	0.8	21.2	11.8	(0.1)	3.8
Income (loss) for the period before tax	**207.1**	**101.9**	**(94.5)**	**134.3**	**95.9**
Tax on income / (tax benefit)	75.9	43.5	(40.6)	42.9	82.4
Income (loss) for the period	**131.2**	**58.4**	**(53.9)**	**91.4**	**13.5**

[2] The "Other" item mainly includes the results of activity of insurance agencies in the Group, related / interfacing activities to the Group activity, performed within Migdal Health and Mivtach Management and are not material, as well as net investment income (including income from affiliates) not imputed to areas of activity.

Set forth below is the composition of **comprehensive income (loss) for the period before tax i**n the Group's Financial Statements as per the areas of activity in which the Group engages as well as **comprehensive income (loss) for the period** (in NIS millions):

	4Q12	3Q12	2Q12	1Q12	4Q11
Income (loss) from the area of activity:					
Life assurance and LTS	100.5	130.9	(155.7)	140.5	105.3
Health insurance	40.0	35.5	1.7	25.1	20.0
General insurance	62.8	65.0	(13.3)	69.7	33.2
Financial services	3.2	1.1	1.2	5.3	(4.0)
Total comprehensive income (loss) for the period before tax from areas of activity	**206.5**	**232.5**	**(166.1)**	**240.6**	**154.5**
Other	21.7	57.8	3.3	29.8	23.1
Comprehensive income (loss) for the period before tax	**228.2**	**290.3**	**(162.8)**	**270.4**	**177.6**
Tax on income / (tax benefit)	84.6	110.6	(64.7)	90.9	111.4
Comprehensive income (loss) for the period	**143.6**	**179.7**	**(98.1)**	**179.5**	**66.2**

For additional details regarding the development of results in 4Q12, see within the areas of activity in Clause 1.3 below.

Furthermore, for additional details regarding the development of premiums and income in quarters in 2012, see Clause 1.7 below and Regulation 10a to the Additional Details on the Corporation Chapter.

In NIS million	**2012**	**2011**	**2010**
Income for the period	227.1	296.7	781.6
Comprehensive income for the period	404.6	45.8	809.8

Significant part of the Group's asset portfolio is invested in the capital market. Thus, the capital market yields in various channels 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 the financial spread is the main reason for the volatility in the reported results.

Pursuant to the above, in 2012 there was a significant increase in the Group's income compared with 2011, mainly due to an increase in the yields achieved by the Group on capital markets, following a significant decrease in yields achieved in 2011 vs. 2010.

In the reported year (mainly in 4Q12) the Company started collecting variable management fees in the profit participating polices marketed until 2004, in the amount of approx. NIS 172 million (before tax), after not collecting variable management fees during 2011, and compared with the collection of variable management fees in the amount of approx. NIS 449 million before tax in 2010.

In 2012 FS, there was an immediate provision to annuity, due to an update of life expectancy estimates and the experience accrued by the Company, in the amount of approx. NIS 257 million. For details see Clause 1.3.2 (b) below, Note 37 b 3 b (5) to the FS.

The comprehensive financial spread from investments against profit participating policies in life assurance increased significantly in the reported year vs. 2011, due to an increase in the yields achieved in investments that are not designated bonds. Income from investments in the area of health insurance and the area of general insurance and income from investments against capital increased as well.

The above mentioned increase follows a decline in the comprehensive financial spread in 2011 vs. 2010 in life assurance due to decrease in the yields achieved in free investments within the Company's Nostro and in income from investments in the area of health insurance and the area of general insurance due to lower yields achieved on the capital market.

For additional details regarding the financial spread, including management fees, yields and the rate of management fees in the profit participating portfolio, see Note 18 b and d to the FS, as well as Clause 1.7.4 below.

For the impact of investment income on the Group's activity, see also Clause 46.3 in Part E to the Corporation Businesses Description Chapter. For the development on capital markets in Israel and abroad, in the reported year and after the date of the balance sheet, see also Clause 2 below.

In 2012, growth in the Group's activity continued, reflected in a growth in premiums and contribution fees in the area of life assurance and LTS and the area of health insurance.

In life assurance, in 2012 there was a decline in risk income and an increase in expenses, after a slight increase in risk income in 2011. In 2012 cancellation rate recorded a moderate increase, following stability in cancellation rate in 2011.

In the area of health insurance, in 2012 underwriting income remained similar to 2011, after a deterioration in underwriting income due to an increase in claims in 2011.

In the area of general insurance there was an improvement in underwriting results (excluding investment gains) in 2012 vs. 2011, reflected mainly in the lines of property motorcar, CMBI and liabilities, after a deterioration in 2011 vs. 2010, which concentrated in the line of property motorcar and liability lines.

In the area of financial services, in 2012 there was a decrease in income from management fees in respect of the management of mutual funds compared with 2011, due to a decline in the average management fees rate, along with an increase in AuM, as well as a decline in income from brokerage activity. In 2011, in addition to the decrease of income from management fees in respect of mutual funds management, there was a decrease in income from activity in negotiable securities, mainly abroad.

In 2011 there was a decrease in net income in the amount of approx. NIS 101 million, due to an increase in tax rates as mentioned above.

Set forth below is the **composition of income (loss) for the period before tax i**n the Group's Financial Statements as per the areas of activity in which the Group engages as well as **income (loss) for the period** (in NIS millions):

	2012	**2011**	**2010**
Income (loss) from the area of activity:			
Life assurance and LTS	95.5	406.9	786.7
Health insurance	96.9	37.0	80.5
General insurance	111.9	(15.3)	141.4
Financial services	10.8	19.6	72.1
Total income before tax from areas of activity	**315.1**	**448.2**	**1,080.7**
Other [3]	33.8	61.7	85.5
Income for the period before tax	**348.9**	**509.9**	**1,166.2**
Tax on income	121.8	213.2	384.6
Income for the period	**227.1**	**296.7**	**781.6**

[3] The "Other" item mainly includes the results of activity of insurance agencies in the Group, related / interfacing activities to the Group activity, performed within Migdal Health and Mivtach Management and are not material, as well as net investment income (including income from affiliates) not imputed to areas of activity.

Set forth below is the **composition of comprehensive income (loss) for the period before tax i**n the Group's Financial Statements as per the areas of activity in which the Group engages as well as **comprehensive income (loss) for the period** (in NIS millions):

	2012	2011	2010
Income (loss) from the area of activity:			
Life assurance and LTS	216.1	143.2	842.1
Health insurance	102.3	27.6	84.2
General insurance	184.2	(95.6)	117.9
Financial services	10.8	19.6	72.1
Total comprehensive income for the period before tax from areas of activity	**513.4**	**94.8**	**1,116.3**
Other	112.7	34.1	86.9
Comprehensive income for the period before tax	**626.1**	**128.9**	**1,203.2**
Tax on income	221.5	83.1	393.4
Comprehensive income for the period	**404.6**	**45.8**	**809.8**

For additional details regarding the development of results, see within the areas of activity in Clause 1.3 below, and Notes 3 b, 3 c and 3 d to the FS.

1.3 Description of the development in the Group's results of activity as per areas of activity

1.3.1 Description of the development in the composition of revenues in the Group's insurance businesses

In NIS million	**2012**	**2011**	**2010**
Gross premiums	9,457	8,908	8,204
Breakdown according to areas in %			
Life assurance	78	77	76
Health insurance	7	7	7
General insurance	15	16	17

For the description of the development of revenues from premiums in the areas of activity in which the Group engages, see below.

1.3.2 **The area of life assurance and LTS**
(a) Scope of activity in the area of life assurance and LTS

Life assurance

In NIS million	10-12/2012	10-12/2011	Change %
Gross earned premiums	1,891.4	1,748.2	8.2
Premiums from investment contracts	272.5		
Gross earned premiums including investment contracts	2,163.9	1,748.2	23.8

The increase in premiums in 4Q12 was reflected both in current premiums and in single premiums. The increase in current premiums (approx. 5.8%) was affected by the growth in new sales (including increases), less cancellations. The increase in single premiums (excluding premiums on investment contracts) (approx. 25.4%) was affected by the cancellation of guaranteed annuity coefficients for people under the age of 60 in life assurance, which came into effect on January 1st, 2013.

The rate of surrenders to average reserve in life assurance (in annual terms) in 4Q12 totaled approx. 2.4% vs. 2.5% in 4Q11.

In NIS million	2012	2011	2010	Change % vs. previous year	
				2012	**2011**
Gross earned premiums	7,357.0	6,846.7	6,245.3	7.5	9.6
Premiums from investment contracts	272.5	-	-		
Gross earned premiums including investment contracts	7,629.5	6,846.7	6,245.3	11.4	9.6

The increase in premiums in both years was reflected both in current premiums and in single premiums. Current premiums increased by approx. 5.7%, following an increase of approx. 7.1% in 2011. In single premiums there was an increase of approx. 18.5%, following an increase of approx. 29.3% in 2011.

The increase in current premiums was affected by the growth in new sales (including increases), less cancellations. Cancellation rate increased slightly in 2012 vs. 2011, following stability in cancellation rate in 2011 vs. 2010.

As per the MoF data[4], in the first nine months of 2012 there was an increase of approx. 5.3% in the aggregate scope of premiums in the life assurance line, compared with the same period in 2011, compared with an

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

increase of approx. 7.2% in the scope of the gross earned premiums in the Group.

In annual terms, new sales (excluding increases) in life assurance in the Group increased by approx. 20.5% in the reported year compared with 2011, following an increase of approx. 7.4% in 2011 vs. 2010. The significant increase in new sales in the reported year was greatly affected by the cancellation of guaranteed annuity coefficients for people under the age of 60 in life assurance, which came into effect on January 1st, 2013.

The rate of surrenders to average reserve in life assurance in 2012 totaled approx. 2.3% vs. 2.4% in 2011 and approx. 2.2% in 2010.

As per the MoF data[5], as of December 31st, 2012, the scope of managed assets in the life assurance line totaled approx. NIS 241 billion. Out of the above, the scope of assets managed under profit participating policies totaled approx. NIS 166 billion.

The total scope of liabilities in respect of the Group insurance contracts and investment contracts in life assurance[6], out of which the management fees and financial spread are derived, totaled approx. NIS 83.5 billion as of December 31st. 2012, an increase of about 13.4% compared with December 31st, 2011 (vs. an increase of about 14.5% on the market). Out of which, the scope of profit participating insurance reserves totaled approx. NIS 58.9 billion, an increase of about 16.8% vs. December 31st, 2011 (vs. an increase of approx. 17.8% on the market).

The increase in the scope of liabilities in profit participating policies was mainly affected by the net current accrual and the positive yields achieved on capital markets. In guaranteed yield policies there is an increase due to net accrual, that was affected by a low cancellation rate.

Pension funds

In NIS million	**10-12/2012**	**10-12/2011**	**Change %**
Contribution fees	1,189	1,070	11.1
Management fees	76.6	63.8	20.2

The increase in contribution fees in 4Q12 was affected by new sales, including increases in the rates of provisions to compulsory pension and salary increases, less cancellations. The increase in contribution fees was in spite of the discontinuation of the engagement with a large customer ("**Customer A**") of Migdal Makefet in July 2012[7]. In 2011 the contribution fees paid by this customer constituted about 0.5% of the pension fund's contributions. The engagement with Customer A was discontinued following a tender published by that customer. Migdal Makefet, due to commercial and competition-related considerations, decided not to participate in it.

The increase in management fees was mainly affected by an increase in the scope of contribution fees and AuM.

[5] The market data are based on the processing of the MoF reports published on the website ("**Managerial Reports**").
[6] Based on Insurance Net" website and the MoF monthly investments report.
[7] Starting from July 2012, the engagement with Customer A was discontinued, therefore, the rights accrued in respect of the Group's insureds in the amount of approx. NIS 490 million were mobilized. This engagement and its discontinuation thereof did not have, and is not expected to have, any material impact on the Group's financial results.

In NIS million	2012	2011	2010	Change %vs. previous year	
				2012	2011
Contribution fees [8]	4,386	3,919	3,418	11.9	14.7
Management fees	286.4	252.2	225.1	13.6	12.0

The increase in contribution fees in 2012 and 2011 was affected by new sales, including increases in the rates of provisions in compulsory pension and salary increases, less cancellations.

The relatively modest increase in contribution fees in 2012 was affected by the discontinuation of the engagement with Customer A, as set forth above.

As per the Ministry of Finance data[9], the aggregate scope of contribution fees in the line of new pension funds in 2012 totaled approx. NIS 18,684 million, vs. NIS 15,824 million in 2011, an increase of about 19%.

The increase in management fees in both years was mainly affected by the scope of contribution fees and AuM, as set forth above. For additional details regarding the development of average management fees, see Clause 9.7.1 in Part C to the Corporation Businesses Description Chapter.

The scope of managed assets by the Group pension funds[10] as at December 31st, 2012 totaled approx. NIS 32.3 billion, vs. approx. NIS 27.2 billion in 2011, an increase of approx. 19%. The increase in the scope of assets under management in the Group is due to net current accrual[11], affected by an increase in contribution fees, that was partly offset due to an increase in net money transfers in respect of the shift of members to other institutional organs, including the shift of money in respect of Customer A as set forth above, as well as due to the aggregate positive yields on investments imputed to accrual.

As per the Ministry of Finance [12] data, as of December 31st, 2012, the aggregate scope of managed assets in the new pension funds totaled approx. NIS 128 billion, vs. NIS approx. 102 billion on December 31st, 2011, an increase of approx. 26%.

Provident funds

In NIS million	10-12/2012	10-12/2011	Change %
Contribution fees	602	586	2.7
Management fees	35.7	34.9	2.2

[8] As per the data of Note 18 to the FS, that does not include a reduction due to benefits to employees.
[9] Based on data published on the "Pension-net" website.
[10] Including assets managed in an old pension fund managed by the Company, totaling approx. NIS 1.3 billion as of December 31st, 2011 and December 31st, 2010.
[11] Current accrual, net is defined as contribution fees plus the shift of members net and less surrender and pension payments.
[12] Based on data published on the "Pension-net" website.

In NIS million	2012	2011	2010	Change % vs. previous year	
				2012	2011
Contribution fees [13]	1,765	1,689	1,627	4.5	3.8
Management fees	140.0	143.0	146.3	(2.2)	(2.2)

The decrease in management fees in 2012 and 2011 was mainly affected by a decline in the average rate of management fees. For additional details, see Clause 9.7.2 in Part C to the Corporation Businesses Description Chapter.

The scope of managed assets by the Group-managed provident funds as of December 31st, 2012 totaled approx. NIS 14.6 billion, vs. NIS 13.6 billion as of December 31st, 2011, an increase of approx. 7%.

The increase in AUM in the Group was mainly affected by the aggregate positive yields on investments imputed to accrual, that was partly offset due to net money transfers in respect of the shift of members to other institutional organs and an increase in money withdrawals.

As per the Ministry of Finance[14] data, as of December 31st, 2012, the aggregate scope of managed assets in provident funds totaled approx. NIS 315 billion, vs. approx. 294 billion on December 31st, 2011, a increase of approx. 7%. The increase in the scope of AUM was mainly affected by a price increase on capital markets that was partly offset by net negative accrual in the provident funds line.

Aggregate premiums and contribution fees from life assurance, pension funds (including Old Yozma) and provident funds controlled by the Group increased by approx. 8% in the **reported quarter** vs. 4Q11.

In 2012 there was an increase of approx. 8% vs. 2011 and approx. 10% in 2011 vs. 2010.

(b) Description in the development of income before tax from the area of life assurance and LTS

In NIS million	10-12/2012	10-12/2011
Income for the period	106.1	74.8
Comprehensive income for the period	100.5	105.3

In NIS million	2012	2011	2010
Income for the period	95.5	406.9	786.7
Comprehensive income for the period	216.1	143.2	842.1

[13] Including contribution fees in an old pension managed by the Company, which totaled approx. NIS 25 and 27 million in 2012 and 2011, respectively.
[14] Based on data published on the "Gemel-net" website.

Life assurance businesses results

In NIS million	10-12/2012	10-12/2011
Income for the period	88.1	55.4
Comprehensive income for the period	80.0	84.3

In 4Q12, the Company updated its estimates regarding its liabilities to annuity following its accrued experience, and it recorded an immediate provision of approx. NIS 77 million before tax, vs. approx. NIS 50 million before tax in 4Q11. For details see Note 37 b 3 b (5) to the FS.

In profit participating policies that were marketed until 2004, the Company started collecting variable management fees, after not collecting variable management fees in profit participating policies due to investment losses accrued to the insureds' debit in 2011. Total variable management fees collected in 4Q12 amounted to approx. NIS 166 million (before tax).

Also, in 4Q12 there was an increase in expenses and a decrease in risk income compared to 4Q11.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 10.4% in 4Q12 vs. approx. 10.1% in 4Q11.

G&A[15] expenses rate to gross earned premium totaled approx. 5.9% in 4Q12, vs. approx. 5.4% in 4Q11.

In NIS million	2012	2011	2010
Income for the period	5.2	317.6	716.8
Comprehensive income for the period	118.6	56.2	772.1

The increase in comprehensive income from life assurance businesses was affected by an increase in investment income due to an increase in the yields that were achieved by the Group on the capital market, partly offset due to an increase in the SAR, as set below.

The comprehensive financial spread from investments against guaranteed yield policies in life assurance increased significantly vs. 2011, due to an increase in the yields achieved in investments that are not designated bonds.

In the reported year, the Company started collecting variable management fees in the profit participating polices in life assurance marketed until 2004, in the amount of approx. NIS 172 million before tax, after not collecting variable management fees during 2011, after achieving a positive real yield, which covered investment loses accrued to the insureds' debit in 2011. In 2010 variable management fees in the amount of approx. NIS 449 million before tax were collected.

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

In 2012 FS, the Company updated its estimates regarding its liabilities to annuity based on updated estimates regarding life expectancy and the future improvements included in the Circular regarding the Calculation of Reserves for the Payment of Annuity in Life Assurance Policies published in March 2012 ("**Annuity Circular**"), based on the Company's aggregate experience.

Therefore, the Company made an immediate provision for SAR, which decreased the comprehensive income by approx. NIS 257 million before tax.

In 2011, the Company made an immediate provision for SAR in the amount of approx. NIS 50 million.

For additional details see Note 37 b 3 b (5) to the FS.

In addition, in 2012 there was a decline in investment risk and an increase in expenses vs. 2011, in which there was a slight increase in risk income. Cancellation rate increased moderately in 2012, following stability in cancellation rate in 2011.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 9.6% in 2012 vs. approx. 9.3% in 2011 and approx. 10.2% in 2010.

G&A[16] expenses rate to gross earned premium totaled approx. 5.4% in 2012, vs. approx. 5.5% in 2011 and approx. 5.6% in 2010. In 2012, the decline in expense rate to premium was affected by an increase in current premiums and single premiums, that exceeded the increase in expenses.

For additional details regarding the financial spread, including management fees, yields and the rate of management fees in the profit participating portfolio, see Clause 1.7.4 below, as well as Note 18 b and d to the FS.

Enclosed please find additional information regarding the activity results in the life assurance line (Note 18 to the FS):

The Note analyzes the Group businesses in life assurance, with a breakdown of products with a savings component according to layers based on different underwriting years, and products that do not include a savings component, with a separation between individual policies and group policies.

[16] G&A expenses are after the classification 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.

In NIS million	2012	2011	2010
Comprehensive income (loss) as per types of policies			
Up to 1990	(25)	93	313
Up to underwriting year 2003	241	15	451
From underwriting year 2004 and on	(218)	(140)	(113)
Individual risk	145	90	109
Collective risk	(24)	(2)	12
Total comprehensive income (loss)	**119**	**56**	**772**
Out of which: comprehensive financial spread including management fees[17]	926	476	1,205

The decline in income **from policies that were issued until 1990** (mainly guaranteed-yield and backed with Hetz (life linked) bonds) in the reported year vs. 2011 is mainly affected by an increase in the provision to SAR, which was partly offset by yields achieved by the Group on capital markets. The decline in income in2011 vs. 2010 is mainly affected by a decrease in investment income.

The increase in income **from policies issued until the underwriting year 2003** (mainly profit participating policies) in the reported year vs. 2011 is mainly due to the collection of variable management fees in the amount of approx. NIS 172 million in these policies in 2012, compared with the non-collection of variable management fees in 2011 due to the aggregate negative yield achieved by the Company in that year, and compared with the collection of approx. NIS 449 million (before tax) in variable management fees in 2010.

In the underwriting years 2004 and on (both in profit participating policies and guaranteed-yield policies), most of the profitability in these products is due to fixed management fees that depend on the scope of reserves, which, at this stage of the policies' life, are relatively low, as well as taking into account the significant increase in the scope of the new annualized premium of these policies.

The increase in loss in 2012 vs. 2011 is due, inter alia, to an increase in expenses along with an increase in the scope of new premiums, that was partly offset due to an increase in investment income. In 2011 vs. 2010, the increase in comprehensive loss is due to investment losses imputed to accrual in 2011 vs. income imputed in 2010.

In **individual risk**, results were affected by an improvement in claims and changes in investment gains in respect of assets against these reserves.

In **group risk**, the deterioration in 2012 vs. 2011 and 2010 was mainly affected by a deterioration in underwriting results.

The Note presents a breakdown of insurance reserves from two aspects: a breakdown according to financial exposure (guaranteed-yield or participating in investment incomes) and a breakdown according to insurance exposure (the Company's liability by the end of the insurance period - surrender at a fixed sum (lump sum) or annuity). For details

[17] The financial spread includes other comprehensive income (loss) imputed to capital reserves.

regarding the Company's financial exposure, see also Note 37 to the Financial Statements.

Results of pension funds management

In NIS million	10-12/2012	10-12/2011
Income for the period	14.3	10.0
Comprehensive income for the period	17.1	11.6

The increase in the income for the period and the comprehensive income for the period in 4Q12 is affected by an increase in revenues from management fees, that was partly offset by an increase in G&A expenses and acquisition expenses.

In NIS million	2012	2011	2010
Income for the period	71.0	67.9	59.2
Comprehensive income for the period	77.9	65.9	59.2

The increase in comprehensive income in 2012 vs. 2011, and in 2011 vs. 2010 was affected mainly by an increase in revenues from management fees due to a growth in contribution fees and in AuM, which was mainly offset due to an increase in commissions, marketing expenses and other fixed expenses and G&A expenses. In 2011 this increase was offset by a decrease in comprehensive income from investments in the Nostro portfolio as well.

The rate of expenses and acquisition costs to contribution fees of all pension funds activity in the Group totaled approx. 5.0% in 2012, vs. approx. 4.8% in 2011 and 5.1% in 2010.

Results of provident funds management

In NIS million	10-12/2012	10-12/2011
Income for the period	3.8	9.4
Comprehensive income for the period	3.4	9.4

The decline in comprehensive income in 4Q12 vs. 4Q11 was mainly due to an increase in G&A expenses.

In NIS million	2012	2011	2010
Income for the period	19.3	21.4	10.7
Comprehensive income for the period	19.6	21.1	10.8

In the reported year, there was a decline in revenues from management fees due to a decline in the rate of average management fees and an increase in acquisition expenses, that were offset by a decline in G&A expenses and financing expenses.

The increase in income in 2011 vs. 2010 was mainly affected by a decrease in G&A expenses (stemming mainly from the merger of managing companies starting from January 2011[18]), that was partly offset due to a decrease in the rate of average management fees.

For additional details regarding the results of activity in the area of LTS, see Clause 1.7 below and Note 3 c to the FS.

1.3.3 The area of health insurance

Description of the development in premiums in the area of health insurance

In NIS million	10-12/2012	10-12/2011	Change %
Gross earned premiums	184.1	159.1	15.7

The increase in premiums in 4Q12 vs. 4Q11 is mainly due to an increase in premiums from individual insurances, due to the continued increase in new sales. The upwards trend in premiums is expressed in all individual products marketed by the Group.

In NIS million	2012	2011	2010	Change % vs. previous year	
				2012	2011
Gross earned premiums	692.5	614.9	556.0	12.6	10.6

The continued growth in gross earned premiums in 2012 and 2011 is mainly due to an increase in premiums from individual insurances, due to an increase in new sales. The upwards trend in premiums is expressed in all individual products marketed by the Group.

As per the MoF data[19], in the first nine months of 2012 there was an increase of approx. 14.2% in the aggregate scope of premiums in the health insurance line, compared with the same period in 2011, compared with an increase of approx. 11.5% in the scope of the gross earned premiums in the Group.

In annual terms, new sales in health insurance in the Group increased by approx. 14.1% in the reported year compared with 2011, following an increase of approx. 28.7% in 2011 vs. 2010. The more moderate increase in sales in 2012 was greatly affected by a decrease in LTC sales, vs. an increase in the sale of other products, compared with a significant growth in LTC sales and other products in 2011 vs. 2010.

[18] Within this change, the managing companies: Migdal Management of Provident Funds Ltd. New Makefet Providence Fund Ltd. and Migdal Gemel pLatinum Ltd., which managed the Group's provident and educational funds, were merged into one managing company, Migdal Makefet, effective as of that date, the management of all provident funds in the Group is concentrated under one managing company, Migddal Makefet, which is also the managing company of new pension funds in the Group.
The organizational change was executed via mergers and splits as set forth in Articles 103 and 104 to the Income Tax Ordinance (New Version) – 1961, with a tax exemption, and via a statutory merger as per the provisions of the First Chapter to Part 8 to the Companies Law.

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

Description of the development of income before tax in the area of health insurance

In NIS million	10-12/2012	10-12/2011
Income for the period	40.2	18.7
Comprehensive income for the period	40.0	20.0

The increase in income in 4Q12 vs. 4Q11 was mainly affected by an increase in revenues from investments against insurance liabilities and an improvement in claims.

In NIS million	2012	2011	2010
Income (loss) for the period	**96.9**	**37.0**	**80.5**
Out of which: medical expenses	51.7	61.1	55.4
LTC	2.9	(55.8)	(9.6)
Other	42.3	31.7	34.7
Comprehensive income (loss) for the period	**102.3**	**27.6**	**84.2**
Out of which: medical expenses	55.0	55.4	57.2
LTC	3.7	(57.4)	(9.0)
Other	43.6	29.6	36.0

The increase in comprehensive income in 2012 vs. 2011 was affected mainly by an increase in revenues from investments against insurance liabilities, following a decrease in comprehensive income in 2011 vs. 2010, that stemmed mainly from a decline in revenues from investments against insurance liabilities.

In 2012 underwriting income remained similar to 2011, after a deterioration in underwriting income in 2011 vs. 2010, due to an increase in claims.

The increase in income in 2012 concentrates mainly in LTC, and as already mentioned, it is affected by price increases on capital markets. Furthermore, there was an increase in income from other health products due to an improvement in claims, and on the other hand, a decline in income in medical expenses insurance due to a deterioration in claims.

In 2011, in addition to the decrease in investment income vs. 2010, there was a deterioration in LTC and in other health products due to an increase in claims, compared with an improvement in income from medical expenses insurance.

Profitability achieved from investments has a significant impact on the profitability of the area, characterized by the accrual of significant reserves for long periods. Investment income is affected by changes in the capital markets, as well as changes in interest rates and inflation rates with an impact on embedded yields in the negotiable financial assets portfolios held against insurance reserves and outstanding claims.

For additional details see Clause 1.7 below, as well as Notes 3 b and 19 to the FS.

1.3.4 The area of general insurance

Description of the development in premiums in the area of general insurance

In NIS million	10-12/2012	10-12/2011	Change %
Gross premiums	253.1	263.3	(3.9)
Premiums in retention	174.1	168.2	3.4

The decline in gross premiums in 4Q12 concentrated mainly in other property insurances, as well as in CMBI.

In NIS million	2012	2011	2010	Change % vs. previous year	
				2012	2011
Gross premiums	1,406.3	1,446.2	1,402.7	(2.8)	3.1
Premiums in retention	952.0	961.8	922.4	(1.0)	4.3

In 2012 the decrease in gross premiums concentrated mainly in property motorcar insurances, other property insurances and liabilities. On the other hand, in 2011 there was an increase in gross premium, which concentrated mainly in motorcar insurance and other property insurances.

Description of the development of income before tax in the area of general insurance

In NIS million	10-12/2012	10-12/2011
Income for the period	56.8	2.6
Comprehensive income for the period	62.8	33.2

The increase in comprehensive income in 4Q12 vs. 4Q11 was due to an improvement in underwriting results, which concentrated mainly in liability insurances, as well as in property motorcar insurance and CMBI.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 37% in 4Q12 vs. approx. 33% in 4Q11.

G&A[20] expenses rate to gross earned premium totaled approx. 4.0% in 4Q12, vs. approx. 3.5% in 4Q11.

The rate of commissions, marketing expenses and other acquisition expenses, as well as G&A expenses to premium, which are relatively high in this quarter, area affected from the seasonality of the revenues' cycle to gross premium.

[20] G&A expenses are after the classification 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.

In NIS million	2012	2011	2010
Income for the period	111.9	(15.3)	141.4
Comprehensive income for the period	184.2	(95.6)	118.0

In 2012, the Company shifted to comprehensive income from general insurance businesses vs. a comprehensive loss in 2011, due to a significant increase in investment income. In addition, there was an improvement in underwriting results (excluding investment gains), which was concentrated mainly in property motorcar, CMBI and liability lines. In 2011 the Company recorded a comprehensive loss vs. a comprehensive income in 2010, mainly due to a decrease in investment income. In addition, in underwriting results (excluding investment gains) there was a significant deterioration in the line of property motorcar and liability lines.

The rate of commissions, marketing expenses and other acquisition expenses to gross premium totaled approx. 22.8% in 2012 vs. approx. 21.8 in 2011 and approx. 21.9% in 2010. The increase in 2012 was mainly affected by a change in the mix of insured businesses.

G&A[21] expenses rate to gross premium totaled approx. 2.7% in 2012, vs. approx. 2.6% in 2011 and approx. 2.8% in 2010.

For additional details see Clause 1.7 below, as well as Notes 3 b, 3 d and 17 to the FS.

(a) CMBI line
Description of the development in premiums

In NIS million	10-12/2012	10-12/2011	Change %
Gross premiums	42.5	45.6	(6.9)
Premiums in retention	41.2	44.1	(6.6)

The decrease in premiums in 4Q12 vs. 4Q11 was mainly due to the discontinuation of a large transaction.

In NIS million	2012	2011	2010	Change % vs. previous year	
				2012	2011
Gross premiums	266.2	258.4	254.7	3.0	1.4
Premiums in retention	260.7	253.0	248.9	3.0	1.6

The increase in premiums in 2012 vs. 2011 was reflected in an increase in the quantity of policies, and was affected, inter alia, by a decrease in tariffs, in spite of the insurance discontinuation of some State employees. The increase in premiums in 2011 vs. 2010 was affected by the insurance of State employees following the fact that the Company won the tender.

[21] G&A expenses are after the classification 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.

As per the MoF data[22], in the first nine months of 2012 there was an increase of approx. 1% in the aggregate scope of premiums on the market, compared with the same period in 2011, compared with an increase of approx. 5% in the scope of gross premiums in the Group.

Description of the development of income before tax

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 imputed to outstanding claims (“**accrual**”)[23]. 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 imputed to surplus funds 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 a considerable time interval between receiving the premiums and completing the handling of claims and the accounting method of creating an accrual reserve which is included in the outstanding claims as aforesaid, which is why the investment-based results considerably affect income. For the regulation regarding the way reserves in general insurance are calculated, including the calculation of the surplus of revenues over expenses, which will come into effect starting from 1Q14, see Clause 25.4.10 to part C in the Corporation Business Description Chapter.

In NIS million	**10-12/2012**	**10-12/2011**
Income for the period	39.6	30.0
Comprehensive income for the period	43.8	45.7

The change in the comprehensive income in 4Q12 vs. 4Q11 was mainly due to updates in the estimates of outstanding claims for old underwriting years. In addition, there was an increase in income released in respect of previous years, especially from underwriting year 2009.

In NIS million	**2012**	**2011**	**2010**
Income for the period	104.3	56.6	93.3
Comprehensive income for the period	142.4	13.5	80.9

The increase in comprehensive income in 2012 vs. 2011 was mainly due to an increase in investment income, as well as due to an improvement in the claims experience, which led to a decrease in the actuarial estimate of outstanding claims. In 2011 there was decrease in the comprehensive income vs. 2010, due to a decrease in investment income, and which was

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

[23] Following the IFRS standards, revenues from investments imputed to accrual are calculated based on a real yield of 3% per year, regardless of the actually achieved yield of investments. Until December 31st, 2006, revenues from actual investments were imputed to the accrual, but no less than an aggregate real yield of 3% per year.

partly offset due to a decline in the actuarial estimate of outstanding claims.

(b) Property motorcar
Description of the development in premiums

In NIS million	10-12/2012	10-12/2011	Change %
Gross premiums	70.9	71.0	-
Premiums in retention	70.1	70.8	(1.1)

In NIS million	2012	2011	2010	Change % vs. previous year	
				2012	2011
Gross premiums	350.6	371.1	357.2	(5.5)	3.9
Premiums in retention	349.6	370.4	356.7	(5.6)	3.9

The change in premium scopes in the years 2010-2012 was mainly affected by the insurance of some State employees in 2011 following the fact that the Company won a tender, and the discontinuation of this group in 2012.

As per the MoF data[24], in the first nine months of 2012 there was an increase of approx. 4% in the aggregate scope of premiums on the market, compared with the same period in 2011, compared with a decrease of approx. 7% in the scope of earned premiums in the Group.

Description of the development of income before tax
Profitability achieved on investments affect the line's profitability, however, the weight of reserves in the property motorcar line is relatively low compared with the CMBI line, due to the short time required for the completion of handling in property motorcar claims, therefore the impact of investment income on reserves in property motorcar is lower than in CMBI. Investment income is affected by changes on capital markets, as well as from the changes in interest and financial rates, that affect embedded yields in the financial assets portfolios held against insurance reserves and outstanding claims.

In NIS million	10-12/2012	10-12/2011
Loss for the period	(3.7)	(12.7)
Comprehensive loss for the period	(4.5)	(10.2)

The reduction in comprehensive loss in 4Q12 vs. 4Q11 was mainly affected by an improvement in underwriting results, mostly due to an improvement in the cost of claims.

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

In NIS million	2012	2011	2010
Income (loss) for the period	(12.8)	(45.2)	5.4
Comprehensive income (loss) for the period	(8.5)	(49.9)	3.8

The decrease in the comprehensive loss in 2012 vs. 2011 was mainly due to a reduction in the cost of claims in all types of damage, and especially due to the improvement in the incidence of accident damages. The improvement in results in 2012 occurred following a deterioration in results in 2011, pursuant to an increase in claims and a price erosion.

(c) Property motorcar

Description of the development in premiums

In NIS million	10-12/2012	10-12/2011	Change %
Gross premiums	139.7	146.7	(4.8)
Premiums in retention	62.8	53.3	17.7

In NIS million	2012	2011	2010	Change % vs. previous year	
				2012	2011
Gross premiums	789.5	816.7	790.8	(3.3)	3.3
Premiums in retention	341.7	338.4	316.8	1.0	6.8

As per the MoF data[25], in the first nine months of 2012 there was an increase of approx. 6% in the aggregate scope of gross premiums on the market, compared with the same period in 2011, compared with a decrease of approx. 3% in the scope of gross premiums in the Group. In property insurances, there was an increase of approx. 6% in the scope of gross premiums on the market, compared with a slight decrease of approx. 1% in the scope of gross premiums in the Group, and in liability insurances, there was an increase of approx. 5% in the scope of gross premiums on the market, vs. a decrease of approx. 7% in the scope of gross premiums in the Group.

Description of the development of income before tax

In NIS million	10-12/2012	10-12/2011
Income (loss) for the period	20.9	(14.7)
Comprehensive income (loss) for the period	23.5	(2.3)

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

In NIS million	2012	2011	2010
Income (loss) for the period	20.3	(26.6)	42.7
Comprehensive income (loss) for the period	50.2	(59.3)	33.2

For details regarding the change in premiums and in income from property lines and liability lines (not motorcar), see below.

Property lines (excluding motorcar)

Description of the development in premiums

In NIS million	10-12/2012	10-12/2011	Change %
Gross premiums	93.3	104.7	(10.8)
Premiums in retention	33.6	31.3	7.1

The reduction in gross premium is due to a decline in the scope of insured businesses as well as due to change in the insurance periods in several large businesses.

The increase in premium in retention is mainly due to a change in the mix of insured businesses in reinsurance.

In NIS million	2012	2011	2010	Change % vs. previous year	
				2012	2011
Gross premiums	535.3	550.2	529.7	(2.7)	3.9
Premiums in retention	156.2	159.6	146.2	(2.1)	9.2

The decrease in gross premium in 2012 vs. 2011 was mainly affected by a decrease 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. The increase in premiums in 2011 vs. 2010 was due to an increase in the quantity of policies, which was partly offset due to a change in insurance periods in several large businesses, fully covered in reinsurance.

The changes in premium in retention are affected mainly by a change in the mix of businesses insured in reinsurance.

Description of the development of income before tax

In NIS million	10-12/2012	10-12/2011
Loss for the period	12.4	(0.5)
Comprehensive loss for the period	12.2	0.8

The improvement in results in 4Q12 vs. 4Q11 was mainly due to an increase in revenues from reinsurance commissions.

In NIS million	2012	2011	2010
Income for the period	7.4	1.2	5.8
Comprehensive income (loss) for the period	9.7	(1.5)	5.0

The shift to comprehensive income in 2012, from a comprehensive loss in 2011 was mainly due to an increase in investment income, as well as a decrease in expenses. In 2011 there was a decrease in comprehensive income compared with 2010, stemming mainly from a decrease in investment income.

Liability lines

Description of the development in premiums

In NIS million	10-12/2012	10-12/2011	Change %
Gross premiums	46.4	42.0	10.3
Premiums in retention	29.2	22.0	32.8

The increase in premiums in 4Q12 vs. 4Q11 is mainly due to new business.

NIS million	2012	2011	2010	Change % vs. previous year	
				2012	2011
Gross premiums	254.2	266.5	261.1	(4.6)	2.1
Premiums in retention	185.5	178.8	170.7	3.7	4.8

The decrease in gross premiums in 2012 vs. 2011 was mainly due to the discontinuation of a large business fully covered in reinsurance, while the increase in gross premiums in 2011 vs. 2010 was affected by an increase in the scope of insured businesses.

Description of the development of income before tax

Profitability achieved from investments has a significant impact on the profitability of liability insurances, characterized by a relatively high reserve level stemming from a considerable time interval between receiving the premiums and completing the handling of claims and the accounting method of creating an accrual reserve which is included in the outstanding claims. Accordingly, the profitability of these lines is affected by changes in the capital markets, as well as changes in interest rates and inflation rates with an impact on embedded yields in the negotiable financial assets portfolios held against insurance reserves and outstanding claims.

In NIS million	10-12/2012	10-12/2011
Income (loss) for the period	8.5	(14.1)
Comprehensive income (loss) for the period	11.3	(3.0)

The shift to comprehensive income in 4Q12 vs. a comprehensive loss in 4Q11 was mainly due to the fact that in 4Q11 there was a deterioration in the claims experience, which led to an increase in the actuarial estimate of outstanding claims in respect of old underwriting years.

In NIS million	**2012**	**2011**	**2010**
Income (loss) for the period	12.9	(27.8)	36.9
Comprehensive income (loss) for the period	40.5	(57.7)	28.2

The shift to comprehensive income in 2012, from a comprehensive loss in 2011 was mainly due to an increase in investment income, as well as because last year there was a deterioration in the claims experience, which led to an increase in the actuarial estimate of outstanding claims in respect of old underwriting years, and a loss was recorded in respect of underwriting year 2008. The deterioration in results in 2011 vs. 2010 was due to a decrease in investment income, as well as a deterioration in claims as set forth above.

1.3.5 The area of financial services[26]

Description of the development of total balance sheet assets

The total balance sheet assets in the area of financial services as of December 31st, 2012 totaled approx. NIS 727 million, vs. approx. NIS 736 million as of December 31st, 2011.

The slight decrease in the scope of balance sheet assets in the area is due to the reduction in deposits due to the decrease in the collaterals to foreign brokers in respect of mutual funds activity, less an increase in collaterals deposited the TASE risk fund and collaterals for Maof activity. In addition, there was a reduction in short term credit from banking corporations.

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

Description of the development of AUM

The total assets managed by Migdal Capital Markets Group totaled approx. NIS 23.9 billion in December 31st, 2012 vs. approx. NIS 19.8 billion in December 31st, 2011.

The scope of AUM as of December 31st, 2012 was mainly affected by an increase in the scope of the Group's managed mutual funds, as well as a certain increase in the scope of managed portfolios.

Description of the development of revenues in the area of financial services

In 4Q12, revenues totaled approx. NIS 56 million, compared with approx. NIS 50 million in 4Q11. The increase was mainly due to revenues from negotiable securities.

[26] The data regarding revenues, expense 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.

In the reported year, there was a decrease in the revenues in the area of financial services, totaling approx. NIS 209 million vs. approx. NIS 236 million in 2011 and approx. NIS 309 million in 2010.

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 management fees in respect of mutual funds management. This decline was affected, inter alia, by a change in the customers' preference and a diversion to money market funds where low management fees are collected, in addition to money raisings in the tracking funds channel in which no management fees are charged as of now. In addition, there was a decline in revenues from extending brokerage services, since Amendment No. 14 to the Law of Joint Investments in Trusteeship came into effect, pursuant to which no commissions were collected from mutual funds managed by Migdal Trust Funds.

In 2011 the decrease in revenues was affected by a decline in revenues from management fees in respect of mutual funds management, due to a decrease in the average management fees in respect of mutual funds management, as well as a decline in revenues from negotiable securities activity, mainly overseas.

For additional details see Clause 33.5 in Part C in the Corporation Businesses Description Chapter.

Description of the development of income in the area of financial services

In NIS million	10-12/2012	10-12/2011
Income (loss) for the period / Comprehensive income (loss) for the period	3.2	(4.0)

The increase in income compared with 4Q11 was mainly affected by an increase in revenues in addition to a decline in expenses, mainly variable ones, and commissions in respect of activity in securities.

In NIS million	2012	2011	2010
Income for the period / Comprehensive income for the period	10.8	19.6	72.1

The decline in income in the years 2010-2012 was affected by a decrease in revenues in the area, as described above, less a decrease in expenses. The decrease in expenses was reflected in a reduction in variable salary expenses and advertising expenses. In addition, in 2012 there was a decrease in distribution commissions and commissions in respect of activity in securities.

1.3.6 G& A expenses

In 2012 the Group's G&A[27] expenses totaled approx. NIS 1,638 million vs. NIS 1,555 million in 2011.

[27] G&A expenses include expenses imputed 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 average D7A expense rate to AuM in 2012 totaled approx.1.1%, similar to 2011. For additional details regarding G&A expenses see Note 32 to the FS.

1.4 Description of development in the Group's financial situation

In NIS million	2012	2011
Assets in the balance sheet	96,933	86,099
Liabilities in respect of insurance contracts and investment contracts	88,611	78,666
Company equity	4,795	4,539

The increase both in the scope of assets and liabilities in respect of insurance contracts and investment contracts were mainly affected by yields achieved on capital markets and the increase in net accruals in the asset portfolio.

The increase in equity is due mainly to comprehensive income of approx. NIS 405 million in the reported year, less dividend in the amount of approx. NIS 150 million, distributed in May 2012.

In January and December 2012, a subsidiary of Migdal Insurance completed private issuances of bond undertakings in the total scope of approx. NIS 825 million par value. The return of the issuance of these bonds less issuance expenses in the amount of NIS 3.7 million was deposited in Migdal Insurance and was recognized by the Commissioner of Insurance as a hybrid second-tier capital in Migdal Insurance. For details see Note 24 to the FS.

In March 2012 Migdal Insurance's BoD approved the distribution of a dividend in the amount of NIS 220 million to Migdal Holdings. At that time, the Company's BoD approved the distribution of a dividend in the amount of NIS 150 million to those who were Company's shareholders as of May 1st, 2012, the dividend was distributed on May 15th, 2012.

In April-December 2012 Migdal Insurance BoD approved a dividend distribution in the aggregate amount of approx. NIS 22 million.

The existing capital in Migdal Insurance as of December 31st, 2012 pursuant to the Regulations and Instructions issued by the Commissioner, calculated as per the Capital Regulations, is approx. NIS 4,995 million, including hybrid second tier capital of approx. NIS 828 million. Migdal Insurance has a surplus of approx. NIS 1,449 million over the minimum required capital.

After the date of the balance sheet, the capital surplus, taking into account the additional capital requirement after the date of reporting due to the transitory provisions of the Investments Regulations, is approx. NIS 1,379 million.

For additional details regarding capital requirements, see Note 7 e to the FS, that includes information regarding the amount that may not be distributed pursuant to the Investments Regulations.

1.5 Cash flows

Consolidated cash flows (In NIS million)	**2012**	**2011**	**2010**
From current activity	**2,205**	**524**	**285**
Served for investment activity	**(338)**	**(313)**	**(88)**
Served for the acquisition, net, of fixed assets and non-tangible assets	(362)	(327)	(228)
Served for the acquisition of investees	(17)	(23)	(37)
Payment of loans extended to associates	-	-	67
From a dividend from associates	39	33	37
From the realization of non-tangible assets and fixed assets	2	4	73
Stemming (serving) for financing purposes	**546**	**(283)**	**(215)**
Against raised issuancesı	825	-	-
Served for dividend payment	(150)	(196)	(194)
Served for the payment of loans from banks and others	(53)	(70)	(124)
Receiving loans from banks and others	-	-	64
Served / stemmed from short term credit activity from banking corporations and others, net	(76)	(17)	39
Balance of cash and cash equivalent as of year end	**4,638**	**2,248**	**2,304**

1.6 Sources of financing

In NIS million	**2012**	**2011**	**2010**
Financial liabilities	1,044	780	378
Long term loans(1)	860	73	117
Short term loans(2)	81	164	212
Derivatives(3)	103	543	49
Out of which: Liabilities in respect of yield-dependent policies	80	509	36

(1) The increase in long term liabilities 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 1.4 above.
(2) In the scope of 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 on derivatives, mainly regarding exposure to Forex.

In March 2012 the Company BoD approved the distribution of a dividend in the amount of NIS 150 million to the Company shareholders as of May 1st, 2012. The dividend was distributed on May 15th, 2012.

1.7 Main data from the Financial Statements

1.7.1 The Group's results of activity (in NIS million)

	2012	2011	2010
Gross earned premium	9,476.0	8,892.1	8,182.9
Earned premium in retention	8,774.4	8,173.1	7,542.2
Incomes from net investments and financing revenues	7,524.2	661.1	7,107.3
Revenues from management fees	1,137.5	906.0	1,313.4
Increase in liabilities and payments in respect of insurance contracts and investment contracts in retention	15,045.9	7,380.0	13,006.4
Commissions, marketing expenses and other acquisition expenses	1,381.1	1,264.2	1,230.9
G & A expenses	1,020.2	971.8	940.8
Income for the period before income tax	348.9	509.9	1,166.2
Income for the period	**227.1**	**296.7**	**781.6**
RoE for the period (based on income for the period [28]	5.1%	6.5%	20.1%
Comprehensive income for the period	**404.6**	**45.8**	**809.8**
RoE for the period (based on comprehensive income)	9.1%	1.0%	20.8%

[28] The calculation of RoE was executed along with adjusting the balance of equity for the dividend distribution during the reported period.

The Group's results of activity – development in quarters (in NIS million)

	4Q12	3Q12	2Q12	1Q12	4Q11
Gross earned premium	2,428.2	2,429.5	2,284.4	2,333.9	2,267.2
Earned premium in retention	2,248.1	2,254.9	2,110.8	2,160.6	2,079.7
Income from net investments and financing revenues	1,834.5	3,028.7	15.7	2,645.3	1,679.4
Revenues from management fees	426.2	244.2	235.5	231.6	219.9
Increase in liabilities and payments in respect of insurance contracts and investment contracts in retention	3,764.3	4,916.4	1,959.5	4,405.7	3,346.2
Commissions, marketing expenses and other acquisition expenses	367.4	351.0	319.6	343.1	342.8
G & A expenses	298.2	230.4	238.9	252.7	255.3
Income (loss) for the period before income tax	207.1	101.9	(94.5)	134.3	95.9
Income (loss) for the period	**131.2**	**58.4**	**(53.9)**	**91.4**	**13.5**
RoE for the period (based on income for the period [29]	2.8%	1.3%	(1.2%)	2.0%	0.3%
Comprehensive income (loss) for the period	**143.6**	**179.7**	**(98.1)**	**179.5**	**66.1**
RoE for the period (based on comprehensive income)	3.1%	4.0%	(2.2%)	3.9%	1.5%

[29] The calculation of RoE was executed along with adjusting the balance of equity for the dividend distribution during the reported period.

1.7.2 **Principal balance sheet data from the Financial Statements (in NIS million)**

	31.12.2012	30.9.2012	30.6.2012	31.3.2012	31.12.2011
Total balance sheet	96,933	94,076	90,123	89,524	86,099
Total assets in respect of yield-dependent contracts	60,636	58,433	54,900	54,716	51,845
Total equity	4,795	4,653	4,473	4,570	4,539
Total liabilities in respect of insurance contracts and investment contracts	88,611	86,357	82,696	81,883	78,666
Out of which:					
Liabilities in respect of yield-dependent insurance contracts and investment contracts	60,062	57,945	54,612	54,378	51,388
Liabilities in respect of non yield-dependent insurance contracts and investment contracts	28,549	28,412	28,084	27,505	27,278

1.7.3 Revenues composition in insurance businesses reports (in NIS million)

	2012		2011		2010	
	NIS million	%	NIS million	%	NIS million	%
Composition of gross earned premium in life assurance:						
Current	6,268.8	85	5,928.7	87	5,535.3	89
Single premium	1,088.2	15	918.0	13	710.0	11
Total	7,357.0	100	6,846.7	100	6,245.3	100
Composition of gross earned premium in the area of health insurance:						
Gross earned premium	692.5		614.9		556.0	
Retained earned premiums	629.9		552.1		509.8	
Composition of gross premium in the area of general insurance:						
Compulsory motorcar bodily injury	266.2	19	258.4	18	254.7	18
Property motorcar	350.6	25	371.1	26	357.2	25
Other general insurance lines	789.5	56	816.7	56	790.8	57
Out of which: liability lines	254.2	18	266.5	18	261.1	19
Property lines	535.3	38	550.2	38	529.7	38
Total	1,406.3	100	1,446.2	100	1,402.7	100
Composition of retained premiums in the area of general insurance:						
Compulsory motorcar bodily injury	260.7	27	253.0	26	248.9	27
Property motorcar	349.6	37	370.4	38	356.7	39
Other general insurance lines	341.7	36	338.4	36	316.8	34
Out of which: liability lines	185.5	19	178.8	19	170.7	18
Property lines	156.2	16	159.6	17	146.1	16
Total	952.0	100	961.8	100	922.4	100

Revenues composition in insurance businesses reports – development in quarters (in NIS million)

	4Q12	3Q12	2Q12	1Q12	4Q11
Composition of gross earned premium in life assurance:					
Current	1621.8	1562.2	1,549.0	1,535.8	1,533.3
Single premium	269.6	336.8	214.2	267.6	214.9
Total	**1891.4**	**1,899.0**	**1,763.2**	**1,803.4**	**1,748.2**
Composition of gross earned premium in the area of health insurance:					
Gross earned premiums	184.1	173.7	168.2	166.5	159.1
Retained earned premiums	169.7	158.1	151.9	150.2	143.3
Composition of gross premium in the area of general insurance:					
Compulsory motorcar bodily injury	42.5	58.7	64.9	100.2	45.6
Property motorcar	70.9	76.8	80.7	122.2	71.0
Other general insurance lines	139.7	170.8	223.0	256.0	146.7
Out of which: liability lines	46.4	45.2	58.2	104.4	42.0
Property lines	93.3	125.6	164.8	151.6	104.7
Total	**253.1**	**306.3**	**368.6**	**478.4**	**263.3**
Composition of retained premiums in the area of general insurance:					
Compulsory motorcar bodily injury	41.2	56.9	63.6	99.0	44.1
Property motorcar	70.1	76.9	80.5	122.0	70.8
Other general insurance lines	62.8	66.2	69.1	143.6	53.3
Out of which: liability lines	29.2	28.1	36.5	91.6	22.0
Property lines	33.6	38.1	32.6	52.0	31.3
Total	**174.1**	**200.0**	**213.2**	**364.6**	**168.2**

1.7.4 **Additional details in the development of income in life assurance**

(1) Weighted yields in profit participating policies

The weighted yields in the Group's insurance companies in profit participating policies were as follows:

	Policies Issued in the Years 1992-2003 (J Fund)		
	2012	2011	2010
		%	
Real gross positive (negative) yield	9.67	(5.42)	8.90
Real net positive (negative) yield	8.60	(5.99)	7.01
Gross nominal positive (negative) yield	11.25	(3.01)	11.38
Net nominal positive (negative) yield	10.16	(3.59)	9.45

	Policies issued starting from 2004		
	2012	2011	2010
		%	
Real gross positive (negative) yield	9.07	(6.41)	8.54
Real net positive (negative) yield	7.73	(7.57)	7.20
Gross nominal positive (negative) yield	10.64	(4.03)	11.02
Net nominal positive (negative) yield	9.28	(5.21)	9.64

	Policies Issued in the Years 1992-2003 (J Fund)				
	4Q12	**3Q12**	**2Q12**	**1Q12**	**4Q11**
			%		
Real gross positive (negative) yield	3.64	3.80	(2.55)	4.62	2.91
Real net positive (negative) yield	3.08	3.64	(2.69)	4.46	2.75
Gross nominal positive (negative) yield	2.95	4.69	(1.34)	4.62	2.70
Net nominal positive (negative) yield	2.40	4.53	(1.47)	4.46	2.55

	Policies issued starting from 2004				
	4Q12	**3Q12**	**2Q12**	**1Q12**	**4Q11**
			%		
Real gross positive (negative) yield	3.41	3.59	(2.59)	4.52	2.60
Real net positive (negative) yield	3.09	3.28	(2.89)	4.19	2.28
Gross nominal positive (negative) yield	2.73	4.48	(1.38)	4.52	2.40
Net nominal positive (negative) yield	2.41	4.17	(1.68)	4.19	2.09

(2) Investment incomes imputed to insureds in profit participating policies and management fees in their respect

Set forth below are details with respect to estimates of investment incomes imputed to insureds in income participating life assurance policies and management fees calculated according to the directives of the Commissioner of Insurance, based on the yields and quarterly balances of the insurance reserves in the Company's business statements:

	2012	2011	2010
		NIS million	
Investment income (loss) imputed to insureds after management fees	5,022	(1,785)	4,132
Management fees	574	352	760

	4Q12	3Q12	2Q12	1Q12	4Q11
			NIS million		
Investment income (loss) imputed to insureds after management fees	1,296	2,340	(757)	2,143	1,177
Management fees	279	106	95	94	89

For variable management fees in profit participating policies issued in the years 1992-2003, see Clause 1.3.2 (b) above.

2. Economic environment and the impact of external factors on activity

2.1 Economic environment and the impact of external factors on activity

Enclosed please find a concise description of trends, events and developments in the Group's macro-economic environment, which may have an impact on the Group[30].

2.2 Developments in the economy and employment

The Group acts within the Israeli market whose economic, political and security condition reflects on its 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 recorded in 2011 in the global growth, during 2012 there was a deterioration in developments in Europe, along with additional signs of slowdown in the growth rate of the global economy. Macro data in Europe continued to indicate a deeper recession and an expansion to other countries, including to Germany and France. In the USA, there was a moderate growth, along with an improvement in activity in 2H12, however, the uncertainty regarding the budgetary deficit, and especially regarding the concerns related to the fiscal cliff, increased. In the large emerging economies as well as in Japan, growth slowed down.

In light of these developments, the expanding monetary policy worldwide continued: along with interest rate cuts, quantitative easing were extended and other plans were added in order to accelerate the economic activity.

Further to these global developments, in 2012 the forecasts of the International Monetary Fund regarding growth, global trading and inflation were systematically updated downwards.

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

The Israeli economy - in light of the global slowdown and the stagnation in global trading, in 2012 there was a decrease in the growth rate of the Israeli economy, along with a slowdown in the economic activity. Furthermore, in 2H2 local security issues, such as Pillar of Defense campaign and the Iranian arena, undermined growth and real activity.

The fiscal situation was characterized with a deficit that exceeded the objective and significant threats on the budgetary frame for 2013. In 2012, the State deficit totaled approx. NIS 39 million, which constitute 4.2% of GDP, higher than the objective of 2% set for 2012. In July 2012 the Government of Israel decided to expand the 2013 government deficit to 3%, and the same time, to raise taxes, in order to cope with a deficit that was higher than expected.

As per the estimates of the Central Bureau of Statistics dated February 17th, 2013, in 2012 the GDP increased by approx. 3.2%, following an increase of approx. 4.6% in 2011 and approx. 5.0% in 2010. GDP per capita increased by approx. 1.3% in 2012, following an increase of approx. 2.7% in 2011 and an increase of approx. 3.1% in 2010. In 2012 the business GDP increased by approx. 3.2%, following an increase of approx. 5.1% in 2011 and an increase of approx. 5.4% in 2010.

The moderate increase in the real activity in 2012 reflects an increase of approx. 0.5% in the export of goods and services (vs. an increase of approx. 5.5% in 2011), an increase of approx. 2.6% in expense for private consumption (vs. an increase of approx.. 3.8% in 2011), and an increase of approx. 3.4% in investments in fixed assets (vs. an increase of approx. 16.0% in 2011). In addition, there was an increase of approx. 3.3% in expenses for public consumption (following an increase of approx. 2.9% in 2011).

The analysis of development according to quarters indicates that in 4Q12 GDP increased by approx. 2.5% in annual terms, following an increase of 2.8% in 3Q12, an increase of approx. 2.9% in 2Q12 and an increase of approx. 2.7% in 1Q12. The moderation in activity during the year, especially towards its end, was mainly reflected in the expenses for private consumption, the export of goods and services and the investment in fixed assets.

Job market – since the beginning of 2012 there was stability in the unemployment rate, along with a mild increase in the number of salarieds positions. In 4Q12 unemployment rate totaled approx. 6.9% vs. 6.8% in 4Q11[31], and in the entire 2012 unemployment rate totaled approx. 6.9% on average.

Furthermore, in 2012 there was an increase of approx. 1.2% in the average real wage compared with 2011.

2.3 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 profits.

In 2012 there was volatility on capital markets worldwide, in light of the uncertainty on financial markets globally and concerns from the debt crisis in Europe and a global recession. In 2H12 the risk level embedded on the financial markets worldwide, in light of the quantitative easing plans executed by central banks on

[31] Based on the new CBS human resources survey. As per this survey, the unemployment rate for 4Q12 is, as already said, 6.8%, vs. 5.4% in the previous outline. Comparison data for previous periods in the new outline were not published.

leading markets worldwide and expectations for additional plans. At the same time, the leading share indices worldwide increased, mainly in 3Q12.

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

Inflation – in 2012 there was an increase of approx. 1.4% in the CPI as per known index and a 1.6% increase in index in respect of. The increase in CPI was mainly affected by an increase in the price of food and housing. In 4Q12 CPI decreased by approx. 0.7% as per known index and by approx. 0.5% increase in index in respect of.

Interest rate– the monetary interest rate for December 2012 totaled 2.0%, vs. 2.75% in December 2011. The cuts in interest rates by the BoI (in February, July and November) were due to the continued uncertainty on global markets and the global slowdown.

By the end of 2012 inflation expectations (for the next 12 months) decreased to approx. 2.2%, compared with inflation expectations for 1.9% by the end of 2011. As a result, the real monetary interest rate as of the end of 2012 was negative, approx. 0.2%, vs. a real positive interest rate of approx. 0.9% by the end of 2011.

Government bonds – in 2012, there was a decline in yield to maturity on Shahar NIS bonds, mainly in 4Q12. The decrease was recorded in all ranges. As a result, YTD, Shahar NIS bonds recorded a real yield of approx. 6.2% on average, and in 4Q12 - a real yield of approx. 3.8%.

In 2012, yields to maturity on CPI-linked bonds of all ranges recorded a decrease, mainly during 2H12. As a result, CPI-linked bonds recorded a real yield of approx. 7.8%, and in 4Q12, a real yield of approx. 3.9%.

Corporate bonds – in 2012, the yield gaps between corporate bonds and government bonds decreased due to a decrease in risk premium. The decrease in yield gaps was recorded mainly in 2H12. By the end of 2012, the corporate bonds index increased by approx. 8.7% in real terms, and in 4Q12 it increased by approx. 5.5% in real terms.

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 profits are 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 beneficiaries' monies.

Shares (domestic market) – in 2012 there were price increases on the domestic equity market, along with price increases in share indices worldwide. By the end of 2012, TA-100 index increased by approx. 5.7% in real terms, TA-25 index increased by approx. 7.7% in real terms, TA-75 index increased by approx. 3.3% in real terms and the Yeter increased by approx. 4.9% in real terms.

In 4Q12, indices presented positive yields in various levels, with an increase in the finance and real estate lines. TA-100 index increased by approx. 0.1% in real terms, TA-25 index increased by approx. 0.4% in real terms, TA-75 index increased by approx. 6.2% in real terms and the Yeter increased by approx. 11.1% in real terms.

Shares (foreign markets) – in 2012, most indices worldwide traded with increases, in light of monetary expansion measures on leading markets worldwide and expectations to additional expansion plans. In 4Q12, there was a mixed trend in global share indices, along with an increase in share indices in Europe and in Japan and price declines in share indices in the USA, due to the fiscal debt crisis.

In 2012, the MSCI worldwide share index produced a nominal yield of approx. 13.4% (10.8% including exchange rate effect), the NASDAQ-100 index increased by approx. 16.8% (14.1% including exchange rate effect) and the Dow Jones index recorded a nominal yield of approx. 7.3% (approx. 4.8% including exchange rate effect).

In 4Q12, the MSCI worldwide share index produced a nominal yield of approx. 2.5% (negative yield of approx. 2.2% including exchange rate effect), the NASDAQ-100 index decreased by approx. 4.9% in nominal terms (a decrease of approx. 9.3% including exchange rate effect) and the Dow Jones index recorded a negative nominal yield of approx. 2.5% (a negative nominal yield of approx. 6.9% including exchange rate effect).

Forex – by the end of 2012, there was an appreciation in the rate of NIS against most important currencies, following a mixed trend recorded during the year, affected by the USD rate against currencies worldwide and an increase in the local geopolitical risks. In 4Q12, following the weakening of the USD against most currencies worldwide and a decrease in the security-related tension, there was an appreciation in the NIS rate against the USD.

In 2012 the USD weakened against the NIS at a nominal rate of approx. 2.3%, the Euro weakened against the NIS by approx. 0.4%, GBP strengthened against the NIS by approx. 2.5%, and the Yen weakened by approx. 12.1% against the NIS.

These changes include changes in Forex recorded in 4Q12, as follows: the USD weakened against the NIS at a nominal rate of approx. 4.6%, the Euro weakened against the NIS by approx. 2.8%, GBP weakened against the NIS by approx. 4.9%, and the Yen weakened by approx. 14.0% against the NIS.

For additional information regarding developments on the capital market, see Clause 33.4 to Part C, the area of financial services.

2.4 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, the positive trend on financial markets worldwide and in Israel continued.

Macro data published in the USA and on emerging markets continued to be positive. On the other hand, the data published in Europe continue to indicate that the recession continues.

In the interest rate decision for January 2013, BoI cut interest rate by approx.. 1.75%.

According to the BoI estimates as of December 2012, in 2013 we expect a slowdown in the growth rate of the Israeli economy, because of a reduction in the excess of production ability and a slowdown in the expansion of export and private consumption. GPD is expected to increase by 2.8% in 2013, without the impact of the expected gas production from Tamar (3.8% including the impact of gas production), vs. approx. 3.3% in 2012. Unemployment rate is expected to increase to 7.1% on average, the annual inflation rate is expected to be approx. 1.8%, and the BoI interest is expected to remain unchanged in 2013.

3. Report Regarding Exposure to Market Risks and the Manner of their Management

The following report regarding risk management refers to investments made by 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 Part G to the Corporation Businesses Description Chapter.

3.1 Corporate personnel in charge of market risk management

Mrs. Hava Salomon is the risk manager in Migdal Holdings, Migdal Insurance and of the institutional organs managed by it.

The persons in charge of market risk management in MCM are the CEOs of every subsidiary. The person in charge of risk management control is the Company's risks controller, Mr. Amit Krausher.

3.2 Market risks description

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

3.2.1 The Company (Migdal Holdings)

As of December 31st, 2012, 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, Forex rates and share prices in Israel and abroad, in light of its holdings in various financial assets.

3.2.2 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 authorized entities on the capital market such as The Tel Aviv Stock Exchange Ltd. (hereinafter TASE), the Securities Authority, MoF, Bank of Israel and other 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 - Forex

	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 equivalents	547	274	5,467	(547)	(274)
Short term investments	1,253	627	12,532	(1,253)	(627)
Customers	1,337	669	13,366	(1,337)	(669)
Credit from banking corporations	(2,813)	(1,407)	(28,130)	2,813	1,407
Payable	(8)	(4)	(77)	8	4
Total	**316**	**159**	**3,158**	**(316)**	**(159)**

Market factor – CPI

Sensitive instrument	Income (loss) from changes: 10% increase in market factor	Income (loss) from changes: 5% increase in market factor	Fair value	Income (loss) from changes: 10% decrease in market factor	Income (loss) from changes: 5% decrease in market factor
Securities	655	328	6,554	(655)	(328)
Receivables and debit balances	668	334	6,680	(668)	(334)
Current taxes	235	118	2,350	(235)	(118)
Payables and credit balances	(23)	(12)	(229)	23	12
Total	**1,535**	**768**	**15,355**	**(1,535)**	**(768)**

Market factor – interest (*)

	Income (loss) from changes: 10% increase in market factor (multiplicative)	Income (loss) from changes: 5% increase in market factor (multiplicative)	Income (loss) from changes: 2% increase in market factor (additional)	Fair value	Income (loss) from changes: 10% increase in market factor (multiplicative)	Income (loss) from changes: 5% increase in market factor (multiplicative)	Income (loss) from changes: 2% increase in market factor (additional)
Government bonds and STL	(49)	(25)	(474)	22,391	50	25	510
Total	**(49)**	**(25)**	**(474)**	**22,391**	**50**	**25**	**510**

(*) 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: 10% increase in market factor	Income (loss) from changes: 5% increase in market factor	Fair value	Income (loss) from changes: 10% decrease in market factor	Income (loss) from changes: 5% decrease in market factor
Foreign shares	9	4	88	(9)	(4)
Liability in respect of short sale of shares abroad	(8)	(4)	(77)	8	4
Shares in Israel - options	3	1	10	(3)	(1)
Total	4	1	21	(4)	(1)

3.2.3 Other activity

As of December 31st, 2012, 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.

3.3 **Corporate policy in market risk management**

3.3.1 **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, Forex 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.

3.3.2 **Migdal Capital Markets**

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

Exposure to inflation, changes in Forex and interest rates – Migdal Capital Markets and its subsidiaries do not fully hedge themselves against an inflation environment, but partially, as per their discretion, by buying CPI-linked and Forex-linked assets.

Credit risks in respect of customers – a subsidiary of Migdal Capital Markets may grant credit to its customers in order to buy securities / financial assets only (in Israel or abroad). Most of the credit that is granted is backed by collaterals, and its other part is credit with no collaterals (**"exceptional credit"**). The subsidiary uses several mechanisms for managing the scopes 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. The requests of customers who would like such credit will be reviewed by a credit committee that will examine their details and decide the permitted amount, if approved. Customers who would like to finance an activity and signed credit documents, may automatically use monetary credit in NIS by the system up to the lowest of: the excess of collaterals in the account (as per safety factors) or NIS 100,000. Should customers want to increase the credit limit beyond NIS 100,000, their request is deliberated before the Credit Committee.

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 deviate from the credit caps that were assigned to them, and should there be such a deviation, the Company operates in order to reduce it immediately.

The subsidiary's equity as of December 31st, 2012 was approx. NIS 379 million and the scope of overall credit (both exceptional and ordinary) was approx. NIS 326 million.

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 collaterals, and will be approved by the BoD Committee. If this is an activity in derivatives performed by Migdal Insurance Group, there is a guarantee by MCM up to NIS 20 million per account and up to NIS 40 million to all accounts.

The subsidiary decreases credit risks by providing execution services only (no custodian) only to customers with financial robustness such as mutual funds, provident funds, insurance companies, banks' Nostro, companies that operate Nostro in a wide scope, ETFs etc. The scope of framework for every custodian customer is approved individually by the subsidiary's BoD.

Customers' activity in derivatives - a subsidiary of Migdal Capital Markets demands collaterals 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 mistakes – instructions received in Stock Exchange Services' trading room 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 a mistake in the execution of the customer's order, the subsidiary corrects the mistake at its own expense.

Capital market risks stemming from underwriting activity – the BoD of a subsidiary of Migdal Capital Markets limited the scopes 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 – Migdal Capital Markets intends to develop new tools for investment management in several models and investment channels within hedge funds that it will establish, and in their framework MCM shall manage, as a limited partner, for itself, along the investments of other limited partners in these funds as per their investment policy (in additional to its investment as a limited partner in Dragon hedge fund controlled by it, and which is managed as per the Fund's investment policy). For this purpose, MCM will start managing investments in these investment models before the establishment of hedge funds as set forth above, in order to allow adding additional limited partners. These monies shall constitute most of MCM's Nostro investments, ad within the above mentioned investment principles as set forth above were set pursuant to MCM BoD resolution there are restrictions on the size of maximal position size, on 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 limits were also set regarding the Nostro accounts management activity not via such hedge funds, in lower scopes, with an emphasis on activity overseas.

The activity in brokerage accounts – a subsidiary of MCM, Migdal Stock Exchange Services, performs trading activity in foreign bonds and structured products, in corporate bonds and government bonds and in shares in accounts defined as brokerage accounts. In these accounts, there is such activity only if, at the same time, there is a counter transaction back-to-back, so that at the same time the buying transaction and the selling transaction are cleared, so in fact the subsidiary does not hold and manage an inventory of foreign bonds and positions for the long term. The activity in these accounts is aimed at collecting the remuneration to which the subsidiary is entitled, deriving from the spread between the execution of both transaction between the two counter parties in the transaction. 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 in the exceptions in which, after receiving the approval of the subsidiary's CEO in advance, such a transaction is not stipulated.

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.

3.4 The supervision of the market risks management policy and the way it is implemented

3.4.1 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.

3.4.2 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.

3.5 Linkage bases report as of December 31st, 2012

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

3.6 Derivative data as of December 31st, 2012

As of December 31st, 2012 and throughout the year, the Company did not hold derivatives in significant amounts.

As of December 31st, 2012 and throughout the year, Migdal Capital Markets did not hold derivatives in significant amounts.

4 Corporate Governance Aspects

4.1 Group companies' involvement in the community and donations

The Group's companies integrate their social and environmental plans in their core business activity, and assimilate an organizational culture based on a common value, encouraging employees' volunteering, environmental responsibility, and creating partnerships in order to create a healthier, more egalitarian and stronger society, with a focus on the Third Age population, financial education, and the empowerment of weakened populations from low socio-economic strata.

In 2012 the scope of the Company's social involvement in money terms totaled approx. NIS 4 million.

4.2 Disclosure regarding the Internal Auditor in the Corporation

4.2.1 Particulars of the Internal Auditor

The Chief Internal Auditor in the Corporation is Mr. Shlomo Handel and he has served as the Group’s Chief Internal Auditor since 2001. Prior to his appointment he served as a member of the management of Bank Leumi. The Internal Auditor is employed by Migdal.

The Internal Auditor complies with the provisions of article 146 (b) to the Companies Law and article 8 to the Internal Audit Law.

To the best of the Corporation’s knowledge, the auditor does not hold securities of the Corporation except options as mentioned in section 4.2.10 hereinafter.

4.2.2 The way the appointment was made

The Internal Auditor was appointed in 2000 and entered his position in 2001. The appointment was approved in light of his education, his skills and an experience of over 25 years in audit and management of large financial systems, which qualify him for performing his work as per the provisions of the Internal Audit Law and the common professional standards.

In July 2012 the Chief Auditor informed that he would like to terminate his office upon reaching the age of retirement, by the end of 1Q13.

Accordingly, the Company BoD and Migdal Insurance BoD decided, further to the Chief Auditor's and the Audit Committee's recommendation, to appoint Ms. Osnat Manor-Zissman, who currently serves as the Group's Chief Compliance Officer, as the Company's Chief Auditor starting from 2Q13, upon the retirement of Mr. Shlomo Handel. Her appointment in Migdal Insurance was approved by the Commissioner of Insurance.

Ms. Osnat Manor-Zissman's appointment was brought for deliberation and resolution, since the Chief Auditor, the CEO and the CoB had an interest in maintaining Ms. Manor-Zissman in the Company as the next Chief Auditor, in light of offers she received from the competitors.

4.2.3 The identity of the person to whom the Internal Auditor reports

The person to whom the Internal Auditor reports is the Chairman of the Board of Directors.

4.2.4 Work Plan

The internal audit Work Plan derives from a multi-annual planning, which covers the Group’s areas of activity and based on the Company's multi-annual work plan.

The Work Plan is determined based on a risk exposure survey, exposure level estimate in order to determine the audit frequency, as well as previous audit results, changes and organizational and content-related events, laws and regulations and regulatory instructions, including specific reports issued by the Commissioner. Whenever necessary, additional issues and supplements are added to the Work Plan regarding audit contents, as per the discretion of the Chief Internal Auditor.

The Chairman of the Board of Directors, the Chairman of the audit committee and its plenary, the CEO and CPAs of the corporation are involved in determining the Work Plan.

The Audit Committee next to the Board of Directors approves the Chief Internal Auditor's Work Plan.

The Work Plan allows the Chief Internal Auditor to use his discretion for changes in the Work Plan taking into consideration the needs arising from time to time from the scope of activity, while informing the audit committee.

Transactions with interested parties are discussed and brought for approval by the qualified entities after they are examined by the professional entities. Within the WP, the Audit also examines transactions that were approved with interested parties. The examination of other material transactions is performed from time to time within WP and as per the common audit rules.

4.2.5 Scope of Internal Audit

The Chief Internal Auditor is employed full-time, in addition to a work team of 30 persons Group employees, plus external consultants. They include Auditors in the Group's subsidiaries, in which there is a duty to appoint a Chief Auditor or that this was decided in light of scopes and exposures. The Group's Chief Auditor gives professional instructions to these auditors in order to observe the general audit principles and professional standards implemented by him. In some of the tasks included in the Chief Internal Auditor's Work Plan, the internal audit is also assisted by external experts according to the activity's type and complexity.

Following is the number of hours dedicated in 2012 in the Group.

Total scope of audit in the Group	Scope of audit in Migdal Insurance	Scope of audit in Migdal Makefet and Yozma	Scope of audit in Migdal Capital Markets	Scope of audit in agencies*
55,713	30,694	13,357	8,300	3,362

* In 2011 Periodic Report it was included in Migdal Insurance.

The described scope of internal audit work hours stems from the Work Plan as described above.

The Chief Internal Auditor is not assisted by other entities in the Group who are not from the audit array or experts employed by it.

The scope of the internal audit was not reduced in the reported year compared with 2011.

4.2.6 The way the audit is conducted

The Audit Plan is conducted as per the provisions of the Internal Audit Law and professional standards: the audit standards of the Institute of Israel Internal Auditors, audit standards in information systems, Generali Group audit standards (best practice), international standards and the Commissioner's instructions.

The Board of Directors, through its audit committee, supervises the Chief Internal Auditor's work rules, the standards of his work and its results. According to the Board of Directors, the Chief Internal Auditor's standards of work are proper and match the composition and scope of the Group's activity.

Regarding the above, it should be noted that there was an independent audit on the activity of the internal audit array, by Brightman, Almagor, Zohar & Co CPAs (Deloitte), pursuant to the provisions of the Commissioner of Insurance and as per the request by Generali and the Audit Committee.

4.2.7 Access to information

The Chief Internal Auditor and the other auditors in the Group have free and direct access to the Group's information systems, including to financial data as mentioned in article 9 to the Internal Audit Law.

4.2.8 Internal Auditor report

The Chief Internal Auditor's reports are submitted in writing. In general, upon the publication of audit reports by the audit array, and as part of the ongoing work, there are discussions with the audited persons regarding audit reports. The audit reports are submitted on a current basis to the CoB, the CEO and the heads of Divisions throughout the year. All audit reports are discussed in the corporation's audit committee on an ongoing basis. Audit reports that are submitted to subsidiaries are discussed in the subsidiaries' audit committees.

Furthermore, the internal audit gives the Chairman of the Board of Directors, the CEO and the Chairman of the audit committee a report regarding the follow up on the execution of the annual Work Plan (execution vs. planning).

Migdal Holdings' Audit Committee held twenty-four meetings in 2012, out of which audit reports were deliberated in three, on the following dates, January 15th, 2012, June 21st, 2012 and July 26th, 2012.

Migdal Insurance's Audit Committee held twenty-six meetings in 2012, out of which in twelve meetings audit reports were discussed on the following dates: January 15th, 2012, January 19th, 2012, February 16h, 2012, April 22nd, 2012, May 6th, 2012, June 21st, 2012, July 17th, 2012, July 26th, 2012, August 12th, 2012, November 22nd, 2012, December 13th, 2012 and December 24th, 2012.

4.2.9 BoD estimate of the Chief Internal Auditor's activity

The Board of Directors estimates that the scope, nature, continuity of activity and Work Plan of the Chief Internal Auditor are reasonable under the circumstances, and they fulfill the Group's internal audit objectives.

This was confirmed by the results of the independent audit over the internal audit array, conducted by Brightman, Almagor, Zohar & Co CPAs (Deloitte).

4.2.10 Remuneration

The Chief Internal Auditor is employed under a personal work agreement. The terms of the agreement are similar to the agreements with senior managers in the Group, according to which the Internal Auditor is entitled, in addition to his salary, to an accommodation grant of up to 6 months salary beyond the advance notice which is usually of 60 days. Furthermore, similar to other senior managers, in 2012 the Chief Internal Auditor benefits are included in various means of remuneration, including the short term remuneration plan and the long term remuneration plan, detailed in Clause 49 to Part E in the Corporation Businesses Description.

Following are the payments made by Migdal and all its undertakings for payment in NIS (excluding payroll tax) to the Chief Internal Auditor in 2012:

Total salary including bonus	Total provisions for severance pay, provident fund etc.	Total reserve completions due to changes in salary	Total other benefits	Options value	Total
1,231,319	73,404	-132,774	60,157	158,305	1,390,411

According to the BoD estimate, the Internal Auditor's terms of remuneration do not constitute a cause for concern regarding an impact on the Auditor's professional discretion.

4.3 Disclosure regarding the external auditor

The Company’s auditors are Kost, Forer, Gabbay & Kasierer Accountants and Somekh Chaikin & Co., which are joint auditors in all the Group’s significant companies.

The partner who handles the Company in Kost, Forer, Gabbay & Kasierer Accountants is Mr. Moshe Shachaf, CPA, and the partner on behalf of Somekh Chaikin & Co. is Mr. Abraham Fruchtman, CPA.

The CPAs started serving as joint auditors in April 1998.
The table enclosed herewith details the CPAs fees (excluding VAT) for services provided by them for the years 2011-2012 and the number of hours invested:

	2012 Fees (NIS in thousands)				
	Audit services(1)	Audit-related services	Special tax services	Other services	Total (2)
The Company	160				160
Migdal Health and Quality of Life and companies held by it	80				80
Migdal Insurance and companies held by it	4,930	371	86	1,121	6,508
Migdal Capital Markets)	529	-	25	101	655
Other	30	-	-	-	30
Total	**5,729**	**371**	**111**	**1,222**	**7,433**
	Hours				
The Company	885	-	-	-	885
Migdal Health and Quality of Life and companies held by it	400	-	-	-	400
Migdal Insurance and companies held by it	20,996	1,003	136	5,607	27,742
Migdal Capital Markets	2,023	-	82	425	2,530
Other	120	-	-	-	120
Total	**24,424**	**1,003**	**218**	**6,032**	**31,677**

(1) Audit services include fees in respect of SOX audit.
(2) Referring to all hours and fees in their respect.

About 2.4% of fees were paid to other CPAs.

In addition to the above, the amount of approx. NIS 2,690 thousand was paid to CPAs who are not the auditing CPAs of the Group, mainly in respect of services regarding SOX.

	2011 Fees (NIS in thousands)				
	Audit services(1)	Audit-related services	Special tax services	Other services	Total (2)
The Company	175				175
Migdal Health and Quality of Life and companies held by it (previously Migdal Investment Management)	65				65
Migdal Insurance and companies held by it	5,377	105	19	323	5,824
Migdal Capital Markets	538	50		75	663
Other	30				30
Total	**6,185**	**155**	**19**	**398**	**6,757**
Hours					
The Company	925				925
Migdal Health and Quality of Life and companies held by it (previously Migdal Investment Management)	260				260
Migdal Insurance and companies held by it	22,889	292	207	2,008	24,396
Migdal Capital Markets	2,152	200		300	2,652
Other	120				120
Total	**26,346**	**492**	**207**	**1,308**	**28,353**

(1) Audit services include fees in respect of SOX audit
(2) Referring to all hours and fees in their respect.

About 3.5% of fees were paid to other CPAs

In addition to the above, the amount of approx. NIS 3,662 thousand was paid to CPAs who are not the auditing CPAs of the Group, mainly in respect of services regarding SOX.

4.4 Report on Directors with accounting and financial skills

For details regarding Directors with accounting and financial expertise, including their education, experience, skills and knowledge, based on which the Company BoD considers the Directors as having accounting and financial expertise, see Clause 12 to the Corporate Governance questionnaire in the Chapter of Additional Data on the Corporation.

4.5 Disclosure regarding exclusive authorized signatories

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

4.6 Disclosure regarding the procedure of Financial Statements approval

Within the procedure for the approval of the 2012 Periodic Report, the Company BoD deliberated the terms of employment and service of each of the Senior Officers and Directors detailed in Regulation 21 to the fifth Chapter to 2012 Periodic Report ("**Senior Officers**"). The BoD determined the discretions and criteria pursuant to which the fairness and reasonability of the remunerations as set forth below.

It should be noted that the Company has not adopted yet a remuneration policy (pursuant to the transitory provisions of Amendment No. 20 to the Companies Law – 1999) ("**Amendment No. 20**"), however, regarding the component of grants to senior Officers which depend on the Company's discretion, the BoD deliberated the discretions of Amendment No. 20 within the procedure for the approval of the annual grant for 2012.

Criteria for the examination of terms of salary (excluding annual bonus) of reported Senior Officers

4.6.1 Terms of salary (current payments) shall be examined taking into account the following parameters:

(a) Scope of position and level of complexity, and the extent of responsibility imposed upon the reported Senior Officer.

(b) The Senior Officer's contribution to the Company's businesses, profits, strength and stability.

(c) The Company's need to retain Senior Officers with skills, know-how, reputation, or unique expertise.

(d) The Senior Officer's education, training, professional experience, uniqueness of position and reputation.

4.6.2 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.

4.7 Criteria for granting the annual bonus (grants) to the reported Senior Officer

4.7.1 Senior Officers who are Senior Officers in the Company and in Institutional Organs

(a) The Company adopted a policy and principles of short-term remuneration to senior officers in the Company and institutional organs in the Group, as described in the Company's immediate report dated August 3, 2010, Ref No. 2010-01-573924 ("**2010 Immediate Report**") ("**Remuneration Policy**"). The remuneration policy reflects the BoD emphases which were designed to ensure the existence of proper balance between the desire to motivate and retain senior officers in institutional organs, and the need that remuneration principles will meet the interest of insureds, beneficiaries and savers, and the Group's overall organizational strategy. For further details on the remuneration policy, see also section 49 in Part E in the Corporation Businesses Description Chapter.

(b) Based on and following the remuneration policy, a short-term remuneration plan for 2012 was approved in 2012 ("**the 2012 short-term remuneration plan**"), as described in section 50.8 in Part E in the Corporation Businesses Description Chapter.

(c) The annual bonus amount for participants of the remuneration plan was determined by the following three main components: Company objectives, personal/unit objectives and manager's evaluation (except the CEO and CoB, who have two components: the component of Company objectives and the component of BoD evaluation). The annual bonus amount to Senior Officers in the 2012 short term remuneration plan was determined as per an index of the number of salaries, and each component as mentioned above was assigned a relative weight from the total grant. Pursuant to the performance, the Senior Officer receives a rating for performance and compliance with objectives, between 70% and 140%. Also, there is a cap for the general bonus budget for all the employees and managers in the Company and its institutional organs, as well as the circumstances under which the bonus cap may be deviated from.

(d) Pursuant to the 2012 short term remuneration plan, the total annual maximum bonuses distributed to the plan's participants, plus the amounts of the annual bonus that will be extended to all employees in the institutional organs[32] shall not exceed the total amount that equals nine and half (9.5%) percent of the total average income of the Company in the last three years.

The total bonus amount for 2012 as per the 2012 short term remuneration plan was truncated by approx. 15%.

(e) Pursuant to the provisions of the 2012 short term remuneration plan and the actual performance results, the Senior Officers in the institutional organs regarding the component of the Company objectives set forth in the 2012 short term remuneration plan recorded a 85.6% rating. Accordingly, the annual grant for reported Senior Officers was received this rating in the Company objectives component.

(f) Within the approval of bonus for 2012 for reported Senior Officers in respect of the components under discretion, the BoD also deliberated the relevant discretions set forth under Amendment No. 20.

4.7.2 Criteria for other Senior Officers in the Group who are not senior officers in the institutional organs, and who are excluded from the 2012 short-term remuneration plan

The Senior Officer's education, training, professional experience, uniqueness of position and reputation.

Analysis of the financial results due to the Senior Officer's management of activity during the period, and its impact on the Group.

The successful endeavors and achievements of the Senior Officer in fulfilling his position in the reported year, while noticing his term of employment in the Company, his integration in its businesses and activity, and ability to promote its interests.

The complexity of the Senior Officer's position, while noticing, inter alia, the size of the company, the market in which it operates and the competitive conditions with which the Senior Officer is forced to cope, as well as the challenges and special tasks with whom he is forced to deal in the reported year, in his position.

Is it possible to conduct a comparison with similar agreements made in the market.

The Company's business performances during the year and its compliance with the WP set by the BoD, considering the business environment and market condition.

[32] The institutional organs in the Group include Migdal Insurance, Migdal Makefet and Yozma, and regarding the current remuneration plans, they include also Migdal Technologies Ltd. and Migdal Claims Management Ltd.

The Senior Officer's contribution to the Company's businesses, profits, strength and stability.

The Company's need to retain Senior Officers with skills, know-how, or unique expertise.

The level of responsibility imposed on the Senior Officer.

Satisfaction with the Senior Officer's functioning.

4.8 In the BoD meeting held on March 19th, 2013, the relevant data for every Senior Officer and interested party in the Company were brought as requested pursuant to Regulation 21, and the BoD received a comparative survey conducted by Prof. Moshe Zviran 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 of the Company, concerning Senior Officers of the Group's institutional organs. The BoD deliberated on Senior Officers' terms of office and remuneration and the relationship between the remuneration amounts paid in 2012 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 the remuneration to each reported Senior Officer reflects the reporting person's contribution to the Group and is fair and reasonable, as follows:

4.8.1 **Mr. Yonel Cohen**

Mr. Yonel Cohen serves as the Company and Migdal Insurance CEO, as well as Migdal Health and Mivtach Simon Insurance Agencies Ltd.'s CoB. For Mr. Yonel Cohen's terms of employment, see Regulation 21 as mentioned above.

Mr. Yonel Cohen is included within the 2012 short term remuneration plan, and the annual grant approved by the Seniors Compensation Committee in respect of 2012 was calculated pursuant to this plan. The annual grant in respect of 2012 to Mr. Cohen is based on his compliance with Company objectives set forth in advance by the Company BoD in the plan for all Senior Officers and the BoD evaluation. For details, see the Immediate Report issued on March 19th, 2013, Reference No. 2013-01-011146.

The BoD mentioned its satisfaction with the CEO performance during 2012 and his contribution to the Group activity. Specifically, its satisfaction with the compliance with the objectives set forth by the CEO as to the Group's activity as derived from 2012 annual WP, and 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 2012 in light of the various challenges it encountered in that year.

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

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

4.8.2 **Mr. Jacob Weinstein – chief investment manager in MCM**
(not included among Senior Officers in institutional organs)

For the terms of his employment see the specification in Regulation 21.

Mr. Jacob Weinstein started working in MCM in 2006 following the acquisition of Afikim investment house under his management as Chief Investment Manager in Migdal Capital Markets. Mr. Weinstein's scope of remuneration stems directly from the sale activity passed to MCM following the purchase agreement and related activities which were transferred to his management after completing the purchase, as per agreements entered with him.

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

Mr. Jacob Weinstein has very few parallels in the capital market who are not employees, since they are owners of investment houses, such as Gilad Altshuler, Yair Lapidot and Dov Yalin. Mr. Jacob Weinstein has no parallels in the capital market who are salarieds and/or service providers, who have no control in investment houses, which makes it difficult to compare his remuneration to others. The BoD is of the opinion, taking into account all the considerations detailed above and Mr. Jacob Weinstein's reputation and contribution to Migdal Capital Markets Group activity, that the remuneration paid to him is fair and reasonable, under the circumstances.

4.8.3 **Mr. Aharon Fogel**
Mr. Aharon Fogel serves as the Company and Migdal Insurance CoB, and as of August 2011, as MCM's Chairman of the Board. For Mr. Aharon Fogel's terms of employment, see the details presented in Regulation 21.

Mr. Aharon Fogel is included within the 2012 short term remuneration plan, and the annual grant approved by the Seniors Compensation Committee in respect of 2012 was calculated pursuant to this plan. The annual grant in respect of 2012 to Mr. Fogel is based on his compliance with Company objectives set forth in advance by the Company BoD in the plan for all Senior Officers and the BoD evaluation. For details, see the Immediate Report issued on March 19th, 2013, Reference No. 2013-01-011146. The BoD noted that the remuneration to the CoB matches the Company's financial situation and increasing competition in the Company's areas of activity, his position and his contribution.

In light of the examination of the remuneration paid to CoBs of other companies, and considering the overall terms of employment of the CoB in the Group, the BoD estimates that the remuneration to which the CoB is eligible is customary in the industry, and among CoBs in public companies in the same scale of the Company.

The BoD is of the opinion that taking into account all the discretions detailed above, and given its satisfaction with the CoB's performance in former years, his contribution to the Company activity and his concentration of the BoD and its Committees, the CoB's remuneration is fair and reasonable under the circumstances.

4.8.4 **Mr. Arik Yogev**

Mr. Arik Yogev has been serving as the Deputy to the CEO, the Customer and Distribution Channels Division Manager, as well as Migdal Agencies' CEO. For Mr. Arik Yogev's terms of employment, see Regulation 21 as mentioned above.

In his position, Mr. Yogev is 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. Mr. Arik Yogev's is included in the 2012 short-term remuneration plan, and the annual grant paid in respect of 2012 was calculated as said in that plan. The payment of grant to Mr. Arik Yogev is adjusted to the Company's financial situation and to the ever growing competition in the Company's areas of activity and is also based on meeting the personal goals of his role. The grant paid to Mr. Yogev falls into the range of comparative data as presented before the BoD.

The BoD is of the opinion that taking into account all the considerations detailed above, the remuneration paid to Mr. Arik Yogev is fair and reasonable under the circumstances.

4.8.5 **Mr. Amir Shelah**

Up until January 13th, 2013, Mr. Shelah served as the Health and Quality of Life Businesses Division Manager in Migdal Insurance, and up until March 31st, 2013 he will serve as the CEO of Migdal Health and Quality of Life Ltd. He is terminating his work in the Group after 22 years, in which he served in senior management positions.

Within the approval of his terms of retirement, the BoD referred to his vast contribution for achieving the Company objectives and income in his positions in the Group throughout the years, to the complexity of his positions and his seniority in the Group, his many years in the Group, the circumstances in which he terminates his office and Mr. Shelah's future potential contribution to the Group's businesses.

Taking into account all the discretions 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 parallel managers in the Company who retired in the past, the BoD is of the opinion that the remuneration given to him is fair and reasonable under these circumstances.

4.8.6 **Mr. Zvi Shoan**

Mr. Zvi Shoan serves as deputy chairman of Shaham Agencies. For Mr. Shoan's terms of employment, see Regulation 21.

Mr. Shoan founded Shaham Agencies and until December 2010 served as CEO of Shaham Insurance Agencies. He is one of the most senior insurance agents in the field of insurance, and continued to contribute his vast experience to the Group, both as deputy chairman of Shaham BoD and under the Customer and Distribution Channels Division, in the promotion of customer-orientation projects in the Company. It was agreed with Mr. Shoan that the services provided by him to the Group were terminated on December 31st, 2012, and the payment reported under Regulation 21 is in respect of 13 months of management fees.

Considering his vast experience and reputation and taking into account all the considerations detailed above, and his contribution to the Group, the

BoD estimates that the remuneration paid to Mr. Shoan is fair and reasonable under the circumstances.

4.8.7 **Mr. Eran Czerninski**

Mr. Eran Czerninski serves as Deputy to the CEO and CFO. For Mr. Eran Czerninski's terms of employment, see the details presented in Regulation 21.

In his position, the Senior Officer is in charge of the Group's financial array, including managing the control and business, financial and accounting reporting. His involvement is expressed, inter alia, in preparing the Company's financial statements, raising the debt for the Company, coordinating and monitoring vis-à-vis the various authorities on financial and accounting issues and managing the Group financial systems.

Mr. Eran Czerninski is included in the 2012 short-term remuneration plan and the annual grant in respect of 2012 was calculated pursuant to that plan. The payment of the grant to Mr. Eran Czerninski is adjusted to the Company's financial situation, and to the ever growing competition in the Company's areas of activity and is also based on meeting the personal goals of his role. The grant paid to Mr. Eran Czerninski falls within the range of comparative data as presented before the BoD.

The BoD is of the opinion that taking into account all the considerations detailed above, the remuneration paid to Mr. Eran Czerninski is fair and reasonable under the circumstances.

4.9 The effectiveness of internal control over financial reporting and disclosure

4.9.1 **Securities Regulations**

Pursuant to the ISOX Amendment[33] and as detailed in the Company's previous BoD Reports, the Company operated and is operating on an ongoing basis for the implementation of the required procedure pursuant to the provisions of the Amendment in Migdal Group, together with external advisors hired for this mission. As per the provisions of the amendment to the ISOX from 2011, the Company decided to implement, for the internal control in all the consolidated institutional organs, the provisions of the Circulars of the Commissioner of Capital Market, Insurance and Savings that apply to them.

The required reports and statements as per the ISOX Amendment are attached herewith to the FS, see in Chapter 6, Appendices to the Periodic Report.

The processes related to institutional organs activity are also handled within the provisions of the Commissioner of Insurance Circulars, see the description in Clause 4.9.2 hereinafter.

4.9.2 **Circulars of the Commissioner of Insurance**

Along with what the process described in Clause 4.9.1 above, in the institutional organs in the Group there is a process for implementing the provisions of Management Responsibility Circulars, regarding controls and procedures as to the disclosure and internal control over the financial reporting of institutional organs, and the required related procedures are executed, as detailed herein, as per the stages and within the deadlines set forth in these Circulars, and along with external advisors hired for this task.

[33] On December 2009, the Securities Regulations (Periodic and Immediate Reports) (Amendment No. 3) - 2009 (hereinafter: "**ISOX Amendment**"), dealing with effectiveness of the internal control array work over the financial reporting and disclosure in the Corporation, were published.

Within the above, the institutional organs in the Group adopted the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), that is a defined and known framework that serves in order to assess the internal control.

(a) Controls and procedures regarding disclosure

The managements of the institutional organs in the Group, together with their CEOs and CFOs, assessed the efficiency of controls and procedures regarding the institutional organ's disclosure, as of the end of the period covered by this report. Based on this assessment, the CEOs and the CFOs of the institutional organs concluded that as of the end of this period, the controls and procedures regarding the disclosure of each institutional organ as said, respectively, are efficient for the purpose of recording, processing, summarizing and reporting the information that the institutional organ is required to disclose in the annual report, as per the provisions of the law and the reporting provisions set by the Commissioner of Capital Markets, Insurance & Savings Discipline and on the date stated in these provisions.

(b) **Internal control over financial reporting**

During the covered period ending on December 31st, 2012, there was no change in the Group's institutional organ's internal control of financial reporting, which materially affected, or is likely to materially affect, the institutional organ's internal control of the financial reporting. However, the institutional organs in the Group are developing, upgrading and/or replacing several information systems, inter alia, in order to improve and increase the efficiency of various processes and/or the internal control and/or service to customers.

To the Group's institutional organs' FS the required reports and statements regarding the relevant processes are attached, pursuant to the provisions of Management Responsibility Circulars and interim stages set forth in them for the Circular's implementation.

At the same time, the Group's institutional organs continue making preparations towards implementing the next stages included in the Management Responsibility Circular, regarding financial reports to beneficiaries and insureds.

4.10 Deployment towards the implementation of Solvency II directive

Since July 2008 the Commissioner has issued a circular regarding deployment towards adopting the Solvency II provisions ("**the Directive**"). For additional details regarding the provisions related to the implementation of Solvency II, including a letter regarding the Israeli Solvency Governance, see Clause 45.2.11 in Part E above and Note 37 a 2 to the Financial Statements.

Enclosed please find details regarding the Company's progress in the deployment towards the Directive's implementation in 2012:

In the beginning of July 2012 there was a meeting between the Commissioner and representatives from insurance companies, in order to deliberate and present relevant issues towards the outlining of instructions for the execution of a quantitative impact study for the calculation of capital requirements as of December 31st, 2012 ("IQIS"). Presentations from that meting were published on the Commissioner's website.

During July 2012 the Commissioner published updated ancillary files that would serve for the execution of the IQIS: an ancillary file for the calculation of the risk spread as per the offered standard calculation method and a file containing the risk curves that would serve upon executing the IQIS.

In July 2012 the Company conducted a deliberation in the Committee for the Directive Implementation next to the BoD that was established pursuant to the provisions of the Commissioner in order to supervise and control the deployment towards the directive's implementation ("**the Committee for the Directive implementation next to the BoD**") and the BoD regarding the progress of the deployment towards the Directive implementation.

In December 2012 the Commissioner published a Circular with detailed instruction for the execution of IQIS ("**IQIS Circular**").

Regarding the execution of the IQIS model, the Company held deliberations with the MoF as to the way the model's provisions are complied with.

4.11 Company policy regarding negligible transactions

As of the publication of this report, there was no change in the principles of the guidelines and rules for the classification of a transaction as a "**negligible transaction**" pursuant to the BoD resolution dated March 26th, 2012, and there were a few updates in the Company's policy on this matter. For details regarding the policy, see Note 36 to the Financial Statements.

4.12 Changes in the BoD and in Senior Officers

4.12.1 **BoD**

(a) Upon the transfer of control in the Company on October 29th, 2012, Messrs. Sergio Balbinot and Alessandro Corsi resigned from their position as Directors, and Messrs. Shlomo Eliahu, Israel Eliahu and Ofer Eliahu were coopted as Directors in the Company. The Company's GM approved these appointments to the Company's BoD on March 6th, 2013.

The BoD wishes to thank Mr. Sergio Balbinot and Mr. Alessandro Corsi for their vast contribution to the Company.

4.12.2 Changes in Senior Officers in the Group

(a) In the reported year and up to the date of this report, there were changes in the slate of Executive Senior Officers. The material changes are:

(1) Mr. Shlomo Handel, who served as the Group's Chief Internal Auditor for over 12 years, announced in July 2012 that he would like to terminate his office upon reaching the age of retirement, by the end of 1Q13. Starting from the beginning of 2Q13, Ms. Osnat Manor-Zissman, CPA, shall serve as the Company's Internal Auditor.

(2) Mr. Doron Sapir, who served as the HQ Division Manager, resigned on January 13th, 2013.

(3) Mr. Amir Shelah, who served as the Health and Quality of Life Businesses Division Manager in Migdal Insurance terminated his office on January 13th, 2013, and will serve as CEO of Migdal Health until March 31st, 2013.

(4) Mr. Gil Yaniv, serving as Deputy to the CEO, and as the LTS Division Manager, was appointed as of January 13th, 2013 also as the Health Insurance and Quality of Life Businesses Division and from March 13th, 2013 he will also serve s the CEO of Migdal Health and Quality of Life Ltd., and in addition he will concentrate the area of LTS, the area of health insurance as well as other activity in the Group in the area of quality of life, health and Third Age.

(5) Mr. Ofer Eliahu was also appointed as of January 1st, 2013, as Deputy to the CEO and the General Insurance and Reinsurance Businesses Division in Migdal Insurance. The terms of employment of Mr. Ofer Eliahu, which were brought to the approval of the Company's GM were not approved with the required majority. See Immediate Report issued by the Company on March 6th, 2013 (Reference No. 2013-01-056917) and an amending Immediate Report dated March 7th, 2013 (Reference No. 2013-01-057603) and an amending Immediate Report (Reference No. 2013-01-002080).

(6) Mr. Amos Rokach, who served as the Agencies District Manager in Migdal Insurance, was appointed as the CEO of Mivtach Simon starting from January 1st, 2013, after the resignation of Mr. Jonathan Kupperman who served as Mivtach SimonS CEO up until then.

(b) Executive Senior Officers who resigned after the date of the FS (starting from January 2013) are:
Messrs. Giora Genud who served as the Service Discipline Area in Migdal Insurance Ltd., since e reached the age of retirement, Mr. Moshe Tamir, who served as the Marketing and Business Development Discipline Manager in Migdal Insurance, Mr. Ron Liberzon who served as the Control, O & M and Information Security Discipline Manager in Migdal Insurance.

5. Disclosure provisions regarding the Corporation's financial reporting

5.1 Developments after the date of the balance sheet

5.1.1 After the date of the balance sheet and until just before the publication of this report, there were price increases on financial markets in Israel and overseas.

The above mentioned changes affect the Group's investment revenues, and as a result, its profitability.

5.2 Disclosure regarding the impairment of financial assets value classified as available for sale

Pursuant to international standards, the Group classified its Nostro assets[34] to the group of financial assets available for sale, as detailed hereinafter:

Negotiable assets, except derivatives.

Equity instruments that are non-negotiable.

Financial instruments in this group are measured as per fair value, and income or loss from such assets are directly admitted in equity, except impairment losses which are admitted in income or loss, until disposal of the financial asset.

At each balance date, the Company estimates whether there is objective evidence of impairment of the financial assets classified as available for sale. This estimate is done after reviewing events and their impact on the forecasted cash flows from the asset, including various comprehensive examinations such as a review of the issuer's or debtor's financial robustness, checking the advisability of forecasted losses from future events, etc. As already mentioned, as of the balance sheet date, the Company conducted detailed examinations as to debt assets available for sale in which sharp declines were recorded and in debt assets in which the Company estimates that there is high plausibility that debt will be duly paid, the decreases in fair value were imputed directly to equity.

[34] The Group's assets, except monies against yield dependent liabilities and except Migdal Capital Markets' assets, that the change in their fair value is imputed to income and loss.

Following is a breakdown of the total decline in fair value of financial assets available for sale which was admitted in equity, less the attributed tax, while segmenting in accordance with the duration in which the financial asset fair value was lower than its cost and in accordance to the decline rate of fair value beneath the cost.

Equity instruments (NIS million):

	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Up to 20%	7	2	1	-	**10**
20%-40%	-	-	-	-	**-**
Over 40%	-	-	-	-	**-**
Total	**7**	**2**	**1**	**-**	**10**

Debt instruments (NIS million):

	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Up to 20%	1	-	2	2	**5**
20%-40%	-	-	-	-	**-**
Over 40%	-	-	-	-	**-**
Total	**1**	**-**	**2**	**2**	**5**

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.

Aharon Fogel
Chairman of the Board

Yonel Cohen
Managing Director

March 19th, 2013