Consolidated Financial Statements

Mount Hermon

Translated
from the
Hebrew original

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

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Index

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Independent Auditors' Report
to the Shareholders of
Migdal Insurance and Financial Holdings Ltd.

Independent Auditors' Report regarding the Audit of Internal Control Components Over Financial Reporting

Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD. and its subsidiaries (hereunder collectively - the Company) as at December 31, 2012. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of internal control over financial reporting included in the accompanying periodic report for the said date. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

The components of internal control over financial reporting were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", as amended (hereunder – Auditing Standard 104). These components are: (1) entity-level controls, including financial statements closing and preparation process controls and information technology general controls; (2) controls of processes that are extremely significant to the financial reporting and disclosure of Migdal Insurance Company Ltd. and other significant subsidiaries (hereunder - "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. The Standard requires that we plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding these control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes relating to financial reporting, therefore our opinion refers to the audited control components only. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones, therefore our opinion does not take into account these possible effects. We believe that our audits and the reports of the other auditors, provides a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting with respect to the audited control components as at December 31, 2012.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2012 and 2011 and for each of the three years the last of which ended December 31, 2012 and our report dated March 19, 2013 expressed an unqualified opinion on those financial statements based on our audit and the audit reports of the other auditors. We also drew attention to Note 39(1) to the consolidated financial statements regarding the exposure to contingent liabilities.

Tel-Aviv, Israel	**KOST FORER GABBAY & KASIERER**	**SOMEKH CHAIKIN**
March 19, 2013	Member of Ernst & Young Global	Member of KPMG International

Joint auditors

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Independent Auditors' Report to the Shareholders of Migdal Insurance and Financial Holdings Ltd.

We have audited the accompanying consolidated statements of financial position of MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD. (hereunder - the Company) as at December 31, 2012 and 2011, and the related consolidated income statements, comprehensive income, changes in equity, and cash flows for each of the three years the last of which ended as at December 31, 2012. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of investee companies treated according to the equity value method the investment in which amounted to about NIS 603,712 thousand and about NIS 578,561 thousand as at December 31, 2012 and 2011, respectively, and the Group's share in their profits amounted to about NIS 66,463 thousand, about NIS 49,193 thousand, and about NIS 75,413 thousand for each of the three years, the last of which ended December 31, 2012. The financial statements of those companies were reviewed by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of those companies, is based solely on the said reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the abovementioned other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2011 and 2010, and the results of operations, changes in equity and cash flows, for each of the three years the last of which ended December 31, 2012 in conformity with the International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements as prescribed by the Regulator of Insurance according to the Supervision of Financial Services (Insurance) Law, 1981.

Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010, insofar as these Regulations apply to insurance companies.

Without qualifying our aforementioned opinion, we draw attention to Note 39(1) to the financial statements regarding exposure to contingent liabilities.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the components of the Company's internal control over financial reporting as of December 31, 2012, and our report dated March 19, 2013 expressed an unqualified opinion on the effective of such components.

Tel-Aviv, Israel	**KOST FORER GABBAY & KASIERER**	**SOMEKH CHAIKIN**
March 19, 2013	Member of Ernst & Young Global	Member of KPMG International

Joint auditors

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2012	2011
Assets	**Note**	**NIS in thousands**	
Intangible assets	4	1,267,683	1,240,774
Deferred tax assets	21f	15,263	19,361
Deferred acquisition costs	5	1,624,672	1,539,663
Fixed assets	6	786,214	679,188
Investments in affiliates	7	604,986	579,605
Investment property for yield dependent contracts	8	3,916,486	3,519,950
Other investment property	8	538,204	497,226
Reinsurance assets	15 – 16	1,050,069	1,181,449
Current tax assets		100,229	54,207
Debtors and receivables	9	254,783	250,399
Outstanding premiums	10	446,330	434,983
Financial investments for yield dependent contracts	11	54,156,452	47,411,946
Other financial investments:	12		
Quoted debt assets	12a	5,224,001	4,640,308
Unquoted debt assets	12b	20,338,992	20,020,784
Shares	12d	632,693	785,013
Others	12e	1,337,932	995,991
Total other financial investments		27,533,618	26,442,096
Cash and cash equivalents for yield dependent contracts	13	2,376,263	750,299
Other cash and cash equivalents	13a	2,261,829	1,497,706
Total assets		96,933,081	86,098,852
Total assets for yield dependent contracts in an insurance subsidiary		60,636,392	51,845,273

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2012	December 31, 2011
		NIS in thousands	
Capital and liabilities			
Capital	14		
Share capital		110,607	110,607
Share premium		273,735	273,735
Capital reserves		257,533	80,002
Surplus		4,152,835	4,073,275
Total capital attributed to the Company's shareholders		4,794,710	4,537,619
Non-controlling interest		777	1,803
Total capital		4,795,487	4,539,422
Liabilities			
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	15	28,549,237	27,277,993
Liabilities in respect of yield dependent insurance contracts and investment contracts	16	60,062,274	51,388,142
Liabilities in respect of deferred taxes	21f	534,366	386,937
Liabilities in respect of employee benefits, net	22	278,107	271,617
Liabilities in respect of current taxes		2,970	5,601
Creditors and payables	23	1,666,217	1,449,038
Financial liabilities	24	1,044,423	780,102
Total Liabilities		92,137,594	81,559,430
Total capital and liabilities		96,933,081	86,098,852

The accompanying notes are an integral part of the consolidated financial statements.

March 19, 2013			
Date of approval of the financial statements	Aharon Fogel Chairman of the Board	Yonel Cohen General Manager	Eran Cserninski Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

		Year ended December 31		
		2012	2011	2010
	Note	NIS in thousands		
Gross premiums earned		9,476,028	8,892,089	8,182,930
Premiums earned by reinsurers		701,581	719,034	640,722
Premiums earned on retention	25	8,774,447	8,173,055	7,542,208
Net investment income and finance income	26	7,524,180	661,050	7,107,290
Income from management fees	27	1,137,498	905,958	1,313,381
Income from commissions	28	350,510	379,916	339,443
Other income	29	17,025	9,255	23,584
Total income		17,803,660	10,129,234	16,325,906
Payments and change in liabilities in respect of gross insurance contracts and investment contracts		15,302,384	7,747,124	13,349,984
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts		256,478	367,165	343,613
Payments and change in liabilities in respect of insurance contracts and investment contracts on retention	30	15,045,906	7,379,959	13,006,371
Commissions, marketing expenses and other acquisition expenses	31	1,381,113	1,264,223	1,230,860
Administrative and general expenses	32	1,020,151	971,849	940,801
Other expenses	34	33,111	26,759	42,208
Finance expenses	35	38,976	25,152	13,400
Total expenses		17,519,257	9,667,942	15,233,640
Share in profits of investees treated according to the equity value method		64,452	48,614	73,914
Income before taxes on income		348,855	509,906	1,166,180
Taxes on income	21	121,749	213,198	384,568
Income for the period		227,106	296,708	781,612
Attributed to:				
Company's shareholders		226,212	296,268	780,898
Non-controlling interest		894	440	714
Income for the period		227,106	296,708	781,612
Earnings per share:				
Basic and diluted earnings per share attributed to the Company's shareholders (in NIS)	36	0.21	0.28	0.74

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31 2012	2011	2010
		NIS in thousands		
Income for the period		227,106	296,708	781,612
Other comprehensive income (loss)				
Net change in the fair value of financial assets classified as available for sale, allocated to capital reserves		392,781	(393,398)	467,175
Net income and losses from realization of financial assets classified as available for sale allocated to the statement of profit and loss		(200,516)	(150,338)	(474,473)
Impairment in value of financial assets classified as available for sale, allocated to the statement of profit and loss		84,994	163,144	44,357
Group's share in other comprehensive loss of investee treated according to the equity value method		(51)	(420)	-
Tax benefit (taxes on income) relating to components of other comprehensive income	21f	(99,677)	130,137	(8,842)
Other comprehensive income (loss) for the period, net of tax		177,531	(250,875)	28,217
Total comprehensive income for the period		404,637	45,833	809,829
Attributed to:				
Company's shareholders		403,743	45,393	809,115
Non-controlling interest		894	440	714
Comprehensive income for the period		404,637	45,833	809,829

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders							
	Share capital	Share premiums	Capital reserves in respect of available for sale assets	Reserve from investment revaluation due to rise to control	Retained earnings	Total	Non-controlling interest	Total equity
	NIS in thousands							
Balance as at January 1, 2012	110,607	273,735	73,013	6,989	4,073,275	4,537,619	1,803	4,539,422
Income for the period	-	-	-	-	226,212	226,212	894	227,106
Other comprehensive income, net of tax	-	-	177,531	-	-	177,531	-	177,531
Total comprehensive income	-	-	177,531	-	226,212	403,743	894	404,637
Realization of option warrants to employees	- *)	-	-	-	-	-	-	-
Allocation of benefit in respect of option warrants to employees	-	-	-	-	3,348	3,348	-	3,348
Dividend	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Non-controlling interest in respect of business combination	-	-	-	-	-	-	(1,920)	(1,920)
Balance as at December 31, 2012	110,607	273,735	250,544	6,989	4,152,835	4,794,710	777	4,795,487

*) Less than NIS 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders								
	Share capital	Share premiums	Capital reserves in respect of available for sale assets	Reserve from investment revaluation due to rise to control	Retained earnings	Total	Non-controlling interest	Total equity
	NIS in thousands							
Balance as at January 1, 2011	110,607	273,735	323,888	6,989	3,919,656	4,634,875	1,167	4,636,042
Income for the period	-	-	-	-	296,268	296,268	440	296,708
Other comprehensive loss, net of tax	-	-	(250,875)	-	-	(250,875)	-	(250,875)
Total comprehensive income (loss)	-	-	(250,875)	-	296,268	45,393	440	45,833
Realization of option warrants to employees	- *)	-	-	-	-	-	-	-
Allocation of benefit in respect of option warrants to employees	-	-	-	-	7,351	7,351	-	7,351
Non-controlling interest in respect of business combination	-	-	-	-	-	-	196	196
Dividend	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Balance as at December 31, 2011	110,607	273,735	73,013	6,989	4,073,275	4,537,619	1,803	4,539,422

*) Less than NIS 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders							
	Share capital	Share premiums	Capital reserves in respect of available for sale assets	Reserve from investment revaluation due to rise to control	Retained earnings	Total	Non-controlling interest	Total equity
	NIS in thousands							
Balance as at January 1, 2010	110,559	273,735	295,671	6,989	3,366,199	4,053,153	453	4,053,606
Income for the period	-	-	-	-	780,898	780,898	714	781,612
Other comprehensive income, net of tax	-	-	28,217	-	-	28,217	-	28,217
Total comprehensive income	-	-	28,217	-	780,898	809,115	714	809,829
Realization of option warrants to employees	48	-	-	-	-	48	-	48
Allocation of benefit in respect of option warrants to employees	-	-	-	-	12,559	12,559	-	12,559
Dividend	-	-	-	-	(240,000)	(240,000)	-	(240,000)
Balance as at December 31, 2010	110,607	273,735	323,888	6,989	3,919,656	4,634,875	1,167	4,636,042

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31		
		2012	2011	2010
	Schedule	NIS in thousands		
Cash flows from current activities	a	2,205,197	524,122	284,589
Cash flows from investment activities				
Investment in affiliates		(2,430)	(8,608)	(37,225)
Cash closed out due to acquisition of subsidiary consolidated for the first time	d	(14,875)	(14,071)	(53)
Investment in fixed assets		(209,617)	(191,996)	(91,849)
Investment in intangible assets		(153,337)	(134,623)	(135,396)
Settlement of loans granted to affiliates		684	-	66,500
Dividend received from affiliates		39,326	32,500	37,189
Proceeds from realization of intangible assets		-	2,901	-
Proceeds from sale of fixed assets		2,402	457	73,085
Net cash used in investment activities		(337,847)	(313,440)	(87,749)
Cash flows used in finance activities				
Realization of employee options into shares		- *)	- *)	48
Receipt of loans from banks and others		824,554	500	64,331
Settlement of loans from banks and others		(51,805)	(70,157)	(124,683)
Change in short term credit from banking institutions and others, net		(76,269)	(17,415)	38,902
Dividend		(150,000)	(196,308)	(193,692)
Net cash provided by (used in) finance activities		546,480	(283,380)	(215,094)
Effect of exchange rate fluctuation on the balances of cash and cash equivalents		(23,743)	16,878	(27,910)
Change in cash and cash equivalents		2,390,087	(55,820)	(46,164)
Balance of cash and cash equivalents as at the beginning of the period	b	2,248,005	2,303,825	2,349,989
Balance of cash and cash equivalents as at the end of the period	c	4,638,092	2,248,005	2,303,825

*) Less than NIS 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Schedule A – Cash flows from current activities before taxes on income (1)			
Income for the period	227,106	296,708	781,612
Items not involving cash flows:			
Company's share in net results of affiliates treated according to the equity value method	(64,452)	(48,614)	(73,914)
Net losses (profits) form financial investments for yield dependent insurance and investment contracts	(5,338,866)	1,896,543	(4,762,925)
Net losses (profits) from other financial investments:			
Quoted debt assets	(297,588)	(258,751)	(308,298)
Unquoted debt assets	(1,335,712)	(1,509,304)	(1,422,771)
Shares	(26,184)	109,797	(326,821)
Other investments	(74,541)	(375,160)	(14,473)
Finance expenses in respect of financial liabilities	35,029	13,365	17,710
Profit from realization:			
Intangible assets	-	(2,901)	-
Fixed assets	303	(86)	(22,485)
Affiliates	21	(1,169)	(49)
Change in fair value of investment property for yield dependent contracts	(86,955)	(178,072)	(11,097)
Change in fair value of other investment property	(4,631)	(10,327)	(3,807)
Impairment of investments in affiliate	2,138	-	2,534
Depreciation and amortization:			
Fixed assets	60,789	50,159	52,939
Intangible assets	144,509	123,419	118,539
Change in liabilities for yield dependent insurance and investment contracts	8,674,132	1,519,584	7,088,178
Change in liabilities for non-yield dependent insurance and investment contracts	1,271,244	1,145,088	1,309,462
Change in share based payment transactions	3,348	7,351	12,559
Change in reinsurance assets	131,380	(24,797)	(75,469)
Change in deferred acquisition costs	(85,009)	(83,762)	(61,728)
Income tax expenses	121,749	213,198	384,568
C/forward	3,130,704	2,585,561	1,902,652

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2012	2011	2010
	NIS thousands		
Schedule A – Cash flows from current activities before taxes on income (Cont.)			
B/forward	3,130,704	2,585,561	1,902,652
Changes in other balance sheet items:			
Financial investments and investment property for yield dependent insurance and investment contracts:			
Acquisition of investment property	(309,581)	(437,287)	(142,590)
Proceeds from sale of investment property	-	34,366	25,176
Net acquisitions of financial investments	(3,411,188)	(4,360,421)	(3,517,775)
Financial investments and other investment property:			
Acquisition of investment property	(39,285)	(133,095)	(5,318)
Proceeds from sale of investment property	1,578	-	17,023
Net acquisitions of financial investments	(434,412)	(271,777)	(877,338)
Outstanding premiums	(11,347)	(14,010)	(38,047)
Debtors and receivables	(1,943)	(21,073)	(32,842)
Creditors and payables	253,145	35,249	112,841
Liabilities for employee benefits, net	6,128	27,412	15,000
Total adjustments required for presenting cash flows from current activities	(816,201)	(2,555,075)	(2,541,218)
Cash paid and received during the period for:			
Interest paid	(28,352)	(17,443)	(11,305)
Interest received	2,243,930	2,152,694	1,970,889
Net income tax paid	(121,182)	(192,292)	(346,254)
Dividend received from financial investments	699,896	839,530	430,865
Net cash provided by current activities	2,205,197	524,122	284,589

(1) The cash flows from current activities include net acquisitions and sales of financial investments, mainly deriving from the activity in respect of insurance and investment contracts.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Schedule B – Cash and cash equivalents as at the beginning of the period			
Cash and cash equivalents for yield dependent contracts	750,299	895,169	1,249,035
Other cash and cash equivalents	1,497,706	1,408,656	1,100,954
	2,248,005	2,303,825	2,349,989
Schedule C – Cash and cash equivalents as at the end of the period			
Cash and cash equivalents for yield dependent contracts	2,376,263	750,299	895,169
Other cash and cash equivalents	2,261,829	1,497,706	1,408,656
	4,638,092	2,248,005	2,303,825
Schedule D – Cash closed out due to acquisition of subsidiary consolidated for the first time			
Intangible assets	(24,849)	(20,975)	(3,634)
Deferred tax assets	-	-	(6)
Fixed assets	(622)	(90)	(58)
Investments in affiliates	(719)	-	-
Current tax assets	(36)	-	(188)
Debtors and receivables	(2,441)	(1,703)	(294)
Other financial investments	-	(1,151)	-
Non-controlling interest	(1,920)	196	-
Liabilities for deferred taxes	2,666	1,672	-
Liabilities for employee benefits, net	362	14	13
Creditors and payables	11,830	3,627	4,114
Financial liabilities	854	4,339	-
	(14,875)	(14,071)	(53)
Schedule E – Significant activities not involving cash flows			
Acquisition of fixed assets and intangible assets against creditors	34,104	79,543	38,785
Dividend distributed but not yet paid	-	-	46,308
Proceeds not yet received in the sale of real estate asset	2,200	-	-

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1:- GENERAL

a. The reporting entity

Migdal Insurance and Financial Holdings Ltd. (hereunder - "the Company") is a company incorporated and residing in Israel and its formal address is No. 4 Ef'al Str., Petach Tikva 4951229. The consolidated financial statements of the Group as at December 31, 2012 include the statements of the Company, its subsidiaries and jointly controlled entities (together referred to hereunder as "the Group") and investments in affiliates. The Group operates primarily in the insurance, pension, provident funds and financial services lines of business. The Company's securities are listed for trade on the Tel Aviv Stock Exchange.

b. Transfer of control of the Company

The Company is controlled by Eliahu Insurance Company Ltd. (hereunder – "Eliahu Insurance"). Up to October 29, 2012 the Company was controlled by Assicurazioni Generali S.p.A (hereunder – "Generali"), which held 69.13% of the Company's share capital.

At that time the General Group and Eliahu Insurance informed the Company that after receiving all the permits which constituted the conditions for completing the transaction, the sale transaction was concluded (hereunder – "the closing date") and all the shares held by Generali were transferred to Eliahu Insurance in consideration for € 705 million.

Mr. Shlomo Eliahu and Ms. Chaya Eliahu are the final owners of the shares of Eliahu Insurance, among others, through Shlomo Eliahu Holdings Ltd. and Eliahu Brothers Trust and Investment Company Ltd., wholly owned by them. After the transaction was carried out, Mr. Shlomo Eliahu is the new controlling shareholder of the Company (hereunder – "the controlling shareholder").

As the Company was informed by Eliahu Insurance, on the closing date, Eliahu Insurance pledged in favor of Bank Leumi Le Israel (hereunder – "Bank Leumi") about 30% of the Company's share capital (hereunder – "the pledged shares") as a guarantee for the liabilities Eliahu Insurance took towards Bank Leumi.

For additional information regarding the control permit for holding means of control and control, granted by the Commissioner of the Capital Market, see Note 7e12.

c. Definitions

The Company	-	Migdal Insurance and Financial Holdings Ltd.
The Group	-	Migdal Insurance and Financial Holdings Ltd. and its subsidiaries
Consolidated companies/subsidiaries	-	companies in which the Company has control and whose financial statements are consolidated with those of the Company.
Affiliates	-	companies in which the Company has material influence but they are not subsidiaries and the Company's investment in them is included according to the equity value method in the Company's consolidated financial statements.

NOTE 1:- GENERAL

c. Definitions (Cont.)

Investees	- subsidiaries and companies which the Company's investment is stated, directly or indirectly, on the equity basis.
Parent company	- Eliahu Insurance Company Ltd. (hereunder – “Eliahu Insuarnce”).
Former parent company	- Assicurazioni Generali S.p.A (hereunder – “Generali”)
Migdal Insurance	- Migdal Insurance Company Ltd.
Related parties	- as defined in IAS 24 (2009) regarding related parties.
Interested parties	- as implied in paragraph (1) to the definition of “an interested party” in a corporation, under Section 1 to the Securities Law, 1968.
The Regulator	- The Regulator of Insurance
Insurance Supervision Law	- The Supervision of Financial Services Law (Insurance), 1981.
Capital Regulations	- Supervision of Insurance Business Regulations (Minimum Solvency Margin Required from an Insurer), 1998, as amended.
Ways of Investment Regulations	- Supervision of Insurance Business Regulations (Ways of Investment of Capital and Reserves of an Insurer and Management of its Liabilities), 2001, as amended.
Financial Statement Details Regulations	- Insurance Supervision Regulations (Financial Statement Details) 1998, as amended
Insurance contracts	- contracts under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Yield dependent contracts	- insurance contracts and investment contracts in the life assurance and health insurance segments, in which the liabilities, are linked to the investment portfolio’s yield, due to the savings component or the risk therein (policies, participating in investment income).
Investment contracts	- policies which are not considered to be insurance contracts.
Assets in respect of yield dependent contracts	- total assets held against liabilities derived from yield dependent contracts.
Liabilities for insurance contracts	- insurance reserves and outstanding claims in life assurance, general insurance, general insurance and health insurance segments of activity.
Premiums	- premiums including fees.
Earned premiums	- premiums relating to the reported period.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES

a. Basis of preparation of the financial statements

The financial statements have been prepared on a historical cost basis, except for the following assets and liabilities: insurance liabilities, financial instruments at fair value through the statement of profit and loss, financial instruments classified as available for sale and investment property.

For additional information regarding the measurement of these assets and liabilities see paragraphs – i, j, and l below.

The value of non-monetary assets and shareholders' equity items that were measured on a historical cost basis, was adjusted to changes in the CPI up to December 31, 2003, since up to that date the economy in Israel was considered as a hyperinflation economy.

b. Statement of compliance with the International Financial Reporting Standards (IFRS):

The financial statements were prepared by the group in accordance with the International Financial Reporting Standards (hereunder – IFRS). The Group first adopted the IFRS in the year 2008 and therefore the transition date for reporting according to the IFRS is January 1, 2007 (hereunder – "the transition date").

Furthermore, the financial statements have been prepared in accordance with the disclosure requirements as prescribed by the Regulator of Insurance according to the Supervision of Financial Services (Insurance) Law, 1981 and in accordance with the disclosure requirements of the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010, insofar as these regulations apply to insurance companies.

The accounting policies adopted in the financial statements are consistent with those of all the reported periods.

c. The significant considerations, estimates and assumptions in the preparation of the financial statements

The considerations

In the process of applying the Group's accounting policies, management has considered the following issues which have the most significant effect on the amounts recognized in the financial statements:

1. Classification and designation of the financial investments

- Financial assets measured at fair value through profit and loss.
- Investments held to maturity.
- Loans and debtors.
- Available-for-sale financial assets.

See Notes 11 - 12 below.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

c. The significant considerations, estimates and assumptions in the preparation of the financial statements (Cont.)

The considerations (Cont.)

2. Measurement of investment property at fair value See note 8

3. Classification of insurance contracts and investment contracts

Insurance contracts are contracts in which the insurer takes a significant insurance risk from another party. Management examines whether each contract, or group of contracts, involve taking a significant insurance risk and therefore they should be classified as an insurance contract or an investment contract.

Estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the adoption of the accounting policy and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Company's financial statements requires management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

The basis of the estimates and assumptions are reviewed regularly. The changes in accounting estimates are recognized in the period of the change in estimate.

Critical estimates

Hereunder is information regarding critical estimates that were made during the application of the accounting policies and they have a significant effect on the financial statements:

- Liabilities in respect of insurance contracts – these liabilities are based on the actuarial valuation method and on valuations regarding demographic and economic variables. The actuarial valuations and the various assumptions are based on past experience and are mainly based on the fact that past behavioral patterns and claims represent future behavior. Change in the risk factors, frequency of events or their severity, as well as a change in the legal situation, might have a significant influence on the volume of liabilities for insurance contracts. For additional details see Note 37.b.3.

  Regarding changes in main assumptions used in calculation of the insurance liabilities in life assurance, see Note 37.b.3.b). (5).

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

c. The significant considerations, estimates and assumptions in the preparation of the financial statements (Cont.)

Critical estimates (Cont.)

- Contingent liabilities – there are legal claims against the Group, as well as requests to approve the claims as class actions. For the estimates of the chances of the legal claims that were filed against the Group, the companies relied on the opinion of their legal advisors. The legal advisors' opinion is based on their professional judgment, taking into consideration the stages in which the legal proceedings are and the legal experience they have in all these issues. Since the results of the claims will be determined in court, the actual results could differ from these estimates.

- In addition to the applications to approve as class actions claims that were filed against the Group and the other legal proceedings, there is a general exposure that cannot be estimated and/or quantified, stemming, inter alia, from the complexity of the services that the Group renders to its policyholders. Inherent in the complexity of these arrangements is, inter alia, the potential for disagreements regarding interpretations and other differences due to information differences between the Group and third parties to insurance contracts pertaining to a long series of commercial and regulatory conditions.

  For additional information see Note 39.

- Fair value estimates of financial instruments - the fair value of unquoted debt assets measured at fair value through profit and loss and unquoted financial assets whose information for their fair value is given for disclosure purposes only, is calculated according to a model based on discounted cash flows in which the interest rates used are determined by a company that provides price quotations and interest rates to institutional entities.

  For additional information see Note 12.f.

- Impairment of goodwill – the Group examines impairment of goodwill at least once a year. The examination requires management to evaluate the future cash flows expected to be derived from continuing use of a cash generating unit (or group of cash generating units) to which goodwill is allocated. In addition, management is required to estimate the appropriate discount rate for these cash flows.

  For additional information see Note 4.

- Impairment of financial investments – when there is objective evidence that there is an impairment loss in respect of loans and debtors that are reported at amortized cost, or the value of available for sale financial assets is impaired and there is an impairment in their respect, the amount of loss is recognized in the statement of profit and loss. On the reporting date the Group examines whether such evidence exists.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

c. The significant considerations, estimates and assumptions in the preparation of the financial statements (Cont.)

Critical estimates (Cont.)

- Recoverability of deferred acquisition costs is examined once a year while using the assumptions regarding the cancellation rates, mortality and morbidity rates and other variables.

- Determination of the fair value of investment property - Investment property is reported at fair value as at the reporting date and changes in fair value are recognized in the statement of profit and loss. The fair value is determined by independent external appraisers based on economic value estimates that include assumptions regarding estimates of anticipated future cash flows that will be generated from the asset and an estimate of the discount rate that will match these cash flows. In certain cases the fair value is determined by reference to recent real estate transactions with similar characteristics and locations as the estimated asset.

  In measuring the fair value of investment property, the Group's management and appraisers must make use of certain assumptions regarding the required yield rates for Group assets, future rental prices, occupancy rates, contract renewals, the probability of renting available space, the costs of operating the properties, the financial health of the lessees, and implications arising from investments required for future development so as to estimate the future cash flows from the assets.

  For additional information see Note 8.

d. Change in classification

1. Internal classifications were performed within the following notes components: 5.b, 15, 18.a. The classifications made had no effect on the equity, profit and loss and on the comprehensive income.

2. In the year 2012 the Company classified part of its other investments from Level 2 to Level 3 for sake of prudence due to the availability of information regarding the division to fair value levels in certain investments. The comparative figures were reclassified. The classifications that were performed had no effect on the equity, the profit and loss and the comprehensive income.

e. Financial statement structure and the operational turnover period

The Group’s regular operational turnover period, is usually over a year, especially in relation to life assurance and long term savings business, LTC, disease and hospitalization business, and general insurance business in liability and motor act insurance branches.

The consolidated statements of financial position, which mainly include the assets and liabilities of an insurance subsidiary, are recorded according to order of liquidity with no distinction between current and non-current. This presentation provides more relevant information, consistent with Accounting Standard No. 1 – Presentation of the Financial Statements, and is in accordance with the directives of the Regulator of Insurance.

The Company has chosen to report the profit or loss items according to the activity characteristic method.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

f. Functional currency and foreign currency

1. Functional and presentation currencies

The financial statements are reported in New Israeli Shekels ("NIS"), and have been rounded to the nearest thousand. NIS is the Company’s functional currency and is the currency that best reflects the economic environment in which the Company operates.

2. Transactions, assets and liabilities in foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency exchange difference in respect of the monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising from translation to the functional currency is usually recognized in profit or loss, except for differences arising on the translation of available-for-sale financial equity instruments which are recognized in other comprehensive income (apart from cases of impairment when the translations differences that were recognized in the other comprehensive income are reclassified to profit and loss).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

g. Consolidated financial statements, business combinations and goodwill

1. Consolidated financial statements

The consolidated financial statements include the financial statements of companies that are controlled by the Company (subsidiaries). Control is when the Company has the power to determine the financial and operating policies of an entity in order to obtain benefits from its activities. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Intra-group balances and transactions, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with affiliates are eliminated against the investment to the extent of the Group’s interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

g. Consolidated financial statements, business combinations and goodwill (Cont.)

1. Consolidated financial statements (Cont.)

The financial statements of the Company and the subsidiaries are prepared as of the same dates and periods. The accounting policy in the financial statements of subsidiaries was applied uniformly and consistently with the accounting policy applied in the Company's financial statements.

2. Business combinations and goodwill

The Group implements the acquisition method regarding every business combination.

The Group recognizes goodwill upon acquisition according to the fair value of the consideration transferred including the amounts recognized in respect of any non-controlling interests in the acquired and the fair value as at the date of acquisition of the equity interests of acquiree previously held by the purchaser, less the net amount related upon acquisition to identifiable assets acquired and for the liabilities taken.

The acquirer recognizes upon acquisition the outstanding liabilities taken in business combination if there is a present obligation resulting from past events and its fair value can be measured reliably.

If the Group performs a bargain purchase (including negative goodwill), it recognizes the resulting profit in the statement of profit and loss on the date of acquisition.

In addition, goodwill is not updated in respect of utilization of losses transferred for tax purposes which existed at the time of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Group. In a step acquisition, the difference between the acquisition date fair value of the Group’s pre-existing equity rights in the acquiree and the carrying amount at that date is recognized in profit or loss under other income or expenses. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss, whereas the contingent consideration which is classified as an equity instrument is not re-measured.

Acquisition-related costs incurred by the acquirer in a business combination such as: brokers fees, consultation commission, legal commission, valuation and other fees for professional services or consulting services, other than those related to issuing debt instruments or equity in connection with the business combination, are recognized as expenses during the period in which the services are received.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

g. Consolidated financial statements, business combinations and goodwill (Cont.)

2. Business combinations and goodwill (Cont.)

Regarding impairment in goodwill examination, see paragraph O.3 below.

Upon realization of a cash generating unit, the difference between the consideration and the net assets plus goodwill balance not yet amortized, is recognized in the statement of income. Profit or loss from the realization of part of the cash generating unit includes part of the goodwill measured according to the proportion of the cash generating unit realized.

Non-controlling interests are the equity in a subsidiary which is non-attributable, directly or indirectly, to the parent company.

3. Non-controlling interest

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests, which are instruments that give rise to a present ownership and entitle the holder to a share of the net assets in the event of liquidation (e.g. ordinary shares), measured at the date of the business combination at fair value or at their proportionate identifiable assets and liabilities of the acquiree, on a per transaction basis. This accounting policy choice does not apply to other instruments that meet the definition of non-controlling interests (for example - options for ordinary shares). These instruments will be measured at fair value or in accordance with other relevant IFRS standards.

Allocation of the comprehensive income to the shareholders

The profit or loss and any component of other comprehensive income are attributed to the Company's owners and to non-controlling interests. The amount of comprehensive income is attributed to the Company’s owners and non-controlling interests even when the result is a negative balance of the non-controlling interest.

h. Investment in affiliates

Affiliates are those entities in which the Group has significant influence, but not control, over their financial and operating policy.

In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.

Affiliates are accounted for using the equity method and are recognized initially at cost, including transaction costs. The investment includes initial differences calculated at the date of acquisition. The goodwill is calculated at the time of acquisition, and is not amortized systematically. The investment is reported net of accumulated losses from impairment. The consolidated financial statements include the Group’s share of the income and expenses, profit or loss and other comprehensive income of held entities, treated according to the equity value method, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

h. Investment in affiliates (Cont.)

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If later on the affiliate reports profits, the Group begins to recognize its shares in these profits only after its share in the profits match its share in the unrecognized losses.

The financial statements of the Company and the affiliates are prepared at the same dates and for the same periods.

Loss of significant influence

The Group discontinues applying the equity method from the date it loses significant influence or obtains control and it accounts for the retained investment as a financial asset or as a subsidiary, as applicable.

On that date, the Group measures any investment that the Group still has in the former affiliate at fair value and recognizes in profit or loss any difference between the fair value of any retained investment and any consideration from the partial realization of the investment in the affiliate and the carrying value of the investment on that date.

The amounts recognized in equity through other comprehensive income with respect to the same affiliate are reclassified to profit or loss or to surplus, in the same manner that would have been applicable if the affiliate had itself realized the related assets or liabilities.

Change in interest held in affiliates while retaining significant influence

When the Group increases its interest in an affiliate accounted for by the equity method while retaining significant influence, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains the same.

When there is a decrease in the interest in an affiliate accounted for by the equity method while retaining significant influence, the Group derecognizes a proportionate part of its investment and recognizes in profit or loss a gain or loss from the sale under other income or other expenses. The cost of the rights sold is determined according to a weighted average for purposes of calculating the gain or loss from the sale.

Furthermore, on the same date, a proportionate part of the amounts recognized in capital reserves through other comprehensive income with respect to the same associate are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the affiliate had itself realized the same assets or liabilities.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

i. Insurance contracts and asset management contracts

IFRS 4 which deals with insurance contracts allows the insurer to continue with the accounting policies that were utilized before the transition date to IFRS regarding insurance contracts that were issued (including related acquisition costs and related intangible assets) as well as reinsurance contracts acquired.

Hereunder is a summary of the accounting principles relating to insurance contracts:

1. Life assurance and long-term savings

a) Recognition of income - see paragraph s below.

b) Liabilities in respect of life assurance contracts

Liabilities in respect of life assurance contracts are computed according to the Regulator's directives (regulations and circulars), accounting principles and generally accepted actuarial methods. The liabilities are computed according to the relevant coverage data, such as: the age of the policyholder, number of years of coverage, type of insurance, amount of insurance, etc.

Liabilities in respect of life assurance contracts are determined on the basis of actuarial assessments, carried out by the Migdal Insurance appointed actuary, Mr. Leibush Ulman who is the Migdal Insurance employee. The reinsurers' share in liabilities for life assurance contracts is determined according to the conditions of the relevant contracts.

c) Liabilities in respect of life assurance contracts linked to the index and the investments linked to the index that are utilized to cover these liabilities are included in the financial statements according to the latest published index prior to the balance sheet date, including liabilities in respect of life assurance contracts regarding policies that, according to their terms, are semi-annually linked.

d) The Regulator's directives regarding liabilities for payment of annuities

In circulars published by the Regulator regarding the calculation of liabilities for payment of annuities in life assurance policies, he determined directives for the calculation of the provisions as a result of the rate of increase in life expectancy. The instructions require monitoring the sufficiency of the reserves with respect to insurance policies which allow receipt of an annuity and their supplementation in an appropriate manner.

For further information see note 37.b.3.b) (5).

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

i. Insurance contracts and asset management contracts (Cont.)

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

1. Life assurance and long-term savings (Cont.)

e. Deferred acquisition costs in life assurance

(1) Deferred acquisition costs of life assurance policies (hereunder – the DAC) sold from January 1, 1999 include commissions for agents and acquisition supervisors as well as administrative and general expenses relating to the acquisition of new policies. The DAC is amortized in equal annual rates over the policy's term, but not over more than 15 years. The DAC in respect of cancelled policies are written-off at the time of cancellation.

Deferred acquisition costs in respect of policies that were issued up to December 31, 1998 are computed by the Migdal Insurance actuary based on the "Zillmer deduction" method, at a certain percentage of the premium or of the amount at risk according to the various insurance programs.

(2) Each year the actuary of Migdal Insurance examines the recoverability of the DAC. The examination is performed in order to verify that the liabilities in respect of insurance contracts net of DAC in respect of policies sold since 1999 are sufficient, and that the policies are expected to produce future income that will cover the amortization of the DAC and the insurance liabilities, the operating expenses and the commissions relating to those policies. The examination is performed for all individual insurance policies and for all underwriting years together.

The assumptions that are utilized for this examination include assumptions regarding cancellations, operating expenses, rate of return on assets, mortality and morbidity rates, that are determined by the Migdal Insurance actuary every year based on past experience and relevant up-to-date research studies.

f. Deferred acquisition costs for the acquisition of asset management contracts

Commissions paid to agents and acquisition supervisors for the purchase of asset-management contracts (investment contracts, pension funds and provident funds) are recorded as DAC if they can be identified separately and measured reliably and if their recoverability by way of management fees is expected. The DAC is amortized over the estimated period of receipt of revenues from management fees.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

i. Insurance contracts and asset management contracts (Cont.)

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

1. Life assurance and long-term savings (Cont.)

g. Liability Adequacy Test in respect of life assurance contracts

Migdal Insurance examines the sufficiency of the liabilities in respect of life assurance contracts. If it turns out from the examination that the premiums received are not sufficient to cover the expected claims, a special provision for the deficiency is recorded. The examination is made separately for the individual policies and for group policies. In the case of group policies, the examination is performed for each group policy separately.

The assumptions used in the abovementioned examinations include assumptions regarding cancellations, operating expenses, rate of return on assets, mortality and morbidity rates, and they are determined by the actuary every year based on examinations, past experience and other relevant research studies. Regarding collective policies, the examination is made based on the claims' history of the individual collective and subject to the statistical reliability of this experience.

h. Outstanding claims

Outstanding claims, net of the reinsurers' share therein, are computed on an individual case basis, according to the estimation of Migdal Insurance experts, on the basis of notifications regarding insurance events and sums insured.

The provisions for annuity payments and provisions for prolonged payment claims in payment for disability insurance, the direct and indirect expenses deriving from them, as well as the provisions for incurred but not yet reported claims (IBNR) are included under liabilities for insurance contracts.

i. Investment contracts:

Receipts in respect of investment contracts are not included in the item of earned premiums, but are directly allocated to liabilities for insurance and investment contracts. Surrenders and maturities of these contracts are not allocated to the statement of profit and loss, but are deducted directly from the liabilities for insurance and investment contracts.

Investment income, change in liabilities and payments in respect of insurance contracts for the policyholders share in investment income, management fees, commissions to agents, and general and administrative expenses, are allocated to the statement of profit and loss, in respect of these contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

i. Insurance contracts and asset management contracts (Cont.)

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

1. Life assurance and long-term savings (Cont.)

j. Provision for profit participation of policyholders in group insurance:

The provision is included under the item “creditors and payables”. In addition, the change in the provision was offset from the earned premium item.

2. General insurance

a) Recognition of income, see paragraph s below.

b) The item of payments and change in liabilities in respect of gross and retained insurance contracts includes, among others, settlement and direct handling costs of claims paid, indirect expenses for settlement of outstanding claims that occurred during the reported period, as well as an adjustment of the provision for outstanding claims (which includes a provision for claims direct and indirect handling costs) reported in previous years.

c) Liabilities for insurance contracts and deferred acquisition costs

The insurance reserves and the outstanding claims, included in the item liabilities in respect of insurance contracts, and the reinsurers’ share in the reserve and in outstanding claims, included in the item reinsurance assets, and deferred acquisition costs in general insurance, were computed in accordance with the Supervision of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance),1984, as amended, the Regulator’s directives and generally accepted actuarial methods for computing outstanding claims which are applied according to the appointed actuaries’ discretion.

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows:

(1) Provision for the unearned premium reserve, reflects the insurance fees relating to the insurance period after the balance sheet date.

(2) Provision for premium deficiency. This provision is recorded in the event that the unearned premium reserve (net of deferred acquisition costs) does not cover the anticipated cost in respect of insurance contracts. In the motor casco, comprehensive residential and business premises branches the provision is based on, among others, a model determined in the Regulations for Supervision of Insurance Business (Mode of Calculating Provisions for Future Claims in General Insurance), 1984 (hereunder – regulations for calculating reserves).

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

i. Insurance contracts and asset management contracts (Cont.)

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

2. General insurance (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows: (Cont.)

(3) Outstanding claims are computed according to the methods detailed below:

3.1 Outstanding claims and the reinsurers' share therein are included based on an actuarial valuation, except for the branches detailed in Section 3.2 below. Indirect expenses for the settlement of claims are included according to an actuarial valuation. The actuarial calculation for Migdal Insurance was made by the appointed actuary, Mrs. Anat Cohen Toledano, an employee of Migdal Insurance.

3.2 In the branches of comprehensive business premises, engineering insurance, contractors' insurance, marine insurance, aviation insurance of goods in transit, and incoming branches, the actuary determined that an actuarial model cannot be applied due to lack of statistical significance, the outstanding claims in these branches were calculated on the basis of the valuations of external experts and Migdal Insurance employees who handle outstanding claims reports of ceding companies for incoming business and with the addition of IBNR where necessary.

3.3 Excess of income over expenses

Regarding all businesses with long tail claims (branches in which the time required for issuing a notice of damage and/or determining damage and its compensation, is long and can be a number of years), such as the liability and motor act branches, the excess of income over expenses is calculated on a triennial cumulative basis (hereunder – the excess).

The excess is calculated, according to the regulations for calculating reserves and the Regulator's directives, on the basis of income from premiums, net of the acquisition and claims expenses, with the addition of investment income which is calculated according to the rate of 3% per annum, in real terms (regardless of the actual yield from the investments) net of the reinsurers' share, for each insurance branch and the respective underwriting year. The excess accumulated until its release, from the beginning of the insurance, net of the provision for unearned premium less deferred acquisition costs and net of outstanding claims calculated as aforementioned (hereunder- the accumulation), is included under liabilities for insurance contracts and a deficiency is recognized as an expense.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

i. Insurance contracts and asset management contracts (Cont.)

Hereunder is a summary of the accounting principles relating to insurance contracts: (Cont.)

2. General insurance (Cont.)

d) The item liabilities in respect of insurance contracts, is composed of insurance reserves and outstanding claims, as follows: (Cont.)

(3) Outstanding claims are computed according to the methods detailed below: (Cont.)

3.4 Claims recoveries and salvage are taken into account on the same basis of calculation as the actuarial valuations of the outstanding claims.

3.5 In Migdal Insurance's opinion outstanding claims are adequate, considering the fact that outstanding claims are mainly calculated on an actuarial basis and their balance includes adequate provisions for IBNR, where necessary.

3.6 Regarding proposed changes in the calculation of insurance reserve in general insurance, including cancellation of the surplus, see Note 37.b.3.c)(6).

e) Deferred acquisition costs in general insurance include agents' commissions and administrative and general expenses related to the acquisition of polices, in respect of unearned insurance premiums. The acquisition costs are calculated at the lower of the actual costs or standard rates, set by the Supervision Regulations, calculated as a percentage of unearned premiums separately for each branch.

f) Incoming business from the Israeli Pool for Motor Vehicle Property Insurance of the Association of Insurance Companies in Israel (hereunder - the Pool), from other insurance companies (including co-insurance and business from abroad) and from underwriting agencies, is reported according to reports received up to balance sheet date with the addition of the relevant provisions, based on Migdal Insurance's rate of participation in them.

3. Health insurance

a) Revenue recognition – see s below.

b) Liabilities in respect of health insurance contracts

The liabilities for health insurance contracts are computed according to the Regulator's directives (Regulations and Circulars), generally accepted accounting principles and actuarial methods. The liabilities are computed according to relevant coverage data, such as age of policyholder, number of years of coverage, type of insurance and amount of insurance etc.

Liabilities for health assurance contracts and the reinsurers' share therein are determined on the basis of an actuarial assessment carried out by Migdal Insurance appointed actuary, Mr. Jonathan Brody, an employee of Migdal Insurance.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

i. Insurance contracts and asset management contracts (Cont.)

3. Health insurance (Cont.)

c) Outstanding claims

The provisions for prolonged payment claims with respect to long-term care (LTC) insurance, direct and indirect expenses deriving from them, as well as provisions for incurred but not yet reported claims (IBNR) are included under liabilities in respect of insurance contracts.

In the travel insurance branch, the actuary determined that the actuarial model cannot be applied due to a lack of statistical significance. The outstanding claims in this branch were calculated based on estimates prepared by external experts and Migdal employees who handle claims, and include IBNR where necessary.

d) Provision for policyholders' participation in profits in group insurance

The provision is included under "creditors and payables". In addition, the change in the provision is offset from the earned premium item.

e) The unexpired risk reserve included under liabilities for insurance contracts, includes, when necessary, a provision for anticipated loss on retention (premium deficiency) calculated on the basis of an actuarial valuation which is based on the cash flows estimate in respect of the contract.

f) Deferred acquisition costs

(1) Deferred acquisition costs include commissions to agents and acquisition supervisors as well as administrative and general expenses related to acquisition of new policies. The deferred acquisition costs in health insurance are amortized at equal rates over the policy's term, but not more than 6 years and in long term health insurance (such as long term care and dread diseases) not more than 15 years. Deferred acquisition costs relating to cancelled policies are written off on the cancellation date.

(2) Each year the actuary of Migdal Insurance examines the recoverability of the DAC. The examination is performed in order to make sure that liabilities in respect of insurance contracts, less the DAC in respect of sold policies are sufficient and expected revenues from the policies will cover the amortization of the DAC and the insurance liabilities, operational expenses and commissions in respect of those policies. The examination is performed for all the underwriting years together.

The assumptions used for this examination, including assumptions in respect of cancellations, operating expenses, yield on assets, mortality and morbidity, are determined by Migdal Insurance's actuary every year and are based on past experience and recent relevant research.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

j. Financial instruments

1. Non-derivative financial instruments

Non-derivative financial instruments include financial assets and financial liabilities. Financial assets include financial investments (quoted debt assets, unquoted debt assets, shares and others) and other financial assets such as: outstanding premiums, other debtors and cash and cash equivalents. In addition, financial instruments include financial liabilities such as loans and credit received and suppliers' credit and other creditors.

Initial recognition of financial assets

Non-derivative financial instruments are recognized initially at fair value, and for instruments not at fair value through profit or loss, plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized as an asset or liability when the company accepts the contractual conditions (transaction date).

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.
See paragraph 3 hereunder regarding the offset of financial assets and financial liabilities.

Financial assets are classified to the following categories:

Cash and cash equivalents

Cash and cash equivalents include cash balances available for immediate withdrawal and call deposits that can be utilized on demand. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less), which are readily convertible to known amounts of cash and are exposed to insignificant risks of changes in value.

Held-to-maturity investments

When the Group has the explicit intention and ability to hold debt securities to maturity, then such debt securities are classified as held-to-maturity. Held-to-maturity investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

j. Financial instruments (Cont.)

1. Non-derivative financial instruments (Cont.)

Financial assets at fair value through profit and loss

A financial asset is classified as measured at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages this type of investment and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy, providing that the designation is intended to prevent an accounting mismatch or the financial instrument includes an embedded derivative. Attributable transaction costs are recognized in profit and loss as incurred. These financial instruments are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets available for sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. Upon initial recognition and in subsequent periods, these investments are measured at fair value and changes therein, other than impairment losses, profits or losses from changes in the CPI and in the foreign exchange rate and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for available-for-sale financial assets. A dividend received in respect of available-for-sale financial assets is recognized in profit or loss. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to profit or loss.

2. Non-derivative financial liabilities

The Group initially recognizes debt instruments that were issued on the date that they originated. Other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

j. Financial instruments (Cont.)

2. Financial instruments (Cont.)

Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

3. Offsetting financial instruments

Financial asset and liability are offset and reported in their net value in the statement of financial position when the Group currently has the legal right to offset the amounts and intends to settle on a net basis or to realize the asset and to settle the liability simultaneously.

4. Derivative financial instruments

Financial derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial derivatives are measured at fair value and changes therein are recognized immediately in profit or loss as investment income, net and finance income.

5. CPI-linked assets and liabilities not measured at fair value

The value of CPI linked assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual increase or decrease in the CPI.

6. The Group has made decisions to designate the assets as follows

Assets included in the investment portfolios of policies participating in investment income.

Most of these assets, that include quoted and unquoted financial assets, were designated at fair value through profit or loss, for the following reasons: These are managed portfolios, separate and identifiable, whose presentation at fair value significantly reduces accounting mismatch in measurement of financial assets and liabilities at different measurement bases. In addition, asset management is conducted at fair value, portfolio performance is measured at fair value according to a documented risk management strategy, and information regarding the financial instruments is reported to management (the relevant investment committee) internally on the basis of fair value.

Some unquoted debt instruments, included in investment portfolios of policies participating in investment income, are measured at amortized cost using the effective interest method, as allowed by the temporary provision published by the Regulator.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

j. Financial instruments (Cont.)

6. The Group has made decisions to designate the assets as follows (Cont.)

Financial instruments that include embedded derivatives requiring separation – were designated at fair value through profit or loss.

Quoted assets not included in investment portfolios held against profit participating policies (Nostro) which do not include embedded derivatives or do not constitute derivatives

These instruments were classified as available-for-sale financial instruments.

Unquoted assets not included in investment portfolios held against profit-participating policies (Nostro)

Assets meeting the criteria of loans and designated as loans and receivables, including Hetz debentures (life linked debentures), were classified to this group and are measured at amortized cost, using the effective interest method.
Unquoted equity instruments were designated as available-for-sale financial instruments.

A subsidiary's investments in quoted securities

These assets were designated as fair value through profit or loss since as they are held for trading.

7. Determination of fair value

The fair value of investments traded actively in organized financial markets is determined by the market prices at the reporting date. For investments that do not have an active market, the fair value is determined by means of valuation methods. These methods are based on recent transactions under market conditions, reference to the present market value of another similar instrument, discounted cash flows or other valuation methods.

For additional information see Note 12f.

8. Net investment income (losses), finance income and expenses

Net investment income (losses) and finance income include income (losses) on the sale and impairment of available-for-sale financial assets, changes in fair value of financial assets and liabilities designated at fair value through profit or loss, income (losses) from foreign currency exchange rate and linkage differences on debt instruments, from realization of investments that are calculated as the difference between the proceeds from the sale and the initial or amortized cost and are recognized at the time of the sale, interest income in respect of amounts invested (including available for sale financial assets), income from dividends and changes in the fair value of investment property and rent from investment property. Interest income is recognized when accrued, using the effective interest method. Dividend income is recognized on the date the Company is granted the right to receive payment. If the dividend is received for quoted shares, the Company recognizes the income from the dividend on the ex-dividend date.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

j. Financial instruments (Cont.)

8. Net investment income (losses), finance income and expenses (Cont.)

Finance expenses include interest expenses, linkage and exchange rate differences on loans received, interest and exchange rate differences on reinsurers' deposits and balances, changes in the time value in respect of provisions. Short term credit costs, which are not capitalized, are recognized in the statement of profit or loss when incurred.

Profits and losses from exchange rate differences and changes in the fair value of investments are reported on a net basis.

k. Fixed assets

1. Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and impairment loss.

The cost of a number fixed asset items was determined at their fair value as at January 1, 2007, which is the date of transition to IFRS (deemed cost).

Cost includes expenditure which can be directly attributed to the purchase of the asset. The cost of software purchased, which constitutes an integral part of the operation of the related equipment, is capitalized as part of the cost of such equipment.

Profit or loss from disposal of fixed assets item is determined by comparing the consideration from disposal of the asset with the carrying amount of the asset, and are recognized net under “other income” or “other expenses”, as relevant, in profit or loss.

2. Subsequent costs

The cost of replacing part of fixed asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated with them will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Ongoing maintenance costs are charged to profit or loss as incurred.

3. Depreciation

Depreciation is recognized in the statement of profit and loss on a straight-line basis over the estimated useful lives of each part of the fixed assets items, since this method reflects the projected pattern of consumption of future economic benefits embodied in the property in the best way.

Lands under ownership are not depreciated.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

k. Fixed assets (Cont.)

3. Depreciation (Cont.)

Depreciation rates for the current and comparative periods are as follows:

Buildings	4%
Leasehold improvements	10% - 17%
Vehicles	15%
Computers and software	17% -33%
Office furniture and equipment	6%- 15%

Land leased from the Israel Land Administration and treated as financial leasing, is amortized according to the leasing term.

Leasehold improvements are depreciated according to the straight-line method over the shorter of lease term (including option period for extending the lease which the Group has and intends to realize), and their useful lives.

The estimates regarding the depreciation method, the useful life span and the residual value are re-examined at least at the end of each reporting year.

4. Real estate under construction

Real estate under construction is measured on a cost basis. The cost of the land includes costs such as planning and design costs, indirect construction costs that were allocated, borrowing costs relating to the financing of the construction up to the completion date and other related costs.

l. Investment property

Investment property is property (land or building – or part of a building - or both) held (by the Group as the owners or under a finance lease) either to earn rental income or for capital appreciation or for both but not for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Furthermore, leased properties that are leased by the Company under an operating lease are classified and treated as investment property.

Investment property is initially measured at cost with the addition of transaction costs. In subsequent periods the investment property is measured at fair value, with changes therein recognized in the statement of profit and loss.

In order to determine the fair value of the investment property the Group uses the valuations performed by external independent appraisers who are experts in the valuation of real estate and possess the knowledge and experience required.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

l. Investment property (Cont.)

Investment property is derecognized when it is either realized or when it is no longer utilized and no future economic benefits are expected from its sale. The difference between the net proceeds from sale of the asset and the balance in the financial statements is recognized in profit and loss in the period in which the asset is derecognized.

The transfer of an asset from investment property to fixed assets is performed when there is a change in use, such as the beginning of use of the asset by the owners or the beginning of development with the intention to sell the asset.

The deemed cost of the asset transferred from investment property to fixed assets is the fair value on the date of the transition.

When the use of a property changes from owner-occupied to investment property, which is measured at fair value, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognized in other comprehensive income and presented within equity in a revaluation reserve, unless the gain reverses a previous impairment loss on the specific property, in which case the gain is first recognized in profit or loss. Any loss is recognized directly in profit or loss.

For additional information, see Note 8.

m. Leases

The tests for classifying leases as finance or operating leases are based on the nature of the agreements and they are examined at the date of engagement according to the provisions of IAS 17.

1. Finance leases

Under finance leases, all the risks and benefits related to the ownership of the leased asset, were actually transferred to the Group. The leased property is measured at the beginning of the period of lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The liability in respect of the lease payments is reported at its present value. The lease payments are allocated between the finance expenses and the settlement of the liabilities in respect of the lease according to the effective interest method.

2. Operating leases

Lease agreements are classified as an operating lease if all the risks and rewards that are embedded in the ownership of the leased asset, are not actually transferred. However, this is except for operating leases of real estate assets which the Group chose to classify as investment property. Lease payments are recognized as an expense in the statement of profit and loss on a straight-line current basis over the lease term.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

n. Intangible assets

Intangible assets acquired separately are measured upon initial recognition at cost with the addition of direct acquisition costs. Intangible assets that are acquired as business combinations are measured at fair value on the acquisition date.

Subsequent to initial recognition, intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, as mentioned above, the change in the useful life assessment from indefinite to finite is accounted for as prospective change in accounting estimate and on that date the impairment of the asset is tested and it is amortized systematically over its useful economic life.

Intangible assets with definite useful lives are amortized over their useful life and are reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits from the asset are accounted for as prospective changes in accounting estimates. The amortization charge on intangible assets with finite useful lives is recognized in the statement of profit and loss.

1. Goodwill

Goodwill created as a result from the acquisition of a business combination, is presented in the framework of intangible assets. For information regarding the measurement of goodwill upon initial recognition see paragraph g.2 above.

In subsequent periods goodwill is measured at cost less accumulated impairment losses.

2. Software development costs

Software development costs are only capitalized when the development costs can be measured reliably; the technical and economic feasibility of the software can be demonstrated, future economic benefits are probable and the Group has the intention and sufficient resources to complete development and to use the software. The capitalized costs include the cost of materials, direct salaries and overhead costs that are directly attributable to preparation of the asset for its intended use. Other software development costs are recognized in profit or loss as incurred.

In subsequent periods, capitalized software development costs are measured at cost less accumulated amortization and impairment losses.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

n. Intangible assets

3. Software

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it, is classified as fixed assets. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

4. Subsequent expenditure

Subsequent expenditure is capitalized as an intangible asset only when it increases the future economic benefit embodied in the asset to which it relates. All other expenditure, including expenditure related to goodwill or brands that were developed by the Company, are allocated to profit and loss as incurred.

5. Amortization

Amortization is recognized in the income statement over the estimated useful life of the intangible assets from the date the assets are available for use. Goodwill is not amortized when it is an asset with an indefinite useful life.

The estimated useful lives for the current and comparative periods are as follows:

a) The excess of cost resulting upon the acquisition of insurance subsidiaries that were merged with the Company, and are mainly attributable to the value of the life assurance portfolios of the above companies, as well as life assurance portfolio acquisition expenses, are amortized at equal annual rates over the period of 15 years, which in Management's opinion, reflects the average term of the policies.

b) The excess of cost created upon the acquisition of insurance agencies or from business combinations acquired from insurance agencies, that are mainly attributed to commission portfolios, is amortized at equal annual rates over a period of ten years.

c) Future management fees – initial difference relating to future management fees anticipated from educational funds and portfolio management, is amortized according to the anticipated period of receiving the management fees:

- In educational funds – over 20 years with a variable amortization rate based on the amount of anticipated benefit from management fees in the said period.

- Portfolio management – over 10 years. The amortization is not at a fixed rate and it is based on the anticipated rate of gains from the management fees during the said period.

d) Brand – amortized on a straight line basis over 5-10 years.

e) Software – amortized on a straight line basis over 3-6 years.

Estimates regarding amortization methods and useful lives are reviewed at least at the end of each reporting year.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

o. Impairment

1. Financial investments

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security.

Evidence of impairment of available-for-sale financial assets

When testing for impairment available-for-sale financial assets that are equity instruments, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the standard deviation of the instrument’s price, the length of time the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment or in the market environment in which the issuer of the instrument operates. In addition a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Evidence of impairment of debt instruments

The Group considers evidence of impairment of loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans, receivables and held-to-maturity investments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Treatment of impairment losses of financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognized in profit or loss and reflected in a provision for loss against receivables.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

o. Impairment (Cont.)

1. Financial investments (Cont.)

Treatment of impairment losses of available-for-sale financial assets

Impairment losses are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss which is reclassified from other comprehensive income to profit and loss is the difference between the acquisition cost less principal repayments and depreciation, and the present fair value less impairment previously recognized in profit or loss.

Reversal of impairment losses

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income.

2. Reinsurance

a). The reinsurers' liabilities towards the Company do not release it from its liabilities towards policyholders insured under the insurance policies.

A reinsurer who does not fulfill his obligations under the reinsurance treaties may cause the Company losses.

b) Migdal Insurance sets-up a provision for doubtful debts in respect of reinsurers' debts whose collection is doubtful on the basis of individual risk estimates and based on the size of the debts.

In addition, in determining the reinsurers' share in the insurance liabilities, the Company takes into consideration, among others, the probability of collection from the reinsurers. When the reinsurers' share is calculated on an actuarial basis, the share of reinsurers in difficulty is calculated according to the actuary's recommendations, which takes all the risk factors into consideration. Furthermore, when the Company sets-up the provisions, it takes into consideration, among others, the willingness of the parties to engage in cut-off agreements (termination of agreements by a final settlement of the debts) in order to reduce the exposure.

3. Non-financial assets

Timing of the impairment review

The carrying amounts of the Group's non-financial assets, other than deferred acquisition costs, investment property, assets arising from employee benefits, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The Group estimates, impairment of goodwill once a year, and on the same date or more frequently – if changing circumstances or events indicate that there is impairment.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

o. Impairment (Cont.)

3. Non-financial assets (Cont.)

Measurement of recoverable amounts

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). Subject to an operating segment ceiling test for the purposes of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment of goodwill is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes but in any event is no greater than the business segment before collection of similar sectors Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group also before the business combinations, that are expected to benefit from the synergies of the combination.

Affiliates

Goodwill that forms part of the carrying amount of an investment in an affiliate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an affiliate is tested for impairment as a single asset when there is objective evidence that the investment in an affiliate may be impaired.

Recognition of an impairment loss

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

Reversal of an impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

p. Share capital

Incremental costs directly related to issue of ordinary shares and warrants into shares, are presented as a reduction of capital.

q. Employee benefits

The Group has a number of employee benefits plans.

1. Short term benefits

Short-term employee benefits include salaries, recreation, vacation and social security contributions that are measured on an undiscounted basis and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits

a) Defined contribution plan

The Group has defined contribution plans pursuant to Section 14 of the Severance Pay Law, 5723-1963 (in this section - "the Law"), in which it pays regular contributions without being legally or implicitly committed to pay further amounts, even if the amounts accrued in the fund are insufficient to pay all the employee benefits relating to the employee's service in the current and previous periods.

Deposits in the defined contribution plan for severance pay or pension are recognized as an expense when the money is deposited in the plan, in the period during which related services are rendered by employees, and no additional provision in the financial statements is necessary.

b) Defined benefit plans

The Group operates a defined benefit plan for the payment of severance pay in accordance with the law. By law employees are entitled to severance pay when they are dismissed or on retirement.

The Group’s obligation in respect of defined benefit plans regarding post employment benefits is calculated separately for each plan by estimating the amount of future benefit that is due to the employees in return for their service in the current and prior periods. This benefit is reported at its present value less the fair value of the plan’s assets. The discount rate is the yield at the reporting date of government bonds denominated in the same currency, that have maturity dates approximating the terms of the Group’s obligations. The calculations are made by a qualified actuary using the projected unit credit method.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

q. Employee benefits (Cont.)

2. Post-employment benefits

b) Defined benefit plans (Cont.)

When the calculation results in an asset to the Group, an asset is recognized up to the net present value of available economic benefits in the form of refunds from the plan or reductions in future contribution to the plan. Economic benefit in the form of refunds or reduction in future contribution is considered as available when it can be realized during the plan's term or after settlement of the liability. When there is an improvement in the benefits that the plan grants to employees, the portion of the increased benefit relating to past service by employees is recognized in profit and loss according to the straight-line method over the average period until the benefits have vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit and loss.

Actuarial gains or losses are recognized in profit or loss during the period in which they are created.

The severance pay component in policies issued by Migdal Insurance does not constitute plan assets and is off-set from liabilities in respect of insurance contracts.

3. Other long term employee benefits

The Group's net obligation in respect of long-term employee benefits other than employment benefit plans is the amount future benefit that employees have earned for service rendered in current and prior periods. This benefit is discounted to its present value and the fair value of related assets is deducted from said amount. The discount rate is determined by reference to the yields at the reporting date on Government bonds whose currency and maturity dates is consistent with the terms of the Group's obligation. The calculation is performed using the projected unit credit method. Actuarial gains and losses are recognized in the income statement in the period in which they arise.

The Group's employees are entitled to benefits in respect of sick leave and some of them are entitled to anniversary grants. These benefits are accounted for as other long-term benefits since the Company estimates that these benefits will be used subsequent to one year from the reporting date.

4. Termination benefits

Employee termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

q. Employee benefits (Cont.)

5. Share based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognized an expense in respect of the awards whether or not the conditions have been met.

When the company makes changes in the terms of grants settled by equity instruments, an additional expense, beyond the original expenditure, that was calculated in respect of any modification that increases the total fair value of compensation granted or benefits the employee/other service provider, is recognized at fair value at the time of change.

De-recognition of a grant settled by equity instruments is treated as though it had vested as at the date of de-recognition and the expense that was not yet recognized in respect of the grant is immediately recognized. Nevertheless, if the de-recognized grant is replaced by a new grant and is intended to be an alternative grant as at the date it was granted, the de-recognized grant and the new grant will both be treated as a change in the initial grant as described in the former paragraph.

Transactions in which the parent company grants Group employees rights to its equity instruments, are treated as equity settled share based payment transactions. In other words, the fair value of the grant is recognized directly in equity, as aforementioned.

Transactions settled in cash

The cost of a transaction that is settled in cash is measured at fair value at the time of the transaction. For further details, see Note 33. The fair value is recognized as an expense over the vesting period with a corresponding increase in liabilities. The liability is re-measured at each reporting date at the fair value until it is settled. Any changes in the fair value of the liability are recognized in the Income Statement, taking into account the amount of services provided by the employees up until that time.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

r. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.
Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision in respect of a long term liability is adjusted each period to reflect the time that has passed.

Legal claims

A provision for claims is recognized if the Group has a present obligation (legal or constructive) as a result of a past event; it is more likely than not that the Group’s economic resources will be required to settle the obligation; and the obligation can be estimated reliably. When the value of time is material, the provision is measured at its present value. The Group management is assisted by its legal advisors in examining the necessity of making provisions and in quantifying them.

s. Revenue recognition

1. Premiums

a) Premiums in life assurance and health insurance segments, including savings premiums but excluding receipts in respect of investment contracts are recorded as income when due.

Cancellations are recorded upon receipt of notice from the policyholder or initiated by the Company due to arrears in payments, subject to legal provisions. Policyholders’ participation in profits is deducted from the premiums.

b) General insurance premiums are accounted for as income based on monthly new business reports. Insurance premiums usually refer to an insurance period of one year. Gross income from premiums and changes in unearned premium are accounted for under gross earned premiums.

Since in the motor act line of insurance, the insurance comes into effect only after payment of the insurance premium, the premium is accounted for on the date of payment.

Premiums from policies that will be in force after the reporting date are reported as prepaid income.

Monthly new business reports, primarily in the motor casco and comprehensive residential insurance lines include an automatic renewal of all policies whose renewal date has arrived.

Income included in the financial statements is after cancellation notices received from policyholders and after the deduction of cancellations and provisions due to the non-payment of premiums, subject to legal provisions and net of the policyholders’ participation in profits, based on the agreements that are in force.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

s. Revenue recognition (Cont.)

2. Management fees

a) Management fees in respect of yield dependent insurance contracts:

Management fees are calculated in accordance with the Regulator's directives on the basis of the yield and the accumulated savings of policyholders in the profit-participating portfolio.

Management fees include the following components:

For policies sold from January 1, 2004 – Fixed management fees only.

For policies sold up to December 31, 2003 – Fixed and variable management fees.

The fixed management fees are calculated at fixed rates from the accumulated savings and are recorded on an accrual basis.

Variable management fees are calculated as a percentage of the annual yield, in real terms (from January 1 and up to December 31) credited to the policy after deducting the fixed management fees collected from that policy.

During the year the variable management fees are reported on an accumulated basis in accordance with the real monthly yield, as long as the yield is positive. During the months that the real yield is negative, the variable management fees are reduced to the amount of the cumulative variable management fees recorded from the beginning of the year. Negative yields in respect of which reductions in management fees have not been made in the current year, will be deducted for the purpose of calculating management fees from positive yields in subsequent periods.

b) Management fees from pension and provident funds

Income from the management of pension and provident funds is recognized on the basis of the balances of the assets managed and on the basis of member contributions, according to the Regulator's directives.

c) Management fees from mutual funds and from management of customer's portfolios:

Income from mutual funds management fees and income from management of investment portfolios are recognized on the basis of the balances of the managed assets.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

s. Revenue recognition (Cont.)

3. Commissions

Revenues from general insurance commissions in insurance agencies are recognized as income when incurred.

Revenues from life assurance commissions in insurance agencies are recognized on the basis of entitlement dates for payment of the commissions, according to the agreements with the insurance companies, less provisions for commission refunds due to anticipated cancellations of insurance policies.

4. Net investment income (losses) and finance income:

See paragraph j.8 above.

t. Administrative and general expenses

Administrative and general expenses are classified to indirect expenses for settlement of claims (that are included under payments and change in liabilities in respect of the insurance and investment contracts), to expenses relating to acquisitions (included under commissions, marketing, and other acquisition expenses) and to the balance of administrative and general expenses that are included under this item. The classification is made according to the Group’s internal models that are based on direct expenses and allocated indirect expenses.

u. Taxes on income

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or are recognized directly in equity or in other comprehensive income to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current taxes

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates applicable under laws enacted or substantively enacted at the reporting date and adjustments required in relation to the payment of tax liability for previous years.

Deferred taxes

Deferred taxes are recognized with respect to temporary differences between the carrying amounts of the assets and liabilities for financial reporting and their value for tax purposes. The Group does not recognize deferred taxes for the following temporary differences: Initial recognition of goodwill, initial recognition of assets and liabilities in a transaction that does not constitute a business combination and does not affect accounting income and income for tax purposes, and provisions deriving from investment in subsidiaries and affiliates, if it is not expected that they will be reversed in the foreseeable future and to the extent the Group controls the date of reversal.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

u. Taxes on income (Cont.)

Deferred taxes (Cont.)

The deferred taxes in respect of investment property held for the purpose of recovering substantially all of the economic benefits embodied in it by way of realization and not by way of use, are measured according to the manner of the expected settlement of the base asset, on the basis of realization and not on the basis of use.

Deferred taxes are measured at the tax rates that are expected to apply to the temporary differences on the date they are realized, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each balance sheet date, and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Offsetting of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset if there is a legal enforceable right to offset current tax assets and liabilities and they relate to the income taxes levied by the same tax authority and in respect of the same taxable entity, or in different tax entities, when they intend to settle current tax assets and liabilities on a net basis or if the tax assets and liabilities will be realized simultaneously.

Tax addition in respect of dividend distribution

The Group might be liable to pay additional tax in the event of dividend distribution by Group companies. This additional tax was not included in the financial statements, since the Group companies' policy is not to distribute dividends which create an additional tax liability to the recipient, in the foreseeable future.

In such cases where an investee is expected to distribute a dividend from profits involving additional tax to the Company, the Company will create a tax provision in respect of the additional tax it may be required to pay in respect of the dividend distribution.

Additional taxes, resulting from distribution of dividends by the Company, are recognized in profit and loss at the same time that the liability to pay the related dividend is recognized.

Intercompany transactions

Deferred tax in respect of intercompany transactions in the consolidated financial statements is recorded at the tax rate applicable to the purchasing company.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

v. Earnings per share

The Company presents basic and diluted earnings per share data with respect to its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares which comprise share options granted to employees.

w. New Standards not yet adopted

1. IFRS 9 (2010) – Financial Instruments (hereunder – “the Standard”)

The Standard replaces the requirements included in IAS 39 regarding classification and measurement of financial assets and financial liabilities. In accordance with the Standard, there are two main categories for measuring financial assets: amortized cost and fair value. The basis of classification regarding debt instruments is based on the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In addition, investments in equity instruments will be measured at fair value when changes in the fair value will be allocated to profit and loss. However, the Standard allows during the initial recognition of a capital instrument not held for trade, to choose to present the changes in the fair value of and equity instrument in other comprehensive income, or never to classify to profit and loss. As a whole, the Standard maintained the directives relating to the classification and measurement of financial liabilities, as in IAS 39. However, unlike IAS 39, IFRS 9 (2010) requires, as a rule, that the amount of change in the fair value of financial liabilities designated to fair value through profit and loss, except for liabilities for granting loans and financial guarantee contracts, relating to the changes in the credit risks of the liabilities, will be recognized in other comprehensive income, and the balance of the amount will be recognized in the profit and loss.

The Standard will be implemented for annual periods beginning on or after January 1, 2015 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the appendix to the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard.

The Group is assessing the effect of adopting the Standard on the financial statements.

2. A new suite of accounting standards on consolidation of financial statements, joint arrangements and disclosure of involvement with other entities

The new suite of standards replaces existing standards regarding consolidation of financial statements and joint arrangements and includes a number of changes with respect to investments in affiliates.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

w. New Standards not yet adopted (Cont.)

2. A new suite of accounting standards on consolidation of financial statements, joint arrangements and disclosure of involvement with other entities (Cont.)

The set of Standards will be applied for annual periods beginning on January 1, 2013, or thereafter, restrictively (except for certain exemptions in the transitional provisions).

For the implementation of the following Standards no significant effect is expected on the Company’s financial statements.

Presented hereunder are the new standards that were issued:

a) IFRS 10 Consolidated Financial Statements (hereunder – "the Standard")

The Standard introduces a new control model for determining whether an investor controls an investee and should therefore consolidate it. In accordance with the Standard, the “de facto” circumstances will be taken into account when evaluating control, so that the existence of effective control of the investee will require consolidation. In addition, the evaluation of control should take into account, all significant potential voting rights, and not just the potential voting rights immediately realizable. The structure, reasons for their existence and the terms of the potential voting rights should be related to.

IAS 27 directives will continue to be applicable only for the separate financial statements.

b) IFRS 11 Joint Arrangements (hereunder - "the Standard")

The Standard classifies joint arrangements as joint operations or joint ventures based on the rights and obligations of the parties to the arrangement. Joint ventures, which form all the joint arrangements that are incorporated as a separate entity in which the parties have joint control to rights in the net assets of the joint arrangement will be treated according to the equity value method only (the possibility of applying the proportional consolidation method was cancelled).

In addition, the Standard amends IAS 28 Net Investments in Affiliates. In accordance with the amendment, the revaluation of the existing or remaining rights in the investment at fair value at the time of transition from significant influence to joint control and vice versa was cancelled, and it was also determined that IFRS 5 is applicable to an investment or part of it when it meets the criteria of classification as held for sale.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

w. New Standards not yet adopted (Cont.)

2. A new suite of accounting standards on consolidation of financial statements, joint arrangements and disclosure of involvement with other entities (Cont.)

c) IFRS 12 Disclosure of Involvement with Other Entities (hereunder – "the Standard")

The Standard contains extensive disclosure requirements for entities that have interests in subsidiaries, joint arrangements in affiliates and structured entities which are not consolidated.

3. IFRS 13 - Fair Value Measurement (hereunder – "the Standard")

The Standard replaces the directives regarding the measurement of the fair value in various IFRS Standards. For this purpose the Standard defines what fair value is and determines directives for measurement and disclosure. However, the Standard does not require new measurement of fair value, but explains how to measure fair value when this type of measurement is required by other Standards. The Standard will be applied when the measurement of fair value or disclosures of fair value are required or permitted by other IFRS.

The Standard was applied for annual periods beginning on January 1, 2013. The Standard was applied prospectively, and the disclosure requirements of the Standard will not apply to comparative information for periods before the initial implementation.

The implementation of the Standard in not expected to have a significant effect on the Company's financial statements.

4. Amendment to IAS 19 - Employee Benefits (hereunder – the amendment)

The amendment includes a number of changes to the accounting treatment of employee benefits, which state among others that all actuarial gains and losses are to be recognized immediately through other comprehensive income, and the corridor method and the method of imputation of actuarial gains and losses to profit and loss will immediately be canceled. Also, interest recognized in profit and loss will be calculated for the net balance of liability (asset) in respect of a defined benefit, according to the discount rate used for the calculation of the liability. In addition, the classification of short or long term employee benefits or will depend on the entity's anticipation of the date full benefits will be utilized.

The amendment will apply on annual periods beginning on January 1, 2013 or thereafter and will be applied retrospectively (except for certain exemptions as detailed in the Amendment).

The adoption of the amendment is not expected to have a material effect on the Company's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING PRINCIPLES (Cont.)

w. New Standards not yet adopted (Cont.)

5. Amendment to IAS 1 – Presentation of Financial Statements regarding presentation of other comprehensive income items (hereunder – the amendment)

The amendment changes the manner of presentation of items of other comprehensive income in the financial statements, so that items of other comprehensive income after initial recognition as total profit will be transferred to profit and loss, will be presented separately from items of other comprehensive income are never transferred to the income statement.

The amendment is effective for annual periods beginning on July 1, 2012 or thereafter and will be applied retrospectively

x. Below are changes in the CPI and exchange rate of the dollar:

	Consumer Price Index		Representative exchange rate of the USD
	Index in respect of	Known index	
	%	%	%
For the year ended as at December 31, 2012	1.6	1.4	(2.3)
For the year ended as at December 31, 2011	2.1	2.5	7.7
For the year ended as at December 31, 2010	2.7	2.3	(6.0)

NOTE 3:- BUSINESS SEGMENTS

a. General

The Company operates in the following segments of activity:

1. The segment of life assurance and long term savings

   The segment of life assurance and long term savings includes the lines of life assurance, pension and provident funds and it concentrates mainly on long term savings (in the framework of various types of insurance policies, pension and provident funds including educational fund), as well as insurance coverages for various risks such as: death, disability, disability income insurance, etc. According to the Regulator's directives the life assurance and long term savings segment is broken down into life assurance, pension and provident funds.

2. Health insurance segment

   The health insurance segment concentrates all the Group's activities in health insurance – the segment includes long term care insurance, medical expense insurance, operations, transplants, dental insurance, etc.

3. General insurance segment

   The general insurance segment includes the liability and property branches. Under the Regulator of Insurance's directives, the general insurance segment is broken down into the lines of motor act, motor casco, other property branches, other liability branches.

   - The motor act insurance line of insurance

     The motor act insurance line of business focuses on coverages that their acquisition by the owner of the vehicle or the driver is compulsory by law and it provides a coverage for bodily injuries (to the driver of the vehicle, the passengers in the vehicle or to pedestrians), as a result of the use of the motor vehicle.

   - The motor casco line of insurance

     The motor casco line of business focuses on the property damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

   - Other liability branches

     The liability branches are intended for the coverage of the policyholders' liabilities for any damage that he will cause to a third party. These lines of business include: third party liability, employers' liability, professional liability, product warranty, marine hull and aviation hull.

   - Property and other branches

     The other general insurance branches that are not vehicles and liabilities, including property loss, comprehensive business premises, comprehensive residential, mortgage banks, personal accidents, cargo in transit, engineering insurance, other risks.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

a. General

The Company operates in the following segments of activity: (Cont.)

4. Financial services segment

This segment mainly includes financial assets management services and marketing for investments (mainly management of mutual funds and portfolio management), stock exchange brokerage in regulated markets, underwriting services, market making of various securities as well as other services.

5. Other segments of activity include mainly activities of insurance agencies.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

b. Reportable segment

	Year ended as at December 31, 2012							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	7,356,994	692,483	1,426,551	-	-	-	-	9,476,028
Premiums earned by reinsurers	158,095	62,579	480,907	-	-	-	-	701,581
Premiums earned on retention	7,198,899	629,904	945,644	-	-	-	-	8,774,447
Net investment income and finance income	7,123,544	143,025	158,022	20,521	3,752	108,994	(33,678)	7,524,180
Income from management fees	1,000,537	-	-	143,297	-	-	(6,336)	1,137,498
Income from commissions	50,745	17,300	65,902	40,199	365,386	-	(* (189,022)	350,510
Other income	46	-	-	4,832	-	12,147	-	17,025
Total income	15,373,771	790,229	1,169,568	208,849	369,138	121,141	(229,036)	17,803,660
Payments and change in liabilities in respect of gross insurance and investment contracts	13,936,263	519,805	846,316	-	-	-	-	15,302,384
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	88,570	29,068	138,840	-	-	-	-	256,478
Payments and change in liabilities in respect of insurance and investment contracts on retention	13,847,693	490,737	707,476	-	-	-	-	15,045,906
Commissions, marketing expenses and other acquisition expenses	857,539	163,355	320,426	64,304	167,072	-	(191,583)	1,381,113
Administrative and general expenses	572,952	39,220	38,419	131,944	192,853	57,535	(12,772)	1,020,151
Other expenses	12,667	-	-	1,774	9,731	8,939	-	33,111
Finance expenses	23,778	-	2,805	69	2,868	36,698	(27,242)	38,976
Total expenses	15,314,629	693,312	1,069,126	198,091	372,524	103,172	(231,597)	17,519,257
Share in investees profits treated according to the equity value method	36,368	-	11,429	-	1,261	15,394	-	64,452
Income (loss) before taxes on income	95,510	96,917	111,871	10,758	(2,125)	33,363	2,561	348,855
Other comprehensive income before taxes on income	120,618	5,367	72,303	-	1,718	77,202	-	277,208
Total comprehensive income (loss) for the period before taxes on income	216,128	102,284	184,174	10,758	(407)	110,565	2,561	626,063

*) Derived from income from commissions received from agencies owned by the Group, from activities in the life assurance area and long term savings in the amount of NIS 146,813 thousand, in the health area in the amount of NIS 14,410 thousand and in the general area in the amount of NIS 27,799 thousand.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

b. Reportable segment (Cont.)

	Year ended as at December 31, 2011							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	6,846,689	614,906	1,430,494	-	-	-	-	8,892,089
Premiums earned by reinsurers	179,274	62,850	476,910	-	-	-	-	719,034
Premiums earned on retention	6,667,415	552,056	953,584	-	-	-	-	8,173,055
Net investment income and finance income	398,731	328	166,378	14,656	3,933	104,706	(27,682)	661,050
Income from management fees	746,716	-	-	165,819	-	-	(6,577)	905,958
Income from commissions	82,577	19,144	52,989	50,564	376,140	-	(201,498) *)	379,916
Other income	1,169	-	-	4,814	3,508	1,579	(1,815)	9,255
Total income	7,896,608	571,528	1,172,951	235,853	383,581	106,285	(237,572)	10,129,234
Payments and change in liabilities in respect of gross insurance and investment contracts	6,248,161	394,222	1,104,741	-	-	-	-	7,747,124
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	56,042	33,625	277,498	-	-	-	-	367,165
Payments and change in liabilities in respect of insurance and investment contracts on retention	6,192,119	360,597	827,243	-	-	-	-	7,379,959
Commissions, marketing expenses and other acquisition expenses	764,625	136,294	315,812	76,289	166,832	-	(195,629)	1,264,223
Administrative and general expenses	538,459	37,609	38,237	137,390	191,637	35,094	(6,577)	971,849
Other expenses	14,011	-	-	2,363	9,306	1,079	-	26,759
Finance expenses	7,800	-	14,604	231	2,791	27,408	(27,682)	25,152
Total expenses	7,517,014	534,500	1,195,896	216,273	370,566	63,581	(229,888)	9,667,942
Share in investees profits (losses)treated according to the equity value method	27,303	-	7,672	-	(225)	13,864	-	48,614
Income (loss) before taxes on income	406,897	37,028	(15,273)	19,580	12,790	56,568	(7,684)	509,906
Other comprehensive loss before taxes on income	(263,681)	(9,404)	(80,306)	-	(974)	(26,647)	-	(381,012)
Total comprehensive income for the period before taxes on income	143,216	27,624	(95,579)	19,580	11,816	29,921	(7,684)	128,894

*) Derived from income from commissions received from agencies owned by the Group, from activities in the life assurance area and long term savings in the amount of NIS 169,854 thousand, in the health area in the amount of NIS 10,217 thousand and in the general area in the amount of NIS 21,427 thousand.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

b. Reportable segment (Cont.)

	Year ended as at December 31, 2010							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	6,245,286	556,000	1,381,644	-	-	-	-	8,182,930
Premiums earned by reinsurers	136,183	46,214	458,325	-	-	-	-	640,722
Premiums earned on retention	6,109,103	509,786	923,319	-	-	-	-	7,542,208
Net investment income and finance income	6,564,140	117,233	244,695	60,335	3,987	144,380	(27,480)	7,107,290
Income from management fees	1,131,595	-	-	185,270	-	-	(3,484)	1,313,381
Income from commissions	51,244	17,003	50,632	62,164	350,930	-	(192,530) *)	339,443
Other income	22,446	-	-	1,109	-	29	-	23,584
Total income	13,878,528	644,022	1,218,646	308,878	354,917	144,409	(223,494)	16,325,906
Payments and change in liabilities in respect of gross insurance and investment contracts	11,898,626	437,928	1,013,430	-	-	-	-	13,349,984
Reinsurers' share in payments and change in liabilities in respect of insurance contracts	56,029	24,082	263,502	-	-	-	-	343,613
Payments and change in liabilities in respect of insurance and investment contracts on retention	11,842,597	413,846	749,928	-	-	-	-	13,006,371
Commissions, marketing expenses and other acquisition expenses	762,309	119,464	307,039	77,173	151,941	-	(187,066)	1,230,860
Administrative and general expenses	510,110	30,257	38,913	153,963	182,824	28,218	(3,484)	940,801
Other expenses	14,198	-	-	3,563	21,913	2,534	-	42,208
Finance expenses	8,956	-	247	2,090	2,533	27,054	(27,480)	13,400
Total expenses	13,138,170	563,567	1,096,127	236,789	359,211	57,806	(218,030)	15,233,640
Share in investees profits (losses) treated according to the equity value method	46,320	-	18,924	-	(322)	8,992	-	73,914
Income (loss) before taxes on income	786,678	80,455	141,443	72,089	(4,616)	95,595	(5,464)	1,166,180
Other comprehensive income (loss) before taxes on income	55,402	3,750	(23,492)	-	190	1,209	-	37,059
Total comprehensive income (loss) for the period before taxes on income	842,080	84,205	117,951	72,089	(4,426)	96,804	(5,464)	1,203,239

*) Derived from income from commissions received from agencies owned by the Group, from activities in the life assurance area and long term savings in the amount of NIS 162,658 thousand, in the health area in the amount of NIS 8,430 thousand and in the general area in the amount of NIS 21,442 thousand.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

c. Additional information regarding the life assurance and long term savings segment

	Year ended December 31, 2012			
	Life assurance	Pension	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,356,994	-	-	7,356,994
Premiums earned by reinsurers	158,095	-	-	158,095
Premiums earned on retention	7,198,899	-	-	7,198,899
Investment income, net and finance income	7,118,252	5,076	216	7,123,544
Income from management fees	574,216	286,363	139,958	1,000,537
Income from commission	50,745	-	-	50,745
Other income	46	-	-	46
Total income	14,942,158	291,439	140,174	15,373,771
Payments and change in gross liabilities for insurance and investment contracts	13,936,263	-	-	13,936,263
Reinsurers' share in payments and change in liabilities for insurance contracts	88,570	-	-	88,570
Payments and change in liabilities for insurance and investment contracts on retention	13,847,693	-	-	13,847,693
Commissions, marketing expenses and other acquisition expenses	705,003	105,113	47,423	857,539
Administrative and general expenses	399,022	115,313	58,617	572,952
Other expenses	66	-	12,601	12,667
Finance expenses	21,511	-	2,267	23,778
Total expenses	14,973,295	220,426	120,908	15,314,629
The Group's share in profits of investees treated according to the equity value method	36,368	-	-	36,368
Profit before taxes on income	5,231	71,013	19,266	95,510
Other comprehensive income before taxes on income	113,342	6,914	362	120,618
Total comprehensive income for the period before taxes on income	118,573	77,927	19,628	216,128

NOTE 3:- BUSINESS SEGMENTS (Cont.)

c. Additional information regarding the life assurance and long term savings segment (cont.)

	Year ended December 31, 2011			
	Life assurance	Pension	Provident funds	Total
	NIS in thousands			
Gross premiums earned	6,846,689	-	-	6,846,689
Premiums earned by reinsurers	179,274	-	-	179,274
Premiums earned on retention	6,667,415	-	-	6,667,415
Investment income, net and finance income	393,351	4,715	665	398,731
Income from management fees	351,500	252,177	143,039	746,716
Income from commission	82,577	-	-	82,577
Other commission	1,169	-	-	1,169
Total income	7,496,012	256,892	143,704	7,896,608
Payments and change in gross liabilities for insurance and investment contracts	6,248,161	-	-	6,248,161
Reinsurers' share in payments and change in liabilities for insurance contracts	56,042	-	-	56,042
Payments and change in liabilities for insurance and investment contracts on retention	6,192,119	-	-	6,192,119
Commissions, marketing expenses and other acquisition expenses	633,738	89,530	41,357	764,625
Administrative and general expenses	376,835	99,458	62,166	538,459
Other expenses	-	-	14,011	14,011
Finance expenses	3,039	-	4,761	7,800
Total expenses	7,205,731	188,988	122,295	7,517,014
The Group's share in profits of investees treated according to the equity method	27,303	-	-	27,303
Profit before taxes on income	317,584	67,904	21,409	406,897
Other comprehensive loss before taxes on income	(261,410)	(1,976)	(295)	(263,681)
Total comprehensive income for the period before taxes on income	56,174	65,928	21,114	143,216

NOTE 3:- BUSINESS SEGMENTS (Cont.)

c. Additional information regarding the life assurance and long term savings segment (Cont.)

	Year ended December 31, 2010			
	Life assurance	Pension	Provident funds	Total
	NIS in thousands			
Gross premium earned	6,245,286	-	-	6,245,286
Premium earned by reinsurers	136,183	-	-	136,183
Premiums earned on retention	6,109,103	-	-	6,109,103
Investment income, net and finance income	6,556,703	7,113	324	6,564,140
Income from management fees	760,226	225,076	146,293	1,131,595
Income from commission	51,244	-	-	51,244
Other income	22,446	-	-	22,446
Total income	13,499,722	232,189	146,617	13,878,528
Payments and gross change in liabilities for insurance and investment contracts	11,898,626	-	-	11,898,626
Reinsurers' share in payments and in change in liabilities for insurance contracts	56,029	-	-	56,029
Payments and change in liabilities for insurance contracts on retention	11,842,597	-	-	11,842,597
Commissions, marketing expenses and other acquisition expenses	634,326	84,378	43,605	762,309
Administrative and general expenses	347,854	88,647	73,609	510,110
Other expenses	-	-	14,198	14,198
Finance expenses	4,476	-	4,480	8,956
Total expenses	12,829,253	173,025	135,892	13,138,170
The Group's share in profits of investees treated according to the equity value method	46,320	-	-	46,320
Income before taxes on income	716,789	59,164	10,725	786,678
Other comprehensive income before taxes on income	55,296	75	31	55,402
Total comprehensive income for the period before taxes on income	772,085	59,239	10,756	842,080

NOTE 3:- BUSINESS SEGMENTS (Cont.)

d. Additional information regarding the general insurance segment

	For the year ended as at December 31, 2012				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	266,234	350,580	535,292	254,237	1,406,343
Reinsurance premiums	5,504	1,030	379,073	68,791	454,398
Premiums on retention	260,730	349,550	156,219	185,446	951,945
Change in unearned premium balance, on retention	(129)	3,064	(4,969)	(4,267)	(6,301)
Earned premium on retention	260,601	352,614	151,250	181,179	945,644
Investment income, net and finance income	82,371	9,282	6,753	59,616	158,022
Income from commission	-	20	57,015	8,867	65,902
Total income	342,972	361,916	215,018	249,662	1,169,568
Payments and change in liabilities for gross insurance contracts	188,319	271,842	207,208	178,947	846,316
Reinsurers share in payments and in change in liabilities for insurance contracts	(9,680)	38	149,917	(1,435)	138,840
Payments and change in liabilities for insurance contracts on retention	197,999	271,804	57,291	180,382	707,476
Commission, marketing expenses and other acquisition expenses	34,968	95,908	135,125	54,425	320,426
Administrative and general expenses	11,058	7,577	13,972	5,812	38,419
Finance expenses	616	86	1,663	440	2,805
Total expenses	244,641	375,375	208,051	241,059	1,069,126
Share in profits of investees treated according to the equity value method	6,003	697	386	4,343	11,429
Income (loss) before taxes on income	104,334	(12,762)	7,353	12,946	111,871
Other comprehensive income before taxes on income	38,083	4,283	2,372	27,565	72,303
Total comprehensive income (loss) for the period before taxes on income	142,417	(8,479)	9,725	40,511	184,174
Liabilities in respect of gross insurance contracts as at December 31, 2012	1,427,354	230,493	577,745	1,473,418	3,709,010

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises, engineering and cargo in transit insurance branches, whose activities constitute about 94% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability insurance, third party liability and professional liability, whose activities constitute about 87% of the total premiums in these branches.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

d. Additional information regarding the general insurance segment (Cont.)

	For the year ended as at December 31, 2011				
	Motor Act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	258,389	371,051	550,241	266,488	1,446,169
Reinsurance premiums	5,370	630	390,674	87,665	484,339
Premiums on retention	253,019	370,421	159,567	178,823	961,830
Change in unearned premium balance, on retention	3,222	(2,325)	(5,530)	(3,613)	(8,246)
Earned premium on retention	256,241	368,096	154,037	175,210	953,584
Investment income, net and finance income	82,069	8,819	18,538	56,952	166,378
Income from commission	-	14	44,633	8,342	52,989
Total income	338,310	376,929	217,208	240,504	1,172,951
Payments and change in liabilities for gross insurance contracts	233,340	317,576	352,507	201,318	1,104,741
Reinsurers share in payments and in change in liabilities for insurance contracts	(6,746)	41	299,143	(14,940)	277,498
Payments and change in liabilities for insurance contracts on retention	240,086	317,535	53,364	216,258	827,243
Commission, marketing expenses and other acquisition expenses	33,812	96,971	136,582	48,447	315,812
Administrative and general expenses	11,222	8,013	12,977	6,025	38,237
Finance expenses	726	89	13,316	473	14,604
Total expenses	285,846	422,608	216,239	271,203	1,195,896
Share in profits of investees treated according to the equity value method	4,112	441	264	2,855	7,672
Income (loss) before taxes on income	56,576	(45,238)	1,233	(27,844)	(15,273)
Other comprehensive loss before taxes on income	(43,040)	(4,619)	(2,763)	(29,884)	(80,306)
Total comprehensive income (loss) for the period before taxes on income	13,536	(49,857)	(1,530)	(57,728)	(95,579)
Liabilities in respect of gross insurance contracts as at December 31, 2011	1,456,545	244,455	675,363	1,490,084	3,866,447

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises and cargo in transit insurance branches whose activities constitute about 87% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability professional liability and product warranty branches whose activities constitute about 84% of the total premiums in these branches.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

d. Additional information regarding the general insurance segment (Cont.)

	For the year ended as at December 31, 2010				
	Motor Act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	254,713	357,222	529,709	261,086	1,402,730
Reinsurance premiums	5,784	551	383,541	90,417	480,293
Premiums on retention	248,929	356,671	146,168	170,669	922,437
Change in unearned premium balance, on retention	(5,209)	11,560	(3,021)	(2,448)	882
Earned premium on retention	243,720	368,231	143,147	168,221	923,319
Investment income, net and finance income	129,535	16,724	7,471	90,965	244,695
Income from commission	-	-	43,052	7,580	50,632
Total income	373,255	384,955	193,670	266,766	1,218,646
Payments and change in liabilities for gross insurance contracts	243,448	274,267	238,165	257,550	1,013,430
Reinsurers share in payments and in change in liabilities for insurance contracts	(245)	162	187,830	75,755	263,502
Payments and change in liabilities for insurance contracts on retention	243,693	274,105	50,335	181,795	749,928
Commission, marketing expenses and other acquisition expenses	34,170	98,465	125,961	48,443	307,039
Administrative and general expenses	11,031	8,085	13,868	5,929	38,913
Finance expenses	1,040	152	(1,635)	690	247
Total expenses	289,934	380,807	188,529	236,857	1,096,127
Share in profits of investees treated according to the equity value method	9,947	1,283	705	6,989	18,924
Income before taxes on income	93,268	5,431	5,846	36,898	141,443
Other comprehensive loss before taxes on income	(12,349)	(1,593)	(875)	(8,675)	(23,492)
Total comprehensive income for the period before taxes on income	80,919	3,838	4,971	28,223	117,951
Liabilities in respect of gross insurance contracts as at December 31, 2010	1,437,603	230,817	591,379	1,480,662	3,740,461

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises and engineering insurance branches whose activities constitute about 91% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability and third party insurance branches whose activities constitute about 75% of the total premiums in these branches.

NOTE 3:- BUSINESS SEGMENTS (Cont.)

e. Details on segment assets and liabilities

	December 31, 2012							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	398,548	-	-	391,221	128,027	351,277	(1,390)	1,267,683
Deferred acquisition costs	1,296,433	277,979	114,676	-	-	-	(64,416)	1,624,672
Investments in affiliates	341,794	-	119,277	-	9,585	134,330	-	604,986
Investment property for yield dependent contracts	3,834,089	82,397	-	-	-	-	-	3,916,486
Other - investment property	404,122	6,606	125,773	-	-	1,703	-	538,204
Reinsurance assets	90,887	15,001	944,181	-	-	-	-	1,050,069
Outstanding premiums	172,440	16,231	248,014	-	9,645	-	-	446,330
Financial investments for yield dependent contracts	53,038,763	1,117,689	-	-	-	-	-	54,156,452
Other financial investments:								
Quoted debt assets	2,435,419	28,648	1,307,830	22,391	29,304	1,400,409	-	5,224,001
Unquoted debt assets	19,388,338	240,855	455,593	141,283	6,807	254,142	(148,026)	20,338,992
Shares	408,692	5,057	158,848	978	476	58,642	-	632,693
Others	966,154	11,841	243,465	24,996	4,826	86,650	-	1,337,932
Total other financial investments	23,198,603	286,401	2,165,736	189,648	41,413	1,799,843	(148,026)	27,533,618
Cash and cash equivalents for yield dependent contracts	2,326,270	49,993	-	-	-	-	-	2,376,263
Cash and cash equivalents – others	850,146	11,780	266,103	130,493	50,192	953,115	-	2,261,829
Other assets	535,396	54,656	33,767	15,602	121,948	1,022,113	(626,993)	1,156,489
Total assets	86,487,491	1,918,733	4,017,527	726,964	360,810	4,262,381	(840,825)	96,933,081
Total assets for yield dependent contracts	59,473,551	1,162,841	-	-	-	-	-	60,636,392
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	24,488,126	352,101	3,709,010	-	-	-	-	28,549,237
Liability due to yield dependent insurance and investment contracts	58,798,458	1,263,816	-	-	-	-	-	60,062,274
Financial liabilities	134,188	1,852	8,125	28,693	150,614	868,977	(148,026)	1,044,423
Other liabilities	1,483,499	22,985	300,392	141,753	210,196	972,401	(649,566)	2,481,660
Total liabilities	84,904,271	1,640,754	4,017,527	170,446	360,810	1,841,378	(797,592)	92,137,594

NOTE 3:- BUSINESS SEGMENTS (Cont.)

e. Details on segment assets and liabilities (Cont.)

	December 31, 2011							
	Life assurance and long term savings	Health	General insurance	Financial services	Other business segments	Not attributed to business segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	410,974	-	-	393,604	113,551	324,035	(1,390)	1,240,774
Deferred acquisition costs	1,236,324	252,268	118,048	-	-	-	(66,977)	1,539,663
Investments in affiliates	327,502	-	115,707	-	7,064	129,332	-	579,605
Investment property for yield dependent contracts	3,446,568	73,382	-	-	-	-	-	3,519,950
Other investment property	375,712	5,915	113,006	891	-	1,702	-	497,226
Reinsurance assets	79,618	12,468	1,089,363	-	-	-	-	1,181,449
Outstanding premiums	140,376	12,607	270,946	-	11,054	-	-	434,983
Financial investments for yield dependent contracts	46,422,857	989,089	-	-	-	-	-	47,411,946
Other financial investments:								
Quoted debt assets	2,017,846	22,631	1,299,710	38,570	26,931	1,234,620	-	4,640,308
Unquoted debt assets	19,029,555	225,242	482,735	167,073	4,681	268,627	(157,129)	20,020,784
Shares	502,030	5,920	207,769	3,259	572	65,463	-	785,013
Others	733,673	8,583	174,930	24,736	4,232	49,837	-	995,991
Total other financial investments	22,283,104	262,376	2,165,144	233,638	36,416	1,618,547	(157,129)	26,442,096
Cash and cash equivalents for yield dependent contracts	734,657	15,642	-	-	-	-	-	750,299
Cash and cash equivalents – others	822,726	10,878	291,235	73,960	45,149	253,758	-	1,497,706
Other assets	841,234	36,808	85,170	34,180	145,713	302,639	(442,589)	1,003,155
Total assets	77,121,652	1,671,433	4,248,619	736,273	358,947	2,630,013	(668,085)	86,098,852
Total assets for yield dependent contracts	50,835,149	1,010,124	-	-	-	-	-	51,845,273
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	23,093,734	317,812	3,866,447	-	-	-	-	27,277,993
Liabilities due to yield dependent insurance and investment contracts	50,316,643	1,071,499	-	-	-	-	-	51,388,142
Financial liabilities	600,832	14,497	9,063	81,286	158,285	73,268	(157,129)	780,102
Other liabilities	1,219,610	15,357	373,109	98,540	200,662	671,976	(466,061)	2,113,193
Total liabilities	75,230,819	1,419,165	4,248,619	179,826	358,947	745,244	(623,190)	81,559,430

NOTE 4:- INTANGIBLE ASSETS

a. Composition:

	Goodwill	Initial difference relating to value of insurance portfolios	Future management fees	Brand name	Computer software	Other	Total
	NIS in thousands						
Cost							
Balance as at January 1, 2011	874,952	722,067	213,623	10,326	767,545	2,617	2,591,130
Company initially consolidated	13,174	-	-	1,413	1,202	5,186	20,975
Acquisitions and independent development (1)	-	2,995	-	-	123,183	-	126,178
Balance as at December 31, 2011	888,126	725,062	213,623	11,739	891,930	7,803	2,738,283
Company initially consolidated	12,024	7,564	-	-	650	4,611	24,849
Acquisitions and independent development (1)	-	10,092	-	-	136,477	-	146,569
Balance as at December 31, 2012	900,150	742,718	213,623	11,739	1,029,057	12,414	2,909,701
Accumulated amortization and accumulated impairment losses							
Balance as at January 1, 2011	105,999	678,628	113,646	5,531	468,087	2,199	1,374,090
Amortization recognized during the year	-	9,294	16,178	732	96,847	368	123,419
Balance as at December 31, 2011	105,999	687,922	129,824	6,263	564,934	2,567	1,497,509
Amortization recognized during the year	-	9,373	13,970	920	117,828	1,381	143,472
Impairment	1,037	-	-	-	-	-	1,037
Balance as at December 31, 2012	107,036	697,295	143,794	7,183	682,762	3,948	1,642,018
Net book value:							
As at December 31, 2012	793,114	45,423	69,829	4,556	346,295	8,466	1,267,683
As at December 31, 2011	782,127	37,140	83,799	5,476	326,996	5,236	1,240,774

(1) The amounts of about NIS 104 million and NIS 99 million, respectively were included in 2012 and 2011, respectively, in respect of the independent development of computer software.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. Examination of recoverability of intangible assets with an indefinite term

In order to examine the recoverability of goodwill as at December 31, 2012, the goodwill was allocated to the following cash generating units: pension, provident funds, financial services and other (mainly insurance agencies).

Hereunder is the carrying amount of the goodwill that was allocated to each of the following cash generating units:

	As at December 31	
	2012	**2011**
Pension	190,866	190,866
Provident funds	139,949	139,949
Financial services	382,482	382,482
Other	79,817	68,830
	793,114	782,127

In order to examine the recoverability of the goodwill, the recoverable amount of the cash generating unit to which the goodwill was allocated, is examined in relation to its carrying amount. If the recoverable amount of the cash generating unit is higher than its carrying amount, the value of the unit and the assets allocated to it will be considered unimpaired.

The recoverable amount of the pension unit is determined on the basis of the calculation of the embedded value of the unit. The recoverable amount is higher than the carrying amount of the unit.

The recoverable amount of the provident fund and financial services units is mainly determined on the basis of the estimated future cash flows deriving from the activities of each of the units.

The recoverable amount of each one of these units is higher than the carrying amount of each of the units.

The other segment is mainly attributed to the activities of the Group's insurance agencies.

The recoverable amount of the unit is determined based on the estimated cash flows and income multiplier approach.

The recoverable amount exceeds the book value of the unit.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. Examination of recoverability of intangible assets with an indefinite term

The key assumptions used for the calculation of the value in use

The calculation of the recoverability of the provident funds segment is based on the following main assumptions:
The discount interest rate – 11% (in the year 2011 – 11.5%). This rate was determined using the W.A.C.C. model, on the basis of parameters characteristic of this type of activity.

The long term growth rate – 1.75% (in the year 2011 – 1). The rate was determined on the basis of the average long-term growth rate for this type of activity.

Average management fees to provident funds and education funds in the long term – 0.93% (in the year 2011 – 1.03%). This rate is based on the management fees that are expected to be collected in the long term and it takes into account the change resulting from the reform in provident funds as published by the Ministry of Finance in June 2012. It should be noted that the reform has no effect on the management fees collected in the education funds, which make up the majority of assets under management in this sector.

The calculation of the recoverability of the provident funds segment is based on the following main assumptions:

The discount interest rate – 12% (in the year 2011 – 12.5%). This rate was determined using the W.A.C.C. model, on the basis of parameters characteristic of this type of activity.

The long term growth rate – 2.5% (in the year 2011 – 1.75%). The rate was determined on the basis of the average long-term growth rate accepted for this type of activity.

Average management fees in the long term provident funds – 0.8% (in the year 2011 – 0.8%).

The calculation of the recoverability of the “other” segment is based on the following main assumptions:

The interest rate for capitalization – 10% (in the year 2011 – 10%) income multiplier 1.5% - 2% (in the year 2011 –1.5% - 2%).

These rates are determined based on the parameters that are specific to such activities.

NOTE 5:- DEFERRED ACQUISITION COSTS

a. Composition:

	As at December 31	
	2012	2011
	NIS in thousands	
Life assurance and long term savings *)	1,232,017	1,169,347
Health insurance	277,979	252,268
General insurance	114,676	118,048
	1,624,672	1,539,663

*) Including deferred acquisition costs in respect of pension and provident funds.

b. The movement in deferred acquisition costs in life assurance and long term savings and in health insurance:

	Life assurance and long term savings	Health	Total
	NIS in thousands		
Balance as at January 1, 2011	1,105,040	237,983	1,343,023
Additions:			
Acquisition commissions	180,505	49,174	229,679
Other acquisition expenses	95,649	13,036	108,685
Total additions	276,154	62,210	338,364
Current amortization	133,231 *)	43,870	177,101
Amortization due to cancellations	78,616 *)	4,055	82,671
Balance as at December 31, 2011	1,169,347	252,268	1,421,615
Additions:			
Acquisition commissions	202,228	62,643	264,871
Other acquisition expenses	103,422	18,240	121,662
Total additions	305,650	80,883	386,533
Current amortization	140,365	51,529	191,894
Amortization due to cancellations	102,615	3,643	106,258
Balance as at December 31, 2012	1,232,017	277,979	1,509,996

*) Reclassified. See Note 2d.

NOTE 6:- FIXED ASSETS

a. Composition and movement:

Year 2012

	Land and office buildings	Computers and Software	Vehicles	Office furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Balance as at January 1, 2012	629,255	253,176	24,082	157,878	36,877	1,101,268
Additions during the year	114,851	25,555	1,012	28,143	1,177	170,738
Company consolidated for the first time	-	1,471	-	800	119	2,390
Disposals during the year	(1,508)	(11,468)	(4,671)	(923)	(18)	(18,588)
Balance as at December 31, 2012	742,598	268,734	20,423	185,898	38,155	1,255,808
Accumulated depreciation						
Balance as at January 1, 2012	110,160	177,549	8,280	103,248	22,843	422,080
Additions during the year	17,843	26,069	3,496	9,574	3,807	60,789
Company consolidated for the first time	-	1,222	-	495	51	1,768
Disposals during the year	(883)	(11,468)	(2,387)	(294)	(11)	(15,043)
Balance as at December 31, 2012	127,120	193,372	9,389	113,023	26,690	469,594
Balance of amortized cost as at December31, 2012	615,478	75,362	11,034	72,875	11,465	786,214
Annual depreciation rates	4%	17%-33%	15%	6%-15%	10%-17%	

NOTE 6:- FIXED ASSETS (Cont.)

a. Composition and movement:

Year 2011

	Land and office buildings	Computers and Software	Vehicles	Office furniture and equipment	Leasehold improvements	Total
				NIS in thousands		
Cost						
Balance as at January 1, 2011	447,368	219,044	23,448	147,977	37,976	875,813
Additions during the year	181,887	45,645	1,354	11,113	1,200	241,199
Company consolidated for the first time	-	-	-	150	-	150
Disposals during the year	-	(11,513)	(720)	(1,362)	(2,299)	(15,894)
Balance as at December 31, 2011	629,255	253,176	24,082	157,878	36,877	1,101,268
Accumulated depreciation						
Balance as at January 1, 2011	97,084	168,950	5,088	95,341	20,921	387,384
Additions during the year	13,076	20,093	3,565	9,204	4,221	50,159
Company consolidated for the first time	-	-	-	60	-	60
Disposals during the year	-	(11,494)	(373)	(1,357)	(2,299)	(15,523)
Balance as at December 31, 2011	110,160	177,549	8,280	103,248	22,843	422,080
Balance of amortized cost as at December 31, 2011	519,095	75,627	15,802	54,630	14,034	679,188
Annual depreciation rates	4%	17%-33%	15%	6%-15%	10%-17%	

NOTE 6:- FIXED ASSETS (Cont.)

b. Details regarding real estate rights which serve the Group as fixed asset

	As at December 31	
	2012	2011
	NIS in thousands	
Ownership	561,420	460,350
Capitalized lease *)	54,058	58,745
	615,478	519,095

*) Assets in capitalized lease in the amount of NIS 48,239 thousand (in the year 2011 - NIS 51,827 thousand) whose remaining period of lease is up to 16 years.

Assets in capitalized lease in the amount of NIS 5,819 thousand (in the year 2011 - NIS 6,918 thousand) whose remaining period of lease is over 45 years.

c. Construction of office building

The Company constructed an office building on an area of about 17,800 square meters next to the Group's office buildings in Petach-Tikva, which among others, is utilized by the house agencies and concentrates most of the Group's activities in one central place. Part of the building was occupied during the year 2012 by the Group's employees.

The total investment as at December 31, 2012 amounted to about NIS 420 million.

d. Additional information

The Group has fully depreciated assets which are still operating. The original cost of these assets as at December 31, 2012 is about NIS 157 million (December 31, 2011, about NIS 141 million).

In the year 2012 the Company derecognized fixed assets which were fully amortized and is not utilized by the Company in the amount of about NIS 11 million.

NOTE 7:- INVESTMENTS IN INVESTEES

a. Details in respect of affiliated companies and subsidiaries held by the Company

1. Affiliated companies

	As at December 31, 2012					
	County of incorporation	Company's equity and voting rights		Loans and capital notes granted by the Company to affiliated companies	Amount of investment in affiliated companies	Total
		%		NIS in thousands		
Principal affiliated companies:						
Ramat Aviv Mall Ltd. (3)	Israel	26.6		65,232 (2)	170,148	235,380
Amot Investments Ltd.	Israel	15.1	(1)	-	358,422	358,422
				65,232	528,570	593,802
Other affiliated companies				2,811	8,373	11,184
Total affiliated companies				68,043	536,943	604,986

	As at December 31, 2011					
	County of incorporation	Company's equity and voting rights		Loans and capital notes granted by the Company to affiliated companies	Amount of investment in affiliated companies	Total
		%		NIS in thousands		
Principal affiliated companies:						
Ramat Aviv Mall Ltd. (3)	Israel	26.6		62,136 (2)	158,161	220,297
Amot Investments Ltd.	Israel	15.1	(1)	-	346,674	346,674
				62,136	504,835	566,971
Other affiliated companies (4)				10,232	2,402	12,634
Total affiliated companies				72,368	507,237	579,605

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

a. Details in respect of affiliated companies and subsidiaries held by the Company (Cont.)

(1) Migdal Insurance has a director in Amot Investments Ltd. (hereunder – Amot) and the right to appoint another director in Amot. Therefore, the potential voting power in the Board of Directors of Amot, which includes the aforementioned right, is 20%.

The fair value of these shares on the Tel-Aviv Stock Exchange as at December 31, 2012 is about NIS 332 million (in the year 2011 – NIS 325 million).

(2) A capital note in the amount of NIS 75,840 thousand, issued in June 2009 for a minimum period of 5 years, and bearing no interest and no linkage. The capital note is reported in the financial statements at its present value.

(3) In November 2010 Ramat Aviv Mall provided a loan in the amount of about NIS 64 million to Migdal Insurance. The balance of the loan at December 31, 2012 is NIS 40 million and it is included in the item financial liabilities.

The loan bears interest at a rate of 4.2% per annum. The loan's principal and interest will be linked to the CPI.

The loan will be settled beginning from November 2011, in five equal installments at the end of each 12 months and each payment includes principal and interest.

(4) Including capital notes in the amount of NIS 7 million issued to the Company by 50 Plus Ltd. which became a subsidiary in 2012.

For additional details see paragraph d below.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

a. Details in respect of affiliated companies and subsidiaries held by the Company

2. Consolidated companies held directly by the Company

	As at December 31, 2012				
	County of incorporation	Company's equity and voting rights	Loans and capital notes granted by the Company to affiliated companies	Amount of investment in affiliated companies	Total
		%	NIS in thousands		
Migdal Insurance Company Ltd. (Migdal Insurance) (1)	Israel	100	-	4,151,284	4,151,284
Migdal Health and Quality of Life Ltd. (2) (3)	Israel	100	30,325	(6,152)	24,173
Migdal Capital Markets (1965) Ltd.	Israel	100	30,000	537,775	567,775
Mivtach Simon Management Ltd.	Israel	100	9,392	2,917	12,309
Total			69,717	4,685,824	4,755,541

(1) The capital note that was issued to the Company by Migdal Insurance was converted in December 2012 to its share capital.
For additional details see paragraph e.10 below.

(2) During the year 2012 Migdal Health and Quality of Life Ltd. issued capital notes to the Company the amount of NIS 30.4 million for the period of not less than 5 years, without interest and unlinked. The capital notes are presented in the “separate” financial statements at their present value.
In addition, the Company granted Migdal Health a loan in the amount of NIS 5.5 million. The loan is linked to the CPI and bears interest at a rate of 4% per annum to be settled in 5 years.

(3) For additional details see paragraph d below.

	As at December 31, 2011				
	County of incorporation	Company's equity and voting rights	Loans and capital notes granted by the Company to affiliated companies	Amount of investment in affiliated companies	Total
		%	NIS in thousands		
Migdal Insurance Company Ltd. (Migdal Insurance)	Israel	100	110,947	3,871,884	3,982,831
Migdal Health and Quality of Life Ltd.	Israel	100	-	(3,185)	(3,185)
Migdal Capital Markets (1965) Ltd.	Israel	100	30,000	530,493	560,493
Mivtach Simon Management Ltd.	Israel	100	1,157	2,859	4,016
Total			142,104	4,402,051	4,544,155

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

b. Summary financial data for affiliated companies treated according to the equity value method

The data are presented according to the percentage of holding in the affiliated companies:

	December 31	
	2012	2011
	NIS in thousands	
Assets *)	1,667,721	1,598,050
Liabilities	1,130,778	1,090,813
Net assets	536,943	507,237

(*) Including balances of initial differences and goodwill.

The Group's share of the operating results of affiliated companies.
The data are presented according to the percentage of holding in the affiliated companies:

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Income	133,181	166,183	145,296
Net profit	64,452	48,614	73,914

c. Dividends received or receivable by the Company from affiliated companies and subsidiaries

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
From affiliates	39,326	32,500	37,189
From subsidiaries	242,465	145,744	244,212

d. Additional information in respect of investees

In November 2012 a transaction for the acquisition of the remaining rights in 50 Plus Ltd. (hereunder – 50 Plus) was completed, in such a manner that Migdal Health and Quality of Life Ltd. increased its share in this company from 50% to 100% and from this date it obtained the full control of this company. 50 Plus is consolidated in the financial statements. The amount paid by Migdal Health for the acquisition of the minority's share was NIS 1.55 million.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

d. Additional information in respect of investees (Cont.)

In addition, Migdal Health granted loans in the amount of about NIS 6.5 million for settlement of the liabilities of 50 Plus to the minority and other third parties. In addition, the total increase in the initial differences included in the investment in the purchased company is immaterial.

The increase in Migdal Health's share in 50 Plus, is following the Group's plan to increase its involvement in the field of the elderly, including the development and concentration of various services and products to the population of the elderly.

e. Management and capital requirements in the Group companies

1. Management's policy is to maintain a strong capital base in order to preserve the Company's ability to continue its operations in order to generate returns for its shareholders and in order to support future business activities. The subsidiaries of the Company which are institutional entities, are subject to capital requirements laid down by the Regulator of Insurance.

   In August 2011, the Board of Directors of Migdal Insurance adopted a policy for management of the shareholders' equity of Migdal Insurance. Pursuant to the policy, as stated, it was resolved, among other things, that Migdal Insurance will strive to maintain existing capital in accordance with the capital requirements, which will not be less than 110% of the capital required based on the capital requirement regulations. In addition, monitoring and reporting procedures were determined with respect to the capital developments, as well as timetables for performance and completion of activities relating to the capital position of Migdal Insurance.

   It is clarified that the above policy does not constitute a determination of mandatory capital, and there is no certainty that Migdal Insurance will comply with this target at all times.

2. Hereunder are details with respect to the required and existing capital of Migdal Insurance pursuant to the Supervision of Financial Services (Insurance) Law (Minimum Solvency Margin Required from an Insurer), 1998 (hereunder – the capital regulations), and the Regulator's directives.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

e. Management and capital requirements in the Group companies (Cont.)

	December 31	
	2012	2011
	NIS in thousands	
Amount required as per the capital regulations and the Regulator's directives (a)	3,545,953	3,546,165
Total existing amount calculated as per the capital regulations:		
First tier capital - basic	4,166,496	3,882,802
Complex first tier capital (capital note) (b)	-	110,947
Total first tier capital	4,166,496	3,993,749
Complex second tier capital (c)	828,143	-
Total existing capital calculated as per the Capital Regulations	4,994,639	3,993,749
Surplus	1,448,686	447,584
Additional capital requirement after the reporting date due to the transition directives of the Investment Regulations (see paragraph 9 below)	69,797	
Surplus taking into consideration events after the reporting date	1,378,889	
Apart from the general requirements in the Companies Law, the distribution of dividends from surplus capital in insurance companies is also subject to liquidity requirements and compliance with the investment regulations. In this respect, the investment that should be provided against surplus capital in accordance with the Regulator's directives, and hence comprise non-distributable surplus (also see paragraph 9 below)	44,592	11,127
(a) The required amount including capital requirements in respect of:		
Activity in general insurance/required first tier capital	326,671	327,796
Long-term care insurance activity	25,445	22,748
Extraordinary risks in life assurance	373,146	350,522
Deferred acquisition costs in life assurance and insurance for diseases and hospitalization	1,445,426	1,405,373
Requirements in respect of yield-guaranteed plans	14,519	23,258
Inadmissible assets as defined in the Capital Regulations	13,544	22,893
Investment in insurance subsidiaries and consolidated managing companies (d)	228,567	210,910
Investment assets and other assets	714,348	785,951
Catastrophe risks in general insurance	129,444	117,640
Operating risks	271,052	274,094
Guarantees	3,791	4,980
Total amount required according to the amended capital regulations	3,545,953	3,546,165
(b) For details regarding conversion of capital notes into share capital see paragraph 10 below		
(c) Regarding issue of bonds whose consideration serves as complex second tier capital of Migdal Insurance see Note 24e. – financial liabilities		
(d) A decrease of the required capital due to the initial difference attributed to the managing company(this reduction is not recognized for the purpose of dividend distribution). See Note 6 below.	63,929	63,929

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

3. In August 2011 an insurance circular regarding the composition of an insurer's admissible shareholders' equity (hereunder – the equity circular) was published, and it determines the principles for the structure of the recognized shareholders equity of an insurer, and principles for recognizing various capital components and classifying them into various capital levels such as:

a) First tier capital – includes basic first tier capital (in the amount of the capital attributed to the Company's shareholders) perpetual capital notes or non-accrued preferred shares and complex first tier capital. The complex first tier capital includes financial instruments which are available to absorb the insurer's losses by cancellation of interest payments and postponement of the payment of the principal and their settlement is deferred until all the insurer's liabilities are settled and under certain circumstances (existing admissible shareholders' equity which is lower than required) the principal of the instrument will be eliminated or converted to ordinary shares. The first repayment date of these instruments will be after the settlement of the latest insurance liabilities or after 49 years, the earlier of the two, but not before the end of 10 years from the date of issue.

b) Second tier capital – includes financial instruments that are available to absorb the insurer's losses by postponing the payment of the principal and interest, and their settlement is deferred until all other debts are settled, except for the first tier capital. The first repayment date of the second tier capital instruments will be after the end of the period that reflects the weighted average of the periods for settlement of the insurance liabilities, plus two years, or 20 years, at the earlier of the two, but not before the end of 8 years from the date of issue.

c) Third tier capital - includes financial instruments that are available to absorb the insurer's losses by postponing the payment of the principal only and their settlement is deferred until all other debts are settled, except for the first and second tier capital (nevertheless, it can be determined that third tier capital will not be preferred to second tier capital and will be equal to second tier capital in order of payments). The first repayment date of the third tier capital instruments is not before the end of 5 years from the date of issue.

In this respect, insurance liabilities include non-yield dependent liabilities, without the portion of liabilities fully backed by Hetz, bonds (life linked bonds), and net of the reinsurers' share.

The recognized shareholders' equity of the insurer is the sum of the components and instruments included in the various levels at the following rates:

a) The total components and capital instruments included in the first tier capital will not be less than 60% of the shareholders' equity of the insurer.

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

3. (Cont.)

b) The total components and capital instruments included in the basic first tier capital will not be less than 70% of the first tier capital.

c) The total capital instruments of the complex first tier capital will not be more than 20% of the total first tier capital.

d) The total components and capital instruments included in the third tier capital will not be more than 15% of the shareholders' equity of an insurer.

The equity circular includes a temporary order regarding the composition of the shareholders' equity of an insurer during the period from September 30, 2011 and until the date the Regulator announces that the directives of the equity circular will be implemented (as defined in paragraph 4 below) in Israel on a gradual basis.

In addition, it was determined in the temporary order that the total rate of the capital instruments that are included in the "subordinated second tier capital" will not be higher than 50% of the basic capital. Second tier subordinate capital is defined as the total of the following elements:

(1) Subordinated deeds, whether they are convertible or unconvertible into shares, issued for the period of at least 5 years, and their repayment date is at least two years after the financial statements date, on condition that they were not issued to a controlling shareholder;

(2) The subordinated deeds that were issued for the controlling shareholders and are linked, at the most, to the CPI, but do not bear interest and their repayment date is not less than two years after the financial statements date.

In addition to the temporary order, the circular includes transition provisions, among others, regarding hybrid capital instruments, which will be issued from the date of commencement of the equity circular and the conditions set-forth therein, which will be fully recognized upon the implementation of the Directive (as described in paragraph 4 below) in Israel until maturity.

Bonds issued in the year 2012 by the Company's sub subsidiary are recognized as complex second tier capital in Migdal Insurance. For additional information regarding bonds see Note 24e.

4. On July 10, 2007, the European Union adopted the proposed version of the Solvency II Directive (hereunder - "the Directive"). The Directive forms a fundamental and comprehensive change in the regulations relating to guaranteeing the solvency and the capital adequacy of the insurance companies who are members of the European Union.

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

4. (Cont.)

The Directive is based on three layers: quantitative requirements, qualitative requirements and disclosure requirements. The Company began the process of application of the proposed Directive according to the determined schedule.

In September 2012 the Capital Market, Insurance and Savings at the Ministry of Finance Department (hereunder – the Department) published a letter regarding the solvency governance in Israel (hereunder – the letter). In accordance with the letter the Department intends to develop a risk-based solvency governance on the lines of Solvency II, due to the uncertainty regarding the timetable for implementing the Directive in Europe.

The letter states a list of reports that the insurance companies will be required to submit to the Department in the years 2012 to 2014 following which the Commissioner will examine the adequacy of the required capital from each insurance company and if necessary will, during the year 2015 and after his authority is regularized, decide about additional capital requirements (additional capital). The Commissioner's decisions on additional capital will be based on the companies' reports and the quality of corporate governance and the risk management of the company.

5. In July 2012, the Regulator published clarifications regarding the calculation of capital requirements for the insurance companies (hereunder – "the clarifications"), the main points are: clarifications regarding the capital required for investments, capital requirements in respect of operational risk, deficit or surplus created in profit participating policies, classification of financial derivatives, reports of commitments to invest in investment funds, external rating and capital surplus/deficit of insurance companies due to activities between the reporting date and the publication date. As at December 31, 2012 Midgal Insurance implements the aforementioned clarifications for calculating capital requirements.

6. The said equity circular as mentioned in paragraph 3 above, prescribes that the Regulator will be entitled to approve, subject to his conditions, a reduction in the capital requirements of up to 35% of the initial difference, for the acquisition of provident fund activities or a management company of the provident fund, in the event that the insurer's shareholders equity as at the reporting date is not less than the minimum shareholders equity required from him, less 35% of the initial difference due to the acquisition of provident fund activity or a provident fund's management company.

In November 7, 2011, the Regulator granted an approval to Migdal Insurance to reduce the minimum equity required from it due to the balance of initial difference attributed to management companies and provident funds, as defined in Regulation 5 to the Capital Regulations, under its control, at the rate of 35% of the balance of the initial difference as mentioned, commencing from the financial statements as at December 31, 2011. This change led to a reduction of NIS 64 million in the minimum required capital.

NOTE 7:- INVESTMENTS IN INVESTEES

e. Management and capital requirements in the Group companies (Cont.)

6. (Cont.)

When calculating the allowable amount for distribution of dividends, this reduction will be added to all the levels of the equity, as required in the draft dividend letter, see paragraph 7 below.

This approval will be cancelled when the capital requirements according to the first layer in Solvency II Directive will take effect, and will replace the Capital Regulations, and this does not signify the Supervision's policy for implementing the said requirements.

7. In December 2011, the Regulator of Insurance published a letter regarding distribution of a dividend by insurance companies (hereinafter – "the Draft Letter"). The Letter constitutes an update to the clarification from March 2010, and provides that the Regulator will not approve distribution of a dividend unless, after the distribution, the insurer has a ratio of recognized shareholders' equity to required shareholders' equity at a rate of at least 105% and after the submission of all the following: an insurer's forecast of the annual profit for two consecutive years as at the date of the dividend distribution; updated debt service plan approved by the Board of Directors of the insurance company and the Board of Directors of the holding company that holds the insurance company; a working plan for the capital supplementation that was approved by the insurance company's Board of Directors and the minutes of the discussion in the Board of Directors of the insurance company in which the dividend distribution was approved, in addition, it was determined that a notice of distribution of a dividend will be considered as if it received the Regulator's approval if after execution of the distribution, the insurer has a ratio of recognized shareholders' equity to required shareholders' equity at a rate in excess of 115% and all the documents detailed in the letter were submitted to the Regulator not later than 10 business days after the date of distribution.

It should be noted that in calculating the amount allowable for dividend distribution, amortization of the minimum equity was approved to Migdal Insurance for amortization of the balance of initial difference attributed to management companies, will be added to each level of required capital. Also see paragraph 6 above.

8. In June 2008, a circular was published with respect to the mode of application of the principles of measurement and presentation under IFRS, for the calculation of the required capital and the admissible capital of insurance companies. The purpose of the circular was to set directives regarding the mode of application of the capital regulations with respect to investments in investees (including insurance companies and managing companies controlled by insurance companies). According to the circular the capital requirements pursuant to the capital regulations will continue to be based on separate financial statements. In order to calculate the admissible capital according to the capital regulations, the investment of an insurance company in another insurance company or in a controlled managing company, as well as in other investees, will be calculated on an equity basis along the chain of control.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

e. Management and capital requirements in the Group companies (Cont.)

9. In July 2012 the Supervision of Financial Services (Provident Funds) (Regulations for Investing Applicable to Institutional Entities), 2012 (hereunder – the Investment Regulations) came into effect, and also the circular “Investment Regulations Applicable to Institutional Entities” (hereunder – the Investment Circular) (The Investment Regulations and the Investment Circular will be called “the New Investment Regulations”) was published.

   The New Investment Regulations include, among others, changes compared to the existing investment restrictions, and there are transitional directives regarding these changes.

   Migdal Insurance has investments and assets which according to the new investment regulations it will have to act in relation to them according to transitional provisions. Among others, it is possible that some of the investments will be gradually considered as inadmissible asset and accordingly the capital requirements may increase by about NIS 210 million up to January 1, 2015.

10. First tier complex capital – a capital note which was issued by Migdal Insurance and was recognized as first tier complex capital. In accordance with the terms of the capital note, following the change in the control of the Company, the capital note was converted to Migdal Insurance shares. For additional information regarding the change in the Company’s ownership, see Note 1.b.

11. In February 2012, the Supervision of Financial Services Regulations (Provident Funds) (Minimum Equity Required of a Managing Company of a Provident Fund or Pension Fund), 2012 and the Income Tax Regulations (Rules for Approval and Management of Provident Funds) (Amendment No. 2), 2012 (hereunder - "the New Regulations") were published.

   The New Regulations expanded the capital requirements from the managing companies regarding the scope of managed assets and annual expenses with a minimum starting shareholders' equity of NIS 10 million.

   The Commissioner of the Capital Market, Insurance and Savings Division (hereunder – the Commissioner) is entitled to expand or minimize the capital requirements given, among others, the risks underlying the managing company's activities, provided that an expansion of the capital requirements is for a predetermined period.

   As per his authority, in February 2012, the Commissioner of the Capital Market, Insurance and Savings Division issued a circular aimed at providing capital requirement exemptions to certain managing companies.

   The new investment regulations include, in addition to what was mentioned in paragraph 9 above, directives regarding the ways of investing minimum required shareholders' equity of a management company, which were previously included in the new regulations, including the determination that a managing company will not hold intangible assets against the minimum required capital, and the requirement to hold liquid assets at the rate of at least 50% of the minimum required shareholders' equity.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

e. Management and capital requirements in the Group companies (Cont.)

11. (Cont.)

A managing company is entitled to distribute a dividend only if its shareholders' equity is at least in the amount of the required minimum shareholders' equity as per these regulations.

The New Regulations include a transitional directives to supplement the difference between the capital that would have been required from it on the dates stated below, and that of the capital that would have been required from it prior to the publication of the new regulations (hereunder - the difference) up to the publication of the financial statements as at December 31, 2014, as follows:

Up to the date of issuing the financial statements for March 31, 2012 - at least 30% of the difference;
Up to the date of issuing the financial statements for December 31, 2012 - at least 60% of the difference;
Up to the date of issuing the financial statements for December 31, 2013 - at least 80% of the difference;
Up to the date of issuing the financial statements for December 31, 2014 - the total difference will be completed.

One of the management companies, wholly controlled by Migdal Insurance, is required to increase its equity by about NIS 8 million which will be paid in stages as detailed above. In order to comply with the requirements of the first stage of the equity supplementation, the management company issued 3 million shares at the nominal value NIS 1 each in May 2012.

In order to meet the requirements of the second stage of the equity supplementation, the management company issued 2 million shares at the nominal value of NIS 1 each in March 2013.

Following the new regulations the capital requirement of Migdal Insurance in respect of its holdings in the management companies will increase by about NIS 10 million, beyond the existing capital requirement in respect of management companies as at December 31, 2012.

12. As mentioned in Note 1 b. on October 29, 2012 the transaction for the transfer of control to Eliahu Insurance was completed.

On the closing date of the transaction, the permit for holding means of control and control of insurers (hereunder - "the control permit), which was granted to Mr. Shlomo Eliahu and Ms. Haya Eliahu, entered into effect and it allows them to hold, directly or indirectly, the means of control in Eliahu Inaurnace, Migdal Insurance, Migdal Makefet and Yozma, according to the conditions set-forth in the control permit. This control permit cancels the permit to hold the means of control and control which was granted to Generali in Migdal Insurance, Migdal Makefet and Yozma, which was in force up to the conclusion of the transaction.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

e. Management and capital requirements in the Group companies (Cont.)

12. (Cont.)

In the control permit sets, among others, limitations and conditions regarding the manner of holding the means of control in Eliahu Insurance, Migdal Holdings, Migdal Insurance Migdal Makefet and in Yozma, regarding the preservation of the control structure and the minimum rate of control in the abovementioned entities, regarding the sale or transfer or issue of means of control in each of the abovementioned entities, as well as pledging them, regarding the preservation of the shareholders' equity proportion in each of the entities in which the controlling shareholders have control, and the conditions in which the controlling shareholders and Eliahu Group will be entitled to receive management fees from the institutional entities controlled by the company, or to provide services to the institutional entities controlled by the Company.

Mr. Shlomo Eliahu gave the Regulator a letter of undertaking which was signed on October 16, 2012 in which he undertook, as the controlling shareholder of Eliahu Insurance, Migdal Insurance, Migdal Makefet and Yozma (hereunder – the "insurers"), to supplement the shareholders' equity of Eliahu Insurance and of Migdal Insurance to the amount determined in the Supervisors of Insurance Business Regulations (Minimum Shareholders Equity) required from an Insurer, 1998 or any other regulation or law that will replace them and also to supplement the shareholders' equity of Migdal Makefet and of Yozma to the amount set-forth in the Supervision of Financial Services Regulations (Provident Funds) (Minimum Shareholders' Equity Required from a Management Company of a Provident Fund or a Pension Fund)' 2012, or any other Regulation or Law that will replace them (hereunder - "the equity requirements"). This undertaking is irreversible and will be in force as long as Mr. Shlomo Eliahu controls, directly or indirectly, the aforementioned insurers.

As at the date of these financial statements the existing equity of Migdal Insurance, Migdal Makefet and Yozma, complies with the requirements of the capital regulations and the Provident Funds Law, whenever relevant.

13. One of the subsidiaries (hereunder– the subsidiary) of Migdal Capital Markets (1965) Ltd., which is wholly owned by the Company, is a member of the Stock Exchange.

In accordance with the financial stability model of the non-bank stock exchange members (hereinafter - "NBSEM"), the shareholders' equity requirements, liquidity and principles for granting consumer credit to customers by the NBSEM, were determined.

The minimum capital requirements (first and second tier as determined in the Stock Exchange articles of association) can change in significant amounts during a short period depending on the date of examination, since the calculation of the capital is on a daily basis and is affected by the volumes of activity.

In this context, in order to meet the shareholders' equity requirements, the Company granted Migdal Capital Markets a perpetual capital note.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

e. Management and capital requirements in the Group companies (Cont.)

13. (Cont.)

    At the same time, and in order for the subsidiary to comply with the shareholders' equity requirements, Migdal Capital Markets granted the subsidiary a long time owners' loan which is recognized for the purposes of shareholders' equity.

14. In the year 2012, Migdal Insurance distributed a dividend in the total amount of NIS 242,465 thousand.

15. In the year 2013 Migdal Insurance increased its retention in the reinsurance agreement in case of catastrophe by the amount of about NIS 150 million. Therefore, in the year 2013 Migdal Insurance's capital requirements are expected to increase by a similar amount.

NOTE 8:- INVESTMENT PROPERTY

a. Composition and movement

	For yield dependent contracts		Other	
	2012	2011	2012	2011
	NIS in thousands			
Balance as at January 1	3,519,950	2,938,957	497,226	353,804
Additions during the year				
Acquisitions and additions to existing assets	297,318	403,611	38,478	131,615
Capitalized costs and expenses	12,263	33,676	807	1,480
Total additions	309,581	437,287	39,285	133,095
Disposals during the year -				
realizations	-	(34,366)	(2,938)	-
Adjustment of fair value	86,955	178,072	4,631	10,327
Balance as at December 31	3,916,486	3,519,950	538,204	497,226

NOTE 8:- INVESTMENT PROPERTY (Cont.)

b. The fair value of investment property is determined based on valuations performed by independent external appraisers who hold recognized and relevant professional qualifications and who have up-to-date experience regarding the location and type of the property being valued.

The fair value was determined with reference to recent real estate transactions for similar property in the same location as the property owned by the Group, if there are such transactions and based on the discounted expected future cash flows from the property. For calculating the fair value, the appraiser used discount rates of 6.5% to 10% mainly 8% per annum, taking into consideration the type of property, its designation, its location and the nature of the lessees.

The investment property is mostly comprised of office buildings and commercial shopping centers.

c. Regarding engagements for the acquisition of investment property, see Note 39. 2.b.

d. Details regarding rights in real estate utilized by the Group as investment property:

	As at December 31	
	2012	2011
	NIS in thousands	
Ownership (a)	2,230,180	1,884,532
Capitalized lease (b)	2,224,510	2,132,644
	4,454,690	4,017,176

(a) Assets owned in the amount of NIS 919,997 thousand have yet to be registered in the name of the Group companies with the Land Registry Office mainly due to incomplete registration procedures and registration of rights in condominiums or technical problems.

(b) - Assets in capitalized lease in the amount of NIS 154,080 thousand (in the year 2011 – NIS 136,491 thousand) whose remaining period of lease is up to 15 years.

- Assets in capitalized lease in the amount of NIS 785,940 thousand (in the year 2011 - NIS 760,476 thousand) whose remaining period of lease is up to 15 - 50 years.

- Assets in capitalized lease in the amount of NIS 1,284,490 thousand (in the year 2011 - NIS 1,235,677 thousand) whose remaining period of lease is over 50 years, from this, an asset the amount of about NIS 588,500 thousand (in the year 2011 – NIS 571,500 thousand) is at this stage according to a development agreement.

NOTE 9:- DEBTORS AND RECEIVABLES

a. Composition:

	December 31 2012	December 31 2011
	NIS in thousands	
Institutions and government authorities	6,974	3,932
Income receivable	26,897	30,212
Prepaid expenses	23,887	26,377
Employees	25,441	23,238
Advances to suppliers	21,623	28,171
Debtors in respect of Stock exchange clearing house and securities	-	10,982
Advances on account of commissions to insurance agents	15,697	11,464
Insurance companies and insurance brokers	48,494	40,955
Others	85,904	75,384
Less provision for doubtful debts	(134)	(316)
Total debtors and receivables	254,783	250,399

See Note 37g for details of assets and liabilities according to linkage bases.

b. Hereunder is the movement in provision for doubtful debts:

	2012	2011
	NIS in thousands	
Balance as at January 1	(316)	(433)
Change in provision for the period	182	117
Balance as December 31	(134)	(316)

NOTE 10:- OUTSTANDING PREMIUMS

a. Composition:

	December 31	
	2012	2011
	NIS in thousands	
Outstanding premiums *)	450,879	438,931
Less provision for doubtful debts	(4,549)	(3,948)
Total outstanding premiums	446,330	434,983
*) including checks receivable and standing orders	179,574	171,912

Regarding the outstanding premiums' linkage terms, see Note 37.c.

b. Aging

	December 31	
	2012	2011
	NIS in thousands	
Outstanding premium whose value did not deteriorate not including arrears	250,972	275,025
In arrears *):		
Less than 90 days	83,512	70,649
Between 90 – 180 days	40,874	30,492
Over 180 days	68,921	57,509
Total outstanding premiums whose value did not deteriorate	444,279	433,675
Outstanding premium whose value deteriorated	2,051	1,308
Total outstanding premium	446,330	434,983

(*) Includes mainly debts in arrears in the life assurance segment. These debts are mainly backed by the policy's redemption value.

c. Hereunder is the movement in provision for doubtful debts in respect of outstanding premiums:

	December 31,	
	2012	2011
	NIS in thousands	
Balance as at January 1	(3,948)	(4,123)
Change in provision for the period	(601)	175
Balance as at December 31	(4,549)	(3,948)

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS

a. Details of assets reported at fair value *) through profit and loss

	December 31, 2012	December 31, 2011
	NIS in thousands	
Investment property	3,916,486	3,519,950
Financial investments		
Quoted debt assets	16,072,852	12,515,618
Unquoted debt assets *)	8,344,069	8,563,739
Shares	9,794,755	8,943,047
Other financial investments	19,944,776	17,389,542
Total financial investments	54,156,452	47,411,946
Cash and cash equivalents	2,376,263	750,299
Other	187,191	163,078
Total assets for yield dependent contracts	60,636,392	51,845,273

*) Including NIS 1,116,887 thousand classified to the group of “loans and debtors” (in the year 2011 – NIS 984,427 thousand) whose fair value is NIS 1,351,692 thousand (in the year 2011 – NIS 1,017,277 thousand).

Concerning the exposure in respect of yield dependent policy assets see Note 37.b.1.
Concerning details regarding interest and linkage of debt assets see Note 37.d.
Concerning the interest rates used to determine the fair value of the unquoted debt assets see Note 12.f.

b. Fair value levels of financial assets

The table below analyses assets held against insurance contracts and investment contracts that are presented at fair value through profit or loss.
The different levels have been defined as follows:

- Level 1: fair value is measured using quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: fair value is measured using inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: fair value is measured using inputs that are not based on observable market data (unobservable inputs).

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	16,072,852	-	-	16,072,852
Unquoted debt assets	-	7,083,760	143,422	7,227,182
Shares	8,806,441	-	988,314	9,794,755
Other financial investments	16,574,703	385,976	2,984,097	19,944,776
Total financial investments	41,453,996	7,469,736	4,115,833	53,039,565

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS

b. Fair value levels of financial assets (Cont.)

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	12,515,618	-	-	12,515,618
Unquoted debt assets	-	7,530,694	48,618	7,579,312
Shares	8,209,370	-	733,677	8,943,047
Other financial investments	13,892,767	218,928 *)	3,277,847 *)	17,389,542
Total financial investments	34,617,755	7,749,622	4,060,142	46,427,519

*) Reclassified. For details see Note 2.d.

c. Level 3 assets measured at fair value

	Fair value at reporting date				
	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial liabilities	Total
	NIS in thousands				
Balance as at January 1, 2012	-	48,618	733,677	3,277,847	4,060,142
Total gains (losses) recognized in profit and loss	-	7,512	48,393	16,684	72,589
Purchases	-	-	205,363	335,301	540,664
Sales	-	-	-	(640,231)	(640,231)
Surrenders	-	(14,678)	-	(5,504)	(20,182)
Transfers to Level 3	-	118,141 *)	881	-	119,022
Transfers from Level 3	-	(16,171) *)	-	-	(16,171)
Balance as at December 31, 2012	-	143,422	988,314	2,984,097	4,115,833
Total gains (losses) for the period included in profit and loss for assets held as at December 31, 2012	-	31,384	73,859	106,547	211,790

*) The transition between levels derives from the use of observable and unobservable market inputs.

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS (Cont.)

c. Level 3 assets carried at fair value (Cont.)

	Fair value at reporting date				
	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial liabilities	Total
	NIS in thousands				
Balance as at January 1, 2011	-	-	518,108	2,865,150	3,383,258
Total (gains) losses recognized in profit or loss	-	-	(6,872)	131,437	124,565
Purchases	-	-	222,441	926,126	1,148,567
Sales	-	-	-	(644,866)	(644,866)
Surrenders	-	-	-	-	-
Transfers to Level 3	-	48,618 **)	-	-	48,618
Balance as at December 31, 2011	-	48,618	733,677	3,277,847	4,060,142
Total gains (losses) for the period included in profit or loss for assets held as at December 31, 2011	-	(9,408)	(6,872)	284,829	268,549

*) Reclassified, for additional details see Note 2.d.

**) The transition between levels is derived from the use of observable and unobservable market inputs.

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS

	December 31, 2012			
	Reported at fair value through profit and loss	Available for sale	Loans and debtors	Total
	NIS in thousands			
Quoted debt assets (a)	22,391	5,201,610	-	5,224,001
Unquoted debt assets (b)	-	-	20,338,992	20,338,992
Shares (d)	978	631,715	-	632,693
Other (e)	96,986	1,240,946	-	1,337,932
Total	120,355	7,074,271	20,338,992	27,533,618

	December 31, 2011			
	Reported at fair value through profit and loss	Available for sale	Loans and Debtors	Total
	NIS in thousands			
Quoted debt assets (a)	40,553	4,599,755	-	4,640,308
Unquoted debt assets (b)	-	-	20,020,784	20,020,784
Shares (d)	3,259	781,754	-	785,013
Other (e)	134,165	861,826	-	995,991
Total	177,977	6,243,335	20,020,784	26,442,096

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS (Cont.)

a. Quoted debt assets

Composition:

	December 31 2012	December 31 2011
	NIS in thousands	
Government bonds		
Reported at fair value through profit and loss held for trade	22,391	38,272
Available for sale	3,252,564	2,276,803
Total government bonds	3,274,955	2,315,075
Other debt assets:		
Unconvertible		
Reported at fair value through profit and loss held for trade	-	298
Available for sale	1,949,046	2,322,952
Total other unconvertible debt assets	1,949,046	2,323,250
Convertible designated to fair value through profit and loss upon initial recognition	-	1,983
Total quoted debt assets	5,224,001	4,640,308
Impairment allocated to profit and loss (accumulated)	7,669	2,002

b. Unquoted debt assets

Composition

	Carrying amount 2012	Carrying amount 2011	Fair value 2012	Fair value 2011
	NIS in thousands			
Government bonds - designated bonds	17,277,271	16,449,790	21,658,463 *)	19,719,360 *)
Other unconvertible debt assets				
Reported as loans and debtors, including deposits with banks	3,061,721	3,570,994	3,583,324	3,793,054
Total unquoted debt assets	20,338,992	20,020,784	25,241,787	23,512,414
Impairment allocated to profit and loss (accumulated)	49,209	50,580		

*) Calculated according to the contractual settlement date.

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS (Cont.)

c. Details regarding interest and linkage in respect of debt assets (effective interest)

	December 31	
	2012	2011
	Percentage	
Quoted debt assets		
Linkage basis		
Linked to the CPI	1.6	3.5
In NIS	2.8	4.0
Linked to foreign currency	4.1	7.9
Unquoted debt assets		
Linkage basis		
Linked to the CPI	5.4	5.2
In NIS	4.5	4.3
Linked to foreign currency	3.8	4.6

d. Shares

	December 31	
	2012	2011
	NIS in thousands	
Quoted		
Reported at fair value through profit and loss held for trade	90	2,371
Available for sale	601,084	752,586
Total quoted shares	601,174	754,957
Unquoted		
Reported at fair value through profit and loss	888	888
Available for sale	30,631	29,168
Total unquoted shares	31,519	30,056
Total shares	632,693	785,013
Impairment allocated to profit and loss (accumulated)	95,791	142,700

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS (Cont.)

e. Other financial investments

Other financial investments mainly include investments in basket certificates, participation certificates in mutual funds, investment funds, hedging funds, financial derivatives, future contracts, options, structured products and amounts receivable in respect of realization of option.

	December 31 2012	December 31 2011
	NIS in thousands	
Quoted		
Reported at fair value through profit and loss held for trade	-	1,300
Available for sale	931,808	545,767
Derivative instruments (e1)	10,574	14,614
Total quoted financial investments	942,382	561,681
Unquoted		
Reported at fair value through profit or loss	79,491	94,575
Available for sale	309,138	316,059
Derivative instruments (e1)	6,921	23,676
Total unquoted financial investments	395,550	434,310
Total other financial investments	1,337,932	995,991
Impairment allocated to profit and loss (accumulated)	125,759	74,698

(e1) Derivative instruments

Hereunder is the amount of net exposure of the base asset, reported in Delta terms of financial transactions performed as at the date of the financial statements:

	December 31 2012	December 31 2011
	NIS in thousands	
Shares	47,424	155,903
CPI	50,439	102,047
Commodities	46,918	89,801
Foreign currency	113,171	59,010
Interest	5,157	6,943

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS (Cont.)

f. The interest rates used for determining fair value

The fair value of the unquoted debt assets that are measured at fair value through profit or loss and the unquoted financial debt assets for which information regarding the fair value is given for disclosure purposes only is determined through the discounted estimate of their anticipated cash flows. The discount rates are based on yields of government bonds and corporate bonds and a liquidity spread, as measured in the Tel-Aviv Stock Exchange. The price quotations and interest rates used for discounting are determined by the company which won the tender published by the Ministry of Finance for the construction and operation of price quotations and discount rates pool for institutional entities. Beginning from March 20, 2011, the “Mirvah Hogen" Group provides price quotations and discount rates to institutional entities for revaluation of unquoted debt assets (hereunder – “Mirvah Hogen model".). From that date, the Shaarey Ribit group ceased to supply these quotations to institutional entities. The Mirvah Hogen model is not primarily based on the credit rating of the asset but on the division of the market to deciles by yield to maturity and placing the unquoted asset in those deciles, in accordance with the risk premium derived from transaction/issue prices in the unquoted market and the transition to the Mirvah Hogen model will be applied as a change in estimate. The effect on the financial statements of the initial application of the new model at the transitional date was not material.

Following the Supreme Court's ruling which ordered the cancellation of the tender won by the Mirvah Hogen group, a new tender was published. On October 15, 2012, the Ministry of Finance announced that the "Sha'arei Ribit" group won the aforementioned tender. The winning group will be responsible for the methodology for determining prices and interest rates for discounting the cash flows of unquoted debt assets. At this stage the Company is unable to estimate the affect of the expected change in methodology, on the fair value of unquoted debt assets and if there will be any such affect.

According to a letter published by the Ministry of Finance, Mirvah Hogen Ltd. will continue to provide these services up to April 30, 2013, and the shift to valuations based on the quotations of Sha'arei Ribit Ltd. will be on April 22, 2013 and the quotations that Mirvah Hogen Ltd. will provide from that date will be used for examinations and supervision.

Hereunder are the weighted average interest rates for unquoted debt assets, included in each rating group (*):

	December 31	
	2012	2011
	Percentage	
AA and above	0.8	2.0
A	4.0	6.6
BBB	4.4	16.0
Lower than BBB	28.0	21.8
Not rated	8.2	14.0

(*) The sources for the level of rating in Israel are the rating company “Ma’alot”, “Midroog” and internal rating. The data from ”Midroog” was transferred to the rating categories according to the generally accepted conversion co-efficients. Each rating includes all the ranges: for example, rate A includes A- up to A+. Regarding internal rating, see Note 37.b.4.b.1

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS (Cont.)

g. Fair value levels of financial assets

The table below analyses assets that are presented at fair value. The different levels have been defined as follows:

- Level 1: fair value is measured using quoted prices (unadjusted) in active markets for identical instruments
- Level 2: fair value is measured using inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: fair value is measured using inputs that are not based on observable market data.

The carrying amounts of cash and cash equivalents, outstanding premiums, and debtors and receivables are the same or proximate to their fair value.

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	5,224,001	-	-	5,224,001
Unquoted debt assets	-	-	-	-
Shares	601,174	-	31,519	632,693
Other	942,382	6,212	389,338	1,337,932
Total	6,767,557	6,212	420,857	7,194,626

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	4,640,308	-	-	4,640,308
Unquoted debt assets	-	-	-	-
Shares	754,957	-	30,056	785,013
Other	561,681	23,676 *)	410,634 *)	995,991
Total	5,956,946	23,676	440,690	6,421,312

*) Reclassified. For details see Note 2d.

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS (Cont.)

g. Fair value levels of financial assets (Cont.)

Assets measured at fair value at level 3

	Fair value at reporting date				
	Financial assets at fair value through profit and loss and available for sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as at January 1, 2012	-	-	30,056	410,634	440,690
Total gains (losses) recognized in:					
profit and loss	-	-	(2,447)	(59,786)	(62,233)
other comprehensive income	-	-	3,910	(13,130)	(9,220)
Acquisitions	-	-	-	69,872	69,872
Sales	-	-	-	(18,252)	(18,252)
Balance as at December 31, 2012	-	-	31,519	389,338	420,857
Total profits (losses) for the period included in profit and loss for assets held as at December 31, 2012	-	-	(2,447)	15,970	13,523

*) Reclassified. For details see Note 2d.

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS (Cont.)

g. Fair value levels of financial assets (Cont.)

	Fair value at reporting date				
	Financial assets at fair value through profit and loss and available for sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial Investments *)	Total
	NIS in thousands				
Balance as at January 1, 2011	-	-	22,160	472,758	494,918
Total gains (losses) recognized in:					
In profit and loss	-	-	(2,502)	28,242	25,740
In other comprehensive income	-	-	516	(110,876)	(110,360)
Acquisitions	-	-	9,882	54,624	64,506
Sales	-	-	-	(34,114)	(34,114)
Balance as at December 31, 2011	-	-	30,056	410,634	440,690
Total income (losses) for the period included in profit and loss for assets held as at December 31, 2011	-	-	(4,592)	879	(3,713)

*) Reclassified. For details see Note 2d.

NOTE 13:- CASH AND CASH EQUIVALENTS FOR YIELD DEPENDENT CONTRACTS

	December 31	
	2012	2011
	Percentage	
Cash and deposits for immediate withdrawal	1,107,234	610,223
Short term deposits	1,269,029	140,076
Cash and cash equivalents	2,376,263	750,299

The cash in the banking corporations as at the balance sheet date, bear current interest based on the interest rate in respect of the daily bank deposits at the average rate of about 1.5% - (year 2011- 2.5%).

Short term deposits deposited in banking corporations are for the periods of between one week to three months. The deposits bear interest at the average rate of about 2.3% (year 2011 - 3%).

Regarding the linkage terms of the cash and short term deposits, see Note 37.d.

NOTE 13a:- OTHER CASH AND CASH EQUIVALENTS

	December 31	
	2012	2011
	Percentage	
Cash and deposits for immediate withdrawal	1,180,300	494,362
Short term deposits	1,081,529	1,003,344
Cash and cash equivalents	2,261,829	1,497,706

The cash in the banking corporations as at the balance sheet date, bear current interest based on the interest rate in respect of the daily bank deposits at the average rate of about 1.58% - (year 2011 2.5%).

Short term deposits deposited in banking corporations are for the periods of between one week to three months. The deposits bear the average interest rate of about 2.3% (year 2011 – 3% year).

Regarding the linkage terms of the cash and short term deposits, see Note 37.c.

NOTE 14:- EQUITY

a. Composition of share capital

	December 31, 2012		December 31, 2011	
	Authorized	Issued and paid up	Authorized	Issued and paid up
	NIS in thousands			
Ordinary shares of NIS 0.01 nominal value each	15,000	10,516 *)	15,000	10,516 *)

*) In nominal values.

b. Movement in share capital

1. There was no change in the Company's authorized share capital during the year.

2. The issued and paid up capital:

	Number of shares	NIS in thousands in nominal values
Balance as at January 1, 2011	1,051,640,025	10,516
Realization of employees options into shares	16,068	- *)
Balance as at December 31, 2011	1,051,656,093	10,516
Realization of employees options into shares	10,109	- *)
Balance as at December 31, 2012	1,051,666,202	10,516

*) Less than NIS 1 thousand.

Regarding share-based payments, see Note 33.

c. Rights attached to the shares

1. Voting rights in the general assembly, right to receive dividends, rights when the company is liquidated and right to appoint the company's Directors.

2. Traded on the Tel-Aviv Stock Exchange.

d. Distributed dividend

The following dividends were distributed by the Company:

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Year 2012: NIS 0.14 per share (year - 2011 NIS 0.14 per share, year 2010 - NIS 0.23 per share)	150,000	150,000	240,000

NOTE 15:- LIABILITIES IN RESPECT OF NON-YIELD DEPENDENT INSURANCE AND INVESTMENT CONTRACTS

	December 31					
	2012	2011	2012	2011	2012	2011
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long term savings:						
Insurance contracts	24,234,686	22,556,038*)	86,961	75,574	24,147,725	22,480,464
Investment contracts	327,564	615,753*)	-	-	327,564	615,753
	24,562,250	23,171,791	86,961	75,574	24,475,289	23,096,217
Less amounts deposited in the Group under the defined benefit plan for the Group's employees	74,124	78,057	-	-	74,124	78,057
Total life assurance and long term savings	24,488,126	23,093,734	86,961	75,574	24,401,165	23,018,160
Insurance contracts included in the health insurance segment	352,101	317,812	10,865	9,398	341,236	308,414
Insurance contracts included in the general insurance segment	3,709,010	3,866,447	944,181	1,089,363	2,764,829	2,777,084
Total liabilities in respect of non-yield dependent insurance and investment contracts	28,549,237	27,277,993	1,042,007	1,174,335	27,507,230	26,103,658

*) Reclassified. See Note 2d.

NOTE 16:- LIABILITIES IN RESPECT OF YIELD DEPENDENT INSURANCE AND INVESTMENT CONTRACTS

	December 31					
	2012	2011	2012	2011	2012	2011
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long term savings:						
Insurance contracts	58,645,997	50,430,966	3,926	4,044	58,642,071	50,426,922
Investment contracts	273,477	-	-	-	273,477	-
	58,919,474	50,430,966	3,926	4,044	58,915,548	50,426,922
Less amounts deposited in the Group under the defined benefit plan for the Group's employees	121,016	114,323	-	-	121,016	114,323
Total life assurance and long term savings	58,798,458	50,316,643	3,926	4,044	58,794,532	50,312,599
Insurance contracts included in the health insurance segment	1,263,816	1,071,499	4,136	3,070	1,259,680	1,068,429
Total liabilities in respect of yield dependent insurance contracts and investment contracts	60,062,274	51,388,142	8,062	7,114	60,054,212	51,381,028

In yield-dependent insurance contracts, the insurance benefits to which the beneficiary is entitled depend on the yield generated by certain investments made by Migdal Insurance, net of management fees. Among other things, these contracts include insurance plans that entitle/obligate the insured to a bonus/malus depending on the results of the investments in the profit-sharing policies portfolio of Migdal Insurance. In insurance contracts that are not yield-dependent, the insurance benefits to which the policyholder is entitled do not depend on the gain or loss from the investments made by Migdal Insurance.

The distinction between yield-dependent contracts and contracts that are non-yield dependent is made at individual cover level, so that some policies have several coverages, some of which are yield dependent and others are not.

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT

a1. Liabilities in respect of insurance contracts included in the general insurance segment according to type:

	December 31					
	2012	2011	2012	2011	2012	2011
	Gross		Reinsurance		On retention	
	NIS in thousands					
Motor act and liability branches *)						
Provision for unearned premium	206,348	209,709	24,212	31,970	182,136	177,739
Excess of income over expenses (accruals)	191,705	150,071	119,690	114,855	72,015	35,216
Outstanding claims and provision for insufficient premium	2,502,719	2,586,849	343,431	387,774	2,159,288	2,199,075
Total motor act and liability branches (see b.1 below)	2,900,772	2,946,629	487,333	534,599	2,413,439	2,412,030
From this liabilities in respect of the motor act branch (see c.2 below)	1,427,354	1,456,545	48,483	61,970	1,378,871	1,394,575
Property and other branches:						
Provision for unearned premium	343,947	360,795	152,973	171,724	190,974	189,071
Provision for insufficient premium	6,461	12,538	-	-	6,461	12,538
Outstanding claims	457,830	546,485	303,875	383,040	153,955	163,445
Total assets and others branches (see b'2 below)	808,238	919,818	456,848	554,764	351,390	365,054
Total liabilities in respect of insurance contracts included in the general insurance segment	3,709,010	3,866,447	944,181	1,089,363	2,764,829	2,777,084
Deferred acquisition costs:						
Motor act and liability branches	28,436	30,164	4,371	6,200	24,065	23,964
Property and other branches	86,240	87,884	36,611	39,187	49,629	48,697
Total	114,676	118,048	40,982	45,387	73,694	72,661
Liabilities in respect of general insurance contracts net of deferred acquisition costs:						
Motor act	1,415,296	1,444,499	48,483	61,970	1,366,813	1,382,529
Liabilities and other branches	1,457,040	1,471,966	434,479	466,429	1,022,561	1,005,537
Property and other branches	721,998	831,934	420,237	515,577	301,761	316,357
Total liabilities due to general insurance contracts net of deferred acquisition costs	3,594,334	3,748,399	903,199	1,043,976	2,691,135	2,704,423

*) Motor act and liability branches – including all the branches for which a surplus reserve is calculated.

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

a2. Insurance liabilities in respect of insurance contracts included in the general insurance segment according to their calculation method:

	December 31					
	2012	2011	2012	2011	2012	2011
	Gross		Reinsurance		On retention	
	NIS in thousands					
Actuarial valuations:						
Ms. Anat Cohen Toledano – general insurance actuary Total actuarial valuation	2,662,298	2,763,805	366,307	413,328	2,295,991	2,350,477
Provisions on the basis of other valuations:						
Claims department valuation in respect of known outstanding claims	298,948	376,195	277,276	353,598	21,672	22,597
Addition to outstanding claims due to claims incurred but not yet reported (IBNR)	5,764	5,872	3,723	3,888	2,041	1,984
Provision for unearned premium	550,295	570,504	177,185	203,694	373,110	366,810
Excess of income over expenses (accruals)	191,705	150,071	119,690	114,855	72,015	35,216
Total insurance liabilities in respect of insurance contracts included in the general insurance segment	3,709,010	3,866,447	944,181	1,089,363	2,764,829	2,777,084

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

b. Movement in liabilities in respect of insurance contracts included in the general insurance segment, net of deferred acquisition costs:

1. Motor act and liability branches

	Year ended December 31					
	2012	2011	2012	2011	2012	2011
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance as at the beginning of the year (1)	2,916,465	2,888,499	528,399	587,727	2,388,066	2,300,772
Accumulated claims cost in respect of the current underwriting year (2)	394,685	417,967	33,325	48,628	361,360	369,339
Change in balances as at the beginning of the year as a result of linkage to the index	36,975	65,131	5,762	11,903	31,213	53,228
Change in accumulated claims cost estimate in respect of previous underwriting years (3)	(108,021)	(66,118)	(61,323)	(96,271)	(46,698)	30,153
Total change in accumulated claims cost	323,639	416,980	(22,236)	(35,740)	345,875	452,720
Payments for settlement of claims during the year						
In respect of current underwriting year	4,944	5,698	115	143	4,829	5,555
In respect of previous underwriting years	404,456	398,088	27,920	34,687	376,536	363,401
Total payments for the period (4)	409,400	403,786	28,035	34,830	381,365	368,956
Accruals in respect of current underwriting year (5)	40,732	35,717	17,894	24,747	22,838	10,970
Accruals allocated to profit in respect of the released underwriting year	(59,429)	(65,138)	(43,174)	(46,303)	(16,255)	(18,835)
Balance of change in accruals (6)	60,329	44,193	30,114	32,798	30,215	11,395
Total change in the accruals for the period	41,632	14,772	4,834	11,242	36,798	3,530
Balance as at the end of the year (1)	2,872,336	2,916,465	482,962	528,399	2,389,374	2,388,066

Comments:

(1) The opening and closing balances include: outstanding claims, provision for premium deficiency, accruals and unearned premium, net of deferred acquisition costs.

(2) The ultimate claims cost is: outstanding claims balance (without accruals), provision for premium deficiency, unearned premium net of deferred acquisition costs with the addition of the total claims payments including direct or indirect expenses for claims settlement. The ultimate claims cost is updated based on the model in light of actual claims development.

(3) The change in the estimate of ultimate claims cost for previous underwriting years in year 2012, mainly derives from a decrease in provisions in the motor act insurance branch, in 2011 the gross change is due to the decrease in provisions, especially in businesses where there is reinsurance. On the other hand there was an increase in third party provisions, in businesses without reinsurance.

(4) The payments include outstanding expenses for settlement of claims relating to underwriting years.

(5) The change in accruals in the year 2012, in respect of the current underwriting year on retention mainly derives from an increase in the branches: motor act, employer's liability and professional liability.

(6) The balance of change in accruals in the year 2012 is mainly due to the increase in the motor act branch.

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

b. Movement in liabilities in respect of insurance contracts included in the general insurance segment, net of deferred acquisition costs: (Cont.)

2. Properties and other branches

	Year ended December 31					
	2012	2011	2012	2011	2012	2011
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance as at the beginning of the year (1)	831,934	739,084	515,577	431,829	316,357	307,255
Accumulated claims cost in respect of events during the reported year (2)	509,366	647,909	165,857	274,485	343,509	373,424
Change in accumulated claims cost in respect of events prior to the reported year (3)	(24,239)	13,247	(15,902)	24,701	(8,337)	(11,454)
Payment to settle claims during the year						
In respect of events during the reported year	330,000	404,630	74,212	125,384	255,788	279,246
In respect of events prior to the reported year	243,784	185,983	154,906	97,809	88,878	88,174
Total payments (4)	573,784	590,613	229,118	223,193	344,666	367,420
Change in provision for unearned premium, net of deferred acquisition costs	(15,202)	13,380	(16,177)	7,755	975	5,625
Change in provision for insufficient premium	(6,077)	8,927	-	-	(6,077)	8,927
Balance as at the end of the year (1)	721,998	831,934	420,237	515,577	301,761	316,357

Comments:

(1) The opening and closing balances include: outstanding claims with the addition of provision for insufficient premium and, unearned premium, net of deferred acquisition costs.

(2) The accumulated claims cost in respect of events during the reported year includes the outstanding claims balance as at the end of the reported year plus the total claims payments during the reported period, including direct and indirect expenses for settlement of claims.

(3) The decrease in gross claims costs in 2012 in respect of events prior to 2012 derives mainly from the branches: trust insurance, insurance of mechanical - engineering equipment, and personal accidents. There is a corresponding decrease in reinsurance. The increase in gross claims cost in the year 2011 mainly derives from the branches of: trust insurance, engineering insurance and business premises.

(4) The payments for claims settlement during the year include payments in respect of events prior to the reporting year with the addition of changes in the balance of outstanding claims in respect of events prior to the reported year. Payments for claims settlement include direct and indirect expenses for claims settlement relating to the respective years of damage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c (1). Examination of run-off of valuation of liabilities in respect of insurance contracts net of gross deferred acquisition costs, in the motor act and liability branches *):

	December 31, 2012										
	Underwriting year										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Claims paid (accumulated) as at the end of the year:	NIS in thousands adjusted to the CPI of November 2012 **)										
After the first year	11,917	11,311	9,166	11,146	10,668	11,722	9,351	6,499	5,796	4,914	
After two years	72,617	59,826	56,768	66,264	62,264	77,647	47,545	31,809	28,517		
After three years	129,768	131,561	120,214	117,927	128,549	131,561	89,670	77,386			
After four years	203,110	200,937	175,932	173,142	183,452	185,594	138,351				
After five years	265,513	260,042	253,001	219,633	233,519	245,244					
After six years	329,327	330,347	306,686	260,828	290,381						
After seven years	395,195	386,953	350,262	299,008							
After eight years	438,766	427,681	384,087								
After nine years	480,599	458,623									
After ten years	495,216										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	672,545	655,865	606,220	603,624	574,485	574,748	526,125	473,810	460,243	435,387	
After two years	698,241	678,161	645,048	621,482	585,505	594,947	540,466	491,132	475,312		
After three years	721,243	714,011	680,023	632,384	600,365	615,634	554,727	501,864			
After four years	540,619	571,837	548,728	512,061	526,593	550,548	476,838				
After five years	536,313	550,637	538,450	508,012	528,524	528,567					
After six years	546,064	537,897	519,563	489,626	516,920						
After seven years	564,740	549,359	511,104	460,330							
After eight years	577,430	544,733	501,786								
After nine years	564,347	550,364									
After ten years	569,994										
Excess (deficiency) after release of fund ***)	(29,375)	21,473	46,942	51,731	9,673	21,981					122,425
Deviation rate after release of fund in percentage	-5.43%	3.76%	8.55%	10.10%	1.84%	3.99%					3.77%
Accumulated claims cost as at December 31, 2012	569,994	550,364	501,786	460,330	516,920	528,567	476,838	501,864	475,312	435,387	5,017,362
Accumulated payments up to December 31, 2012	495,216	458,623	384,087	299,008	290,381	245,244	138,351	77,386	28,517	4,914	2,421,727
Outstanding claims balance	74,778	91,741	117,699	161,322	226,539	283,323	338,487	424,478	446,795	430,473	2,595,635
Outstanding claims in respect of the years up to and including the underwriting year 2002											276,701
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs as at December 2012											2,872,336

(*) According to an examination the Company performed in the property and other branches, the uncertainty regarding the amount and timing of claims is usually resolved within a year. Therefore no information regarding claims development in these branches was provided.

(**) The above amounts are adjusted to inflation to make it possible to examine the claims development on the basis of real values.

(***) Surplus between the accumulated claims valuation in the fourth year (the first year after the release of the fund) and the accumulated claims valuation as at balance sheet date.

Comments:

1. The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
2. The data include the accumulated amounts (excess of income over expenses).

3. The statistical significance of all underwriting years taken together is higher than each underwriting year taken separately. Therefore, it is preferable to examine the development of the Company's estimates at the level of all underwriting years taken together.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c (2). Examination of run-off of valuations of liabilities in respect of insurance contracts net of deferred acquisition costs, on retention, in the motor act and liability branches:

	December 31, 2012										
	Underwriting year										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Claims paid (accumulated) as at the end of the year:	NIS in thousands adjusted to the CPI of November 2012 **)										
After the first year	11,869	11,160	9,052	11,054	10,637	10,933	9,287	6,013	5,650	4,799	
After two years	71,895	59,224	55,339	63,584	59,610	60,853	46,109	30,420	26,944		
After three years	128,820	130,584	117,893	114,741	122,502	113,736	87,139	73,675			
After four years	201,869	198,990	171,695	169,515	176,004	166,548	134,336				
After five years	263,172	257,251	236,505	214,920	225,035	222,420					
After six years	326,087	326,603	286,818	253,907	279,939						
After seven years	388,283	376,240	325,770	290,291							
After eight years	430,722	409,466	358,460								
After nine years	465,934	438,592									
After ten years	481,160										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	603,988	595,424	538,765	499,596	471,700	479,608	445,846	389,793	385,809	384,168	
After two years	624,603	608,746	567,621	507,127	474,411	485,305	450,744	391,496	384,306		
After three years	644,960	636,980	598,957	513,898	486,406	498,676	462,219	399,255			
After four years	498,384	530,567	505,218	464,697	469,520	490,707	433,578				
After five years	493,178	514,884	497,831	460,776	472,802	474,901					
After six years	504,360	502,365	472,746	445,187	467,568						
After seven years	517,756	510,937	471,506	434,127							
After eight years	528,621	519,685	464,997								
After nine years	538,023	526,464									
After ten years	545,623										
Excess (deficiency) after release of fund ***)	(47,239)	4,103	40,221	30,570	1,952	15,806					45,413
Deviation rate after release of fund in percentage	-9.48%	0.77%	7.96%	6.58%	0.42%	3.22%					1.53%
Accumulated claims cost as at December 31, 2012	545,623	526,464	464,997	434,127	467,568	474,901	433,578	399,255	384,306	384,168	4,514,987
Accumulated payments up to December 31, 2012	481,160	438,592	358,460	290,291	279,939	222,420	134,336	73,675	26,944	4,799	2,310,616
Outstanding claims balance	64,463	87,872	106,537	143,836	187,629	252,481	299,242	325,580	357,362	379,369	2,204,371
Outstanding claims in respect of the years up to and including the underwriting year 2002											185,003
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs as at December 2012											2,389,374

(**) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.
(***) As at the date of the financial statements.

Comments:

1. The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
2. The data include the accumulated amounts (excess of income over expenses).
3. The statistical significance of all underwriting years taken together is higher than each underwriting year taken separately. Therefore, it is preferable to examine the development of the Company's estimates at the level of all underwriting years taken together.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c (3). Examination of run-off of valuation of liabilities in respect of insurance contracts net of gross deferred acquisition costs, in the motor act

	December 31, 2012										
	Underwriting year										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	NIS in thousands adjusted to the CPI of November 2012 **)										
Claims paid (accumulated) as at the end of the year:											
After the first year	10,165	9,166	6,954	9,334	8,545	8,377	6,921	3,773	3,704	2,889	
After two years	61,072	47,902	44,234	53,361	47,829	41,934	33,194	15,788	13,323		
After three years	104,191	105,615	90,221	92,113	90,476	78,526	60,838	40,913			
After four years	161,098	153,364	126,918	133,707	123,989	109,653	92,121				
After five years	201,333	195,363	167,781	164,996	154,936	143,940					
After six years	243,888	247,145	195,883	185,209	186,200						
After seven years	280,654	276,365	219,019	207,825							
After eight years	310,097	299,377	239,209								
After nine years	336,869	312,705									
After ten years	346,836										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	441,597	434,449	382,929	362,364	325,948	337,096	307,250	249,508	239,593	239,287	
After two years	454,038	440,208	394,770	362,519	322,963	336,713	308,175	245,637	238,239		
After three years	466,383	461,834	411,795	365,278	327,326	343,082	317,111	250,271			
After four years	357,711	380,413	325,263	330,776	311,381	322,898	283,737				
After five years	356,846	366,429	319,995	321,685	302,555	303,537					
After six years	363,018	358,941	312,050	317,862	291,328						
After seven years	372,705	366,749	307,214	301,427							
After eight years	374,688	365,258	298,222								
After nine years	375,149	359,084									
After ten years	382,483										
Excess (deficiency) after release of fund ***)	(24,772)	21,329	27,041	29,349	20,053	19,361					92,361
Deviation rate after release of fund in percentage	-6.93%	5.61%	8.31%	8.87%	6.44%	6%					4.55%
Accumulated claims cost as at December 31, 2012	382,483	359,084	298,222	301,427	291,328	303,537	283,737	250,271	238,239	239,287	2,947,615
Accumulated payments up to December 31, 2012	346,836	312,705	239,209	207,825	186,200	143,940	92,121	40,913	13,323	2,889	1,585,961
Outstanding claims balance	35,647	46,379	59,013	93,602	105,128	159,597	191,616	209,358	224,916	236,398	1,361,654
Outstanding claims in respect of the years up to and including the underwriting year 2002											53,642
Total liability in respect of insurance contracts in the motor act branch net of deferred acquisition costs as at December 2012											1,415,296

(**) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.
(***) As at the date of the financial statements.

Comments:

1. The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
2. The data include the accumulated amounts (excess of income over expenses).
3. The statistical significance of all underwriting years taken together is higher than each underwriting year taken separately. Therefore, it is preferable to examine the development of the Company's estimates at the level of all underwriting years taken together.

NOTE 17:- LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE GENERAL INSURANCE SEGMENT (Cont.)

c (4). Examination of run-off of valuation of liabilities in respect of insurance contracts net of gross deferred acquisition costs, on retention, in the motor act branch *):

	December 31, 2012										
	Underwriting year										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	NIS in thousands adjusted to the CPI of November 2012 **)										
Claims paid (accumulated) as at the end of the year:											
After the first year	10,165	9,166	6,954	9,334	8,545	8,377	6,921	3,773	3,704	2,889	
After two years	61,072	47,902	44,234	53,361	47,829	41,934	33,194	15,788	13,323		
After three years	104,191	105,615	90,221	92,113	90,476	78,526	60,838	40,913			
After four years	161,098	153,364	126,918	133,707	123,989	109,653	92,121				
After five years	201,333	195,363	167,781	164,996	154,936	143,940					
After six years	243,888	247,145	195,883	185,209	186,200						
After seven years	280,654	276,365	219,019	207,825							
After eight years	310,097	299,377	239,209								
After nine years	336,869	312,705									
After ten years	346,836										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	426,059	425,427	373,612	352,654	318,124	329,958	300,555	243,748	234,602	235,021	
After two years	438,595	427,978	382,310	353,878	315,416	328,446	301,255	239,963	323,689		
After three years	452,503	446,073	401,456	356,379	320,078	334,567	309,984	244,427			
After four years	347,763	369,197	316,593	323,610	305,306	317,756	278,706				
After five years	348,059	358,994	312,102	314,517	297,467	299,764					
After six years	356,638	351,683	304,588	312,554	288,019						
After seven years	367,736	360,676	302,673	298,463							
After eight years	370,029	361,154	295,823								
After nine years	372,819	356,921									
After ten years	382,169										
Excess (deficiency) after release of fund ***)	(34,406)	12,276	20,770	25,147	17,287	17,992					59,066
Deviation rate after release of fund in percentage	-9.89%	3.33%	6.56%	7.77%	5.66%	5.66%					2.98%
Accumulated claims cost as at December 31, 2012	382,169	356,921	295,823	298,463	288,019	299,764	278,706	244,427	232,689	235,021	2,912,002
Accumulated payments up to December 31, 2012	346,836	312,705	239,209	207,825	186,200	143,940	92,121	40,913	13,323	2,889	1,585,961
Outstanding claims balance	35,333	44,216	56,614	90,638	101,819	155,824	186,585	203,514	219,366	232,132	1,326,041
Outstanding claims in respect of the years up to and including the underwriting year 2002											40,772
Total liability in respect of insurance contracts in the motor act branch net of deferred acquisition costs as at December 2012											1,366,813

(**) The above amounts are adjusted to inflation to make it possible to examine the claims run-off on the basis of real values.

(***) As at the date of the financial statements.

Comments:

1. The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
2. The data include the accumulated amounts (excess of income over expenses).
3. The statistical significance of all underwriting years taken together is higher than each underwriting year taken separately. Therefore, it is preferable to examine the development of the Company's estimates at the level of all underwriting year taken together.

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS

a. Details of the liabilities in respect of insurance contracts and investment contracts according to exposure

	Data as at December 31, 2012						
	Policies including savings component (including riders) according to policy's date of issue				Policies not including savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Up to 1990 **)	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
(a) According to insurance exposure:							
Liabilities in respect of insurance contracts	-	-	-	-	-	-	-
Annuity without secured coefficients							
Annuity with secured coefficients:							
Up to May 2001	19,600,193	33,605,701	-	-	-	-	53,205,894
From June 2001	-	7,447,871	128,558	13,609,061	-	-	21,185,490
Annuity in payment	2,049,789	767,210	270,290	75,780	-	-	3,163,069
Lump sum (without annuity option)	1,746,105	1,299,418	-	9,352	-	-	3,054,875
Other risk components	355,373	971,570	-	430,062	343,190	171,160	2,271,355
			-				
Total in respect of insurance contracts	23,751,460	44,091,770	398,848	14,124,255	343,190	171,160	82,880,683
Liabilities in respect of investment contracts	-	66,610	260,954	273,477	-	-	601,041
Total	23,751,460	44,158,380	659,802	14,397,732	343,190	171,160	83,481,724
(b) According to financial exposure:							
Yield dependent	23,029,473	347,300	659,802	193,539	160,976	171,160	24,562,250
Guarantees yield	721,987	43,811,080	-	14,204,193	182,214	-	58,919,474
Total	23,751,460	44,158,380	659,802	14,397,732	343,190	171,160	83,481,724

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

a. Details of the liabilities in respect of insurance contracts and investment contracts according to exposure (Cont.)

	Data as at December 31, 2011						
	Policies including savings component (including riders) according to policy's date of issue				Policies not including savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Up to 1990 **)	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
(a) According to insurance exposure:							
Liabilities in respect of insurance contracts							
Annuity without secured coefficients	-	-	-	-	-	-	-
Annuity with secured coefficients:							
Up to May 2001	18,325,012 *)	30,240,359	-	-	-	-	48,565,371
From June 2001	-	6,607,417	109,304	10,127,603	-	-	16,844,324
Annuity in payment	1,612,677	524,215	247,830	35,732	-	-	2,420,454
Lump sum (without annuity option)	1,709,400 *)	1,283,501	-	11,101	-	-	3,004,002
Other risk components	355,370	955,173	-	365,690	308,267	168,353	2,152,853
Total in respect of insurance contracts	22,002,459	39,610,665	357,134	10,540,126	308,267	168,353	72,987,004
Liabilities in respect of investment contracts	-	334,087	281,666	-	-	-	615,753
Total	22,002,459	39,944,752	638,800	10,540,126	308,267	168,353	73,602,757
(b) According to financial exposure:							
Yield dependent	21,428,636	601,571	638,800	189,312	145,119	168,353	23,171,791
Guarantees yield	573,823	39,343,181	-	10,350,814	163,148	-	50,430,966
Total	22,002,459	39,944,752	638,800	10,540,126	308,267	168,353	73,602,757

*) Reclassified. See Note 2d.

**) The products issued up to the year 1990 (including their increases) were mainly guaranteed yield and are mainly/partially backed up by designated bonds.

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

b. Details of the results according to policy type

	Data for the year ended December 31, 2012						
	Policies including savings component (including riders) according to policy's date of issue				Policies not including savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Up to 1990	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/Endowment	83,327	54,315	-	-	-	-	137,642
Savings component	339,935	2,087,113	45,032	3,394,998	-	-	5,867,078
Other	80,246	354,341	-	411,984	402,030	104,641	1,353,242
Total	503,508	2,495,769	45,032	3,806,982	402,030	104,641	7,357,962
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	233	272,237	-	-	272,470
Financial margin including management fees	314,887	437,190	26,459	147,558	-	-	926,094
Income (loss) from life assurance business	(114,493)	234,314	4,753	(236,003)	142,428	(25,768)	5,231
Other comprehensive income from life assurance business	88,751	6,962	10,699	2,557	2,329	2,044	113,342
Total comprehensive income (loss) from life assurance business	(25,742)	241,276	15,452	(233,446)	144,757	(23,724)	118,573
Profit from pension and provident							90,279
Other comprehensive income from pension and provident							7,276
Total comprehensive income from life assurance and long term savings							216,128
Annualized premium in respect of insurance contracts – new business	72	52	-	780,966	74,474	-	855,564
One time premium in respect of insurance contracts	48	15,843	45,032	1,030,981	-	-	1,091,904
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	233	272,237	-	-	272,470
Transfers to the Company of insurance contracts and investment contracts	-	-	-	409,329	-	-	409,329
Transfers from the Company of insurance contracts and investment contracts	6,508	86,802	232	179,391	-	-	272,933

1. The products issued up to the year 1990 (including their increases) were mainly guaranteed yield and are mainly/partially backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of yield for the year, multiplied by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.
4. The change in the distribution of supplementary annuity on the basis of two K values, as described in Note 37b.3.b (5) was done on December 31, 2012 and therefore did not effect the above results.

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

a. Details of the results according to policy type (Cont)

	Data for the year ended December 31, 2011						
	Policies including savings component (including riders) according to policy's date of issue				Policies not including savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Up to 1990	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/Endowment	94,384	62,319	-	-	-	-	156,703
Savings component	339,574	2,074,319	29,892	2,915,510	-	-	5,359,295
Other	85,492	367,696	-	389,627	349,729	138,225	1,330,769
Total	519,450	2,504,334	29,892	3,305,137	349,729	138,225	6,846,767
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	-	-	-	-	-
Financial margin including management fees	145,753	223,293	9,972	97,152	-	-	476,170
Income (loss) from life assurance business	299,394	33,950	37,573	(154,789)	96,099	5,357	317,584
Other comprehensive income from life assurance business	(205,954)	(19,174)	(14,183)	(8,321)	(6,378)	(7,400)	(261,410)
Total comprehensive income (loss) from life assurance business	93,440	14,776	23,390	(163,110)	89,721	(2,043)	56,174
Profit from pension and provident							89,313
Other comprehensive income from pension and provident							(2,271)
Total comprehensive income from life assurance and long term savings							143,216
Annualized premium in respect of insurance contracts – new business	21	25	-	632,446	77,403	-	709,895
One time premium in respect of insurance contracts	948	18,631	29,892	868,456	-	-	917,927
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	-	-	-	-	-
Transfers to the Company of insurance contracts and investment contracts	-	-	-	231,818	-	-	231,818
Transfers from the Company of insurance contracts and investment contracts	13,293	98,555	-	100,353	-	-	212,201

1. The products issued up to the year 1990 (including their increases) were mainly guaranteed yield and are mainly/partially backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of yield for the year, multiplied by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

b. Details of the results according to policy type (Cont)

	Data for the year ended December 31, 2010						
	Policies including savings component (including riders) according policy's date of issue				Policies not including savings component		Total
			From the year 2004		Risk sold as a separate policy		
	Up to 1990	Up to 2003	Non-yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/Endowment	102,677	68,688	-	-	-	-	171,365
Savings component	345,028	2,054,383	12,276	2,414,336	-	-	4,826,023
Other	84,331	375,695	-	344,729	297,735	144,671	1,247,161
Total	532,036	2,498,766	12,276	2,759,065	297,735	144,671	6,244,549
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	-	-	-	-	-
Financial margin including management fees	390,292	684,781	31,957	97,553	-	-	1,204,583
Income (loss) from life assurance business	276,389	443,135	34,237	(155,494)	107,757	10,765	716,789
Other comprehensive income from life assurance business	36,378	7,724	7,336	1,169	1,112	1,577	55,296
Total comprehensive income (loss) from life assurance business	312,767	450,859	41,573	(154,325)	108,869	12,342	772,085
Profit from pension and provident							69,889
Other comprehensive income from pension and provident							106
Total comprehensive loss from life assurance and long term savings							842,080
Annualized premium in respect of insurance contracts – new business	133	41	-	589,534	71,380	-	661,088
One time premium in respect of insurance contracts	1,236	19,061	12,276	677,704	-	-	710,277
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	-	-	-	-	-

1. The products issued up to the year 1990 (including their increases) were mainly guaranteed yield and are mainly/partially backed up by designated bonds.
2. Increases in existing policies are not included in the framework of the annualized premium in respect of new business, but in the framework of the original policy's activity results.
3. The financial margin includes gains (losses) from investments that were recognized in other comprehensive income, does not include additional income of Migdal Insurance collected as a percentage of the premium and calculated before deduction of investment management expenses. The financial margin in policies with a guaranteed yield is based on actual investment income for the reported year, net of the multiplication of the guaranteed rate of yield for the year, multiplied by the average reserve for the year, in various insurance reserves. In respect of yield dependent policies, the financial margin is the total of the fixed and variable management fees calculated on the basis of the yield and the average balance of the insurance reserves.

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

c. Additional information regarding yield dependent liabilities

	December 31, 2012	Year ended December 31, 2012		
	Yield dependent liabilities	Premiums	Claims	Surrenders
	NIS in thousands			
In respect of policies issued up to 2003:				
"Het" Fund (Fund No. 8)	29,358	898	1,131	971
"Tet" Fund (Fund No. 9)	1,875,135	58,894	29,232	37,008
"Yud" Fund (Fund No. 10)	42,129,345	2,523,812	585,962	1,001,284
In respect of policies issued from the year 2004	10,723,793	3,006,739	314,432	334,022
Investment baskets	3,888,366	1,104,479	103,892	205,146
Investment contracts	273,477	272,237	-	1,632
Total	58,919,474	6,967,059	1,034,649	1,580,063

	December 31, 2011	Year ended December 31, 2011		
	Yield dependent liabilities	Premiums	Claims	Surrenders
	NIS in thousands			
In respect of policies issued up to 2003:				
"Het" Fund (Fund No. 8)	29,306	990	1,453	1,284
"Tet" Fund (Fund No. 9)	1,729,065	59,394	23,614	35,089
"Yud" Fund (Fund No. 10)	37,765,464	2,535,289	558,407	986,383
In respect of policies issued from the year 2004	8,245,250	2,655,840	255,123	262,323
Investment baskets	2,661,881	900,757	116,651	187,959
Total	50,430,966	6,152,270	955,248	1,473,038

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

c. Additional information regarding yield dependent liabilities (cont'd)

	December 31, 2010	Year ended December 31, 2010		
	Yield dependent liabilities	Premiums	Claims	Surrenders
	NIS in thousands			
In respect of policies issued up to 2003:				
"Het" Fund (Fund No. 8)	31,317	1,035	1,078	1,177
"Tet" Fund (Fund No. 9)	1,725,153	59,611	20,439	31,245
"Yud" Fund (Fund No. 10)	38,144,117	2,533,574	447,231	859,768
In respect of policies issued from the year 2004	7,047,914	2,193,656	169,995	193,603
Investment baskets	2,064,657	761,085	86,611	120,789
Total	49,013,158	5,548,961	725,354	1,206,582

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

d. Information regarding yield and management fees in respect of yield dependent liabilities

	Annual gross nominal yield					Annual average nominal yield 5 years		Management fees for the year ended December 31, 2012
	2012	2011	2010	2009	2008	Before management fees	After management fees	
	In percentage							NIS in thousands
"Yud" Fund (Fund No. 10)	11.25	(3.01)	11.38	30.53	(16.36)	5.58	4.62	402,187
General track for policies beginning from the year 2004	10.64	(4.03)	11.02	30.29	(14.43)	5.62	4.30	112,190
Other								59,839
Total								574,216

	Annual gross nominal yield					Annual average nominal yield 5 years		Management fees for the year ended December 31, 2011
	2011	2010	2009	2008	2007	Before management fees	After management fees	
	In percentage							NIS in thousands
"Yud" Fund (Fund No. 10)	(3.01)	11.38	30.53	(16.36)	11.51	5.63	4.52	231,008
General track for policies beginning from the year 2004	(4.03)	11.02	30.29	(14.43)	11.64	5.81	4.48	89,296
Other								31,196
Total								351,500

NOTE 18:- ADDITIONAL INFORMATION REGARDING LIFE ASSURANCE SEGMENT AND LONG TERM SAVINGS (Cont.)

	Year ended as at December 31	
	2012	**2011**
	Percentage	
Transfer to the Company from other entities		
Transfers from other insurance companies	172,446	124,374
Transfers from pension funds	81,491	33,684
Transfers from provident funds	155,392	73,760
Total transfers to the Company	409,329	231,818
Transfers from the Company to other entities		
Transfers to other insurance companies	110,492	90,109
Transfers to pension funds	91,501	54,534
Transfers to provident funds	70,940	67,558
Total transfers from the Company	272,933	212,201
Transfers, net	136,396	19,617

NOTE 19:- DETAILS OF THE INSURANCE LIABILITIES FOR INSURANCE CONTRACTS INCLUDED IN THE HEALTH INSURANCE SEGMENT:

a.1 Details of the insurance liabilities in respect of insurance contracts according to financial exposure:

	Data as at December 31, 2012				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,073,448	-	190,368	-	1,263,816
Other	37,283	21,606	292,266	946	352,101
Total	1,110,731	21,606	482,634	946	1,615,917

*) The most significant coverage included in other long-term health insurance is medical expenses, and short-term is overseas travel.

	Data as at December 31, 2011				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	885,731	-	185,768	-	1,071,499
Other	32,155	18,584	265,841	1,232	317,812
Total	917,886	18,584	451,609	1,232	1,389,311

*) The most significant coverage included in other long-term health insurance is medical expenses, and short-term is overseas travel.

a.2 Details of the liabilities in respect of insurance contracts according to insurance exposure:

	Data as at December 31, 2012				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	63,308	17,060	1,713	-	82,081
Other risk components	1,047,423	4,546	480,921	946	1,533,836
Total	1,110,731	21,606	482,634	946	1,615,917

*) The most significant coverage included in other long-term health insurance is medical expenses, and short-term is overseas travel.

	Data as at December 31, 2011				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	52,884	14,777	2,055	-	69,716
Other risk components	865,002	3,807	449,554	1,232	1,319,595
Total	917,886	18,584	451,609	1,232	1,389,311

*) The most significant coverage included in other long-term health insurance is medical expenses, and short-term is overseas travel.

NOTE 19:- DETAILS OF THE INSURANCE LIABILITIES FOR INSURANCE CONTRACTS INCLUDED IN THE HEALTH INSURANCE SEGMENT: (Cont.)

b. Details of the results according to policy type

	Data as at December 31, 2012				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	189,318	12,020	487,662 *)	3,480 *)	692,480
Profit (loss) from health insurance business	3,335	(388)	92,309	1,661	96,917
Other comprehensive income from health insurance business	419	362	4,585	1	5,367
Total comprehensive Income (loss) from health insurance business	3,754	(26)	96,894	1,662	102,284
Annualized premium - new	24,473	-	78,681	-	103,154

*) Of this, individual premiums in the amount of NIS 444,869 thousand and group premiums in the amount of NIS 46,273 thousand.

**) The most significant coverage included in other long-term health insurance is medical expenses, and short term is travel insurance.

***) Including policy riders.

	Data as at December 31, 2011				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	170,590	9,915	(* 432,200	(* 2,288	614,993
Profit (loss) from health insurance business	(56,991)	1,148	92,820	51	37,028
Other comprehensive loss from health insurance business	(864)	(655)	(7,882)	(3)	(9,404)
Total comprehensive Income (loss) from health insurance business	(57,855)	493	84,938	48	27,624
Annualized premium - new	27,673	-	62,703	-	90,376

*) Of this, individual premiums in the amount of NIS 404,839 thousand and group premiums in the amount of NIS 29,649 thousand.

**) The most significant coverage included in other long-term health insurance is medical expenses, and short term is travel insurance.

***) Including policy riders.

NOTE 19:- DETAILS OF THE INSURANCE LIABILITIES FOR INSURANCE CONTRACTS INCLUDED IN THE HEALTH INSURANCE SEGMENT: (Cont.)

b. Details of the results according to policy type (Cont.)

	Data as at December 31, 2010				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	151,541	9,438	395,021 *)	-	556,000
Profit (loss) from health insurance business	(10,153)	435	90,173	-	80,455
Other comprehensive income from health insurance business	423	288	3,039	-	3,750
Total comprehensive Income (loss) from health insurance business	(9,730)	723	93,212	-	84,205
Annualized premium - new	17,986	-	52,219	-	70,205

*) Of this, individual premiums in the amount of NIS 365,363 thousand and group premiums in the amount of NIS 29,658 thousand.

**) The most significant coverage included in other long-term health insurance is medical expenses, and short term is travel insurance.

***) Including policy riders.

NOTE 20:- MOVEMENT IN LIABILITIES IN REPSECT OF LIFE ASSURANCE CONTRACTS, INVESTMENT CONTRACTS AND HEALTH INSURANCE

	Life assurance and long term savings			
	Insurance contracts	Investment contracts	Total	Health insurance
	NIS in thousands			
Balance as at January 1, 2011	70,531,294	661,232	71,192,526	1,254,330
Interest, linkage differences and investment income (1)	(536,811)	41,335	(495,476)	14,991
Increase in respect of premiums and deposits allocated to liabilities (2)	5,364,404	-	5,364,404	103,055
Decrease in respect of claims, surrenders and maturities	(3,125,495)	(75,869)	(3,201,364)	(30,288)
Other changes (3)	753,612	(10,945)	742,667	47,223
Balance as at December 31, 2011	72,987,004	615,753	73,602,757	1,389,311
Interest, linkage differences and investment income (1)	5,820,894	39,083	5,859,977	113,705
Increase in respect of premiums and deposits allocated to liabilities (2)	5,911,496	272,470	6,183,966	116,286
Decrease in respect of claims, surrenders and maturities	(3,148,195)	(325,958)	(3,474,153)	(34,524)
Other changes (3)	1,309,484	(307)	1,309,177	31,139
Balance as at December 31, 2012	82,880,683	601,041	83,481,724	1,615,917

1. Interest, linkage differences and investment income – this paragraph includes interest, linkage differences and investment income in respect of the balance as at the beginning of the year, with the addition of interest, linkage differences and investment income in respect of premiums for savings only recorded during the reported period.

2. Increase in respect of premiums allocated to liabilities – this premium does not include all the premium recorded as income in the Company. The premium includes the premium for savings and part of the premium in products with fixed premium.

3. Other changes – the paragraph includes changes in reserve in respect of outstanding claims, reserve for future claims, IBNR, annuities in payment, etc. (according to assumptions used at the end of the previous year). In addition, the paragraph includes the interest effect, linkage differences and investment income not included in the “interest, linkage differences and investment income” item, such as: interest, linkage differences and investment income for claims payment and non-saving premiums. In 2012 and 2011, immediate provision was recorded in the amount of about NIS 257 million and NIS 50 million, respectively, in respect of a supplementary reserve for annuity (see Note 37.B.3.(b).(5)). In 2011, a decline was recorded in insurance obligations for yield-dependent life assurance contracts on which, in preceding years, Migdal Insurance did not collect variable management fees of NIS 24 million.

NOTE 21:- TAXES ON INCOME

a. Tax laws applicable to the Group's companies

1. General

The income of the Company and all other Group companies are subject to corporate tax according to the Income Tax Ordinance (hereunder - "the Ordinance"). Furthermore, the income of Group companies classified as "financial institutions" as defined in the Value Added Tax Law are subject to profit and salary tax. It is noted that the activity of companies classified as financial institutions in the insurance, pension and finance branches constitute the major part of the Group's operations.

2. Income Tax Law (Adjustments for Inflation), 1985

The Income Tax Law (Adjustments for Inflation), 1985 was applicable to the Company and the subsidiaries until the end of 2007. According to the law, the results for tax purposes were measured adjusted to the changes in the CPI. In February 2008 the Knesset passed an amendment to the Income Tax (Adjustments for Inflation), 1985 which prescribed that the applicability of the adjustments law will be terminated in the 2007 tax year, and as of the 2008 tax year the provisions of the said law shall no longer be applicable, other than certain adjustments in respect of changes in the CPI for the period up to December 31, 2007. As a result, as from 2008 results are measured for tax purposes in nominal values.

3. Non-application of IFRS

As part of the amendments to the Income Tax Ordinance, a temporary order was prescribed for determining the tax liable income for the tax years 2007 up to and including 2011, so that Accounting Standard No. 29 of the Israel Accounting Standards Board shall not apply even if it was applied when preparing the financial statements for such years.

In a notice to the public published by the Tax Authority on January 1, 2013 it was reported that the Tax Authority intends to promote legislation to extend the said Temporary Order to the year 2012.

The meaning of the Amendment to the Ordinance is actually that IFRS do not apply when calculating the reported profit for tax purposes in respect of the aforementioned tax years. In the opinion of the Company, the Amendment to the Ordinance does not have a material effect on the tax expenses reported in the financial statements.

In the framework of the ax arrangements for the insurance line of business (paragraph 4 below), it was agreed that the one-time effect of the transition to IFRS on the date of transition, will be amortized for tax purposes and will be spread over 3 years from 2008 up to and including 2010. Nevertheless, it was agreed that if and when the tax authority will formulate its position on the subject in and it will be in contradiction to the principles of the agreement, the parties will discuss the resulting tax implications.

NOTE 21:- TAXES ON INCOME (Cont.)

a. Tax laws applicable to the Group's companies (Cont.)

4. Tax arrangements that are unique to the insurance industry

There is an industry agreement between the life assurance companies association and the Tax Authorities that arranges the unique issues of the insurance business, and provides mainly as follows:

a) Deferred acquisition costs (DAC) – Direct expenses of insurance companies for the acquisition of life assurance policies are deductible for tax purposes in equal portions over a period of four years. DAC in diseases and hospitalization insurance are amortized over a period of 6 years, like the period of amortization on the books.

b) Allocation of expenses to preferred income – Expenses will be allocated to income that is subject to reduced tax rates and to the tax exempt income of insurance companies ("the preferred income"), which means that part of the preferred income becomes income subject to the full rate of tax, according to the rate of allocation. The rate of allocation provided in the agreement depends on the source of the money creating the preferred income.

c) Taxation of income from assets held as investments overlapping yield-dependent liabilities – In order to prevent possible tax distortions it was agreed that the taxation of profits from quoted securities and of profits from the revaluation and realization of real estate will be performed such that there is a matching of income to expenses.

d) The tax applicable to the cancellation of the reserve for extraordinary risks in life assurance – The Arrangements in the State Economy Law (Legislative Amendments for Attaining the Budget Goals and the Economic Policy for the Fiscal Year 2007), 2007, dated January 11, 2007, prescribed regulations for the tax applicable due to the cancellation of the reserve for extraordinary risks in life assurance that was included in the financial statements as at December 31, 2006. According to the regulations, a portion of the reserve which is calculated at the rate of 0.17% of the insurance risk amount, on retention, in life assurance and for which a capital requirement was defined, will be exempt from tax. In the branch taxation agreement it was noted that the basis for the exemption is the capital requirement, as mentioned above, and in the event of a cancellation or decrease in the capital requirement, the parties will discuss the consequent tax implications, if any.

The existing agreement in the branch is in effect up to and including 2011. The tax provision in the financial statements for 2012 was prepared in accordance with the principles of the agreement for 2011.

NOTE 21:- TAXES ON INCOME (Cont.)

b. Amortization of acquisition of intangible assets

On August 2, 2009 the Israeli Tax Authority published the report of the committee that examined the tax effects of implementing the recommendations of the Bachar Committee (hereunder– the committee and the report). The committee included in its recommendations a number of basic principles that will serve as a foundation for the position of the Tax Authority with respect to taxation of the sale transactions that were executed following the recommendations of the Bachar Committee. In accordance with the recommendations of the committee, 80%-85% of the excess cost created in acquiring of the operations of provident fund management companies is to be allocated to goodwill and to the contractual right to jointly manage accounts (according to the details provided in the report). The remaining excess cost (15%-20%) will be allocated to other intangible assets whose amortization is not allowed for tax purposes by the buyer (such as the customer base, brands, and so forth).

As regards transactions in which shares were acquired as opposed to transactions in which operations and other assets were acquired (transactions structured as a sale of shares), the committee decided that the sellers will be subject to tax like in an ordinary sale of shares and that the buyers will not be entitled to any amortization of the cost of acquisition.

The effect on the financial statements of implementing the report's recommendations is immaterial.

c. The tax rates

1. The statutory tax rate applicable to financial institutions, which account for the main part of the Group's activity, comprises corporate tax and profit tax.

2. Pursuant to the Value Added Tax Ordinance (tax rates for non-profit organizations and financial institutions) (Temporary Order), 2011, which the Knesset approved in December 2010 and previous orders, the profit tax rate on financial institutions will be 16.0% in the years 2010 up to and including 2012.

   In august 2012 a Value Added Tax Ordinance was published (Tax Rate for Non-Profit Organizations and Financial Institutions) (Amendment), 2012, which determined that the profit tax rate applicable to financial institutions will be 17% of the profit generated. The amendment began from September 1, 2012 and its application in the year 2012 relates to one third of the profit generated in this year.

3. In December 2011, the Knesset passed the Law for Change in the Tax Burden (Legislative amendments), 2011 (hereunder - the Law). In the framework of the law, among other things, beginning in 2012, the Law eliminates the plan to reduce the rate of corporate tax and the corporate tax rate was increased to 25% as from 2012. In view of this increase in tax rate, the tax rates on real capital gains and real estate capital gains were also raised.

NOTE 21:- TAXES ON INCOME (Cont.)

c. The tax rates (Cont.)

Subsequent to the changes in the tax rates described above, hereunder are the statutory tax rates applicable to the Group's financial institutions:

Year	Corporate tax rate	Profit tax rate		Comprehensive tax rate in financial institutions
		%		
2010	25	16.0		35.34
2011	24	16.0		34.48
2012	25	16.33	*)	35.53
2013 and thereafter	25	.017		35.90

*) Weighted rate.

The change in the profit tax rate, as mentioned above, had no significant effect on the taxes on income item.

d. Tax assessments

Corporate tax assessments

The Company and most of its subsidiaries received final tax assessments, by virtue of an agreement or by virtue of statute of limitations, up to and including the year 2008.

In November 2012 Migdal Real Estate Holdings Ltd. received tax assessments according to best judgment for the years 2007, 2009 and 2010 claiming that the income from dividends it received from an affiliate, which are derived from profits revaluation of real estate assets, are liable for tax. The tax liability resulting from theses tax assessments (including linkage differences and interest as at the date of publication of the financial statements) amounts to about NIS 60 million.

Migdal Real Estate Holdings Ltd. submitted its reservations to the said tax assessments and they believe the tax assessor's arguments will be rejected and the tax provision beyond what is recorded in the financial statements is not required.

In December 2012 Migdal Makefet Pension and Provident Funds Ltd. received tax assessments to the best judgment, for the years 2008 up to and including the year 2010 under the contention that the Company is not entitled to an accelerated reduction of acquisition costs. The tax liability deriving from these tax assessments (including linkage differences and interest as at the date of publication of the financial statements) amounts to about NIS 6 million.

Migdal Makefet Pension and Provident Funds Ltd. submitted its reservations to the aforementioned tax assessments and it believes that a tax provision beyond what is recorded in the financial statements is not required.

NOTE 21:- TAXES ON INCOME (Cont.)

e. Taxes on income included in the statements of profit and loss

	For the year ended December 31		
	2012	2011	2010
	NIS in thousands		
Current taxes *)	71,391	178,677	364,680
Deferred taxes relating to the creation and reversal of temporary difference, also see f below	39,626	(14,677)	27,510
Taxes in respect of previous years	1,174	(4,260)	(7,622)
Effect of change in tax rates	9,558	53,458	-
Taxes on income	121,749	213,198	384,568

*) From 2010, the Company includes in its reports to the tax authorities, its share of the tax liable income of an affiliate, which is considered a "property company" under Section 64 of the Ordinance. See Note 7.a.1.

NOTE 21:- TAXES ON INCOME (Cont.)

f. Deferred taxes

Composition:

	Deferred acquisition costs in life assurance and in health insurance	Available for sale financial assets		Fixed assets and investment property	Investments in affiliates	Intangible assets	Losses for tax purposes	Others	Total
	NIS in thousands								
Balance of deferred tax asset (liability) as at January 1, 2011	(265,317)	(121,619)		(37,699)	(42,816)	(49,154)	12,012	45,661	(458,932)
Changes allocated to profit and loss	5,408	22,073		(12,362)	2,147	(24,371)	9,677	12,105	14,677
Changes allocated to equity	-	130,137	*)	-	-	-	-	-	130,137
Effect of change in tax rates	(39,143)	-		(10,452)	(345)	(3,161)	-	(357)	(53,458)
Balance of deferred tax asset (liability) as at December 31, 2011	(299,052)	30,591		(60,513)	(41,014)	(76,686)	21,689	57,409	(367,576)
Changes allocated to profit and loss	(12,060)	(19,756)		1,739	834	(20,638)	6,047	4,208	(39,626)
Changes allocated to equity	-	(99,677)		-	-	-	-	-	(99,677)
Effect of change in tax rates	(7,158)	-		-	-	(429)	-	(1,971)	(9,558)
Company initially consolidated	-	-		-	-	(2,666)			(2,666)
Balance of deferred tax asset (liability) as at December 31, 2012	(318,270)	(88,842)		(58,774)	(40,180)	(100,419)	27,736	59,646	(519,103)

*) Includes the effect of change in tax rate in the amount of NIS 943 thousand.

NOTE 21:- TAXES ON INCOME (Cont.)

f. Deferred taxes (Cont.)

The deferred taxes reported in the statements of financial position include:

	December 31	
	2012	2011
	NIS in thousands	
Deferred tax assets	15,263	19,361
Liabilities in respect of deferred taxes	(534,366)	(386,937)
	(519,103)	(367,576)

g. Theoretical tax

Hereunder is the reconciliation of the theoretical tax amount due, had all the income and expenses, profits and losses in the statement of profit and loss been liable to tax at the statutory tax rate applicable on income taxes in the statement of profit and loss:

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Profit before taxes on income	348,855	509,906	1,166,180
Overall statutory tax rate applicable to financial institutions (see c above)	35.53%	34.48%	35.34%
Tax computed at the overall statutory tax rate	123,947	175,816	412,128
Deduction in respect of companies that are not financial institutions and are therefore not subject to profit tax	(5,035)	(7,795)	(8,907)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses	14,972	9,980	12,855
Exempt dividend income	(12,331)	(2,550)	(14,702)
Differences in measurement basis	(5,527)	-	-
Effect of decline in tax rates on deferred taxes	9,558	53,458	-
Group's share of profits of affiliates	(9,018)	(13,357)	(9,657)
Increase (decrease) in losses for tax purposes for which no deferred taxes were allocated and utilization of losses for tax purposes from previous years, for which no deferred taxes were allocated in the past	3,126	2,064	(1,445)
Taxes in respect of previous years	1,174	(4,260)	(7,622)
Other	883	(158)	1,918
Taxes on income	121,749	213,198	384,568
Average effective tax rate	34.90%	41.81%	32.98%

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS

Employee benefits include short term benefits, post employment benefits, other long term benefits, termination benefits, as defined in IFRS No. 19, and share based payments.

For additional details see Note 2 q. See Note 33 regarding share-based payments.

Regarding benefits for those who hold key management position see Note 38, in respect of related parties and an interested party.

Labor laws and the Severance Pay Law in Israel require the Company to pay severance pay to an employee upon dismissal or retirement or to make current deposits in a defined deposit plan, according to Section 14 as described below. The Company’s liabilities in this respect are treated as a post employment benefit.

The calculation of the Company's liability due to employee benefits is made in accordance with a valid employment contract and is based on the Company’s forecast of the employee's salary at the time of dismissal or retirement.

Post employment benefits are usually financed by deposits classified as defined deposit plans or as a defined benefit plan as detailed below:

Defined contribution plan

The provisions of Section 14 to the Severance Pay Law, 1963, apply to a portion of the severance pay. According to these provisions, the Company’s current deposits in insurance companies’ policies and/or in pension funds, are exempt from any additional liability to employees, in respect of whom amounts were depositing, as mentioned above. These deposits and deposits in respect of benefits, constitute a defined deposit plan. In the years 2012, 2011 and 2010 the expenses in respect of the defined contribution plan amounted to NIS 50,186 thousand, 41,639 thousand and NIS 36,698 thousand, respectively, and were included under administrative and general expenses.

Defined benefit plan

The portion of severance pay that is not covered by deposits in defined deposit plans, as mentioned above, are handled by the Group as a defined benefit plan according to which a liability is recorded in respect of employee benefits and for which the Group deposits amounts in the relevant insurance policies and in central severance pay funds.

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Cont.)

a. Composition of liabilities for employee benefits, net

	December 31 2012	December 31 2011
	NIS in thousands	
Liabilities in respect of defined benefit plan which is not financed	10,475	12,157
Liability in respect of financed defined benefit plan	272,619	273,144
Total liability in respect of defined benefit plan – see b1 below	283,094	285,301
Less - fair value of the plan's assets – see b2 below	72,884	70,767
Total net liability in respect of defined benefit plans	210,210	214,534
Short term benefits – provision for vacation	39,950	37,424
Other long term benefits – see c below	15,324	11,915
Share based payment settled in cash	12,623	7,744
Total liabilities for employee benefits, net	278,107	271,617

b. Information regarding defined benefit plans

1. Changes in the present value of the liability for a defined benefit plan

	December 31 2012	December 31 2011
	NIS in thousands	
Balance as at January 1	285,301	267,299
Cost of interest	13,195	13,363
Current service costs	22,457	22,991
Benefits paid	(28,645)	(17,042)
Net actuarial profit *)	(9,710)	(1,373)
Entrance into consolidation	496	63
Balance as at December 31	283,094	285,301

*) Regarding the change in the actuarial assumptions and adjustments resulting from past experience, see paragraphs 3 and 4 below.

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Cont.)

b. Information regarding defined benefit plans (Cont.)

2. Plan assets

a) Plan assets

The plan assets include assets held by the employee long term benefit fund (provident funds for employees and pension funds) and the related insurance policies.

b) The movement in the fair value of the plan assets

	2012	2011
	NIS in thousands	
Balance as at January 1	70,767	65,618
Anticipated yield	5,007	5,551
Net actuarial profit (loss)	1,263	(1,588)
Deposits to plan by employer	1,619	5,269
Benefits paid	(5,906)	(4,132)
Entrance into consolidation	134	49
Balance as at December 31	72,884	70,767

3. The main actuarial assumptions in determining liabilities in respect of defined benefit plans

	Year ended December 31		
	2012	2011	2010
		%	
Discount rate of the plan liabilities on December 31	4.33	4.70	4.86
The anticipated real yield on plan assets on January 1 *)	4.51	6.00	5.33
Anticipated real salary increase	2.11	3.68	3.20
Anticipated inflation rate	2.72	2.45	2.79

*) The average yield of the dominant insurance companies in the market, during the last 10 years.

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Cont.)

b. Information regarding defined benefit plans (Cont.)

4. The amounts regarding the current year and previous years

	As at December 31				
	2012	2011	2010	2009	2008
	NIS in thousands				
Present value of liability in respect of defined benefit	283,094	285,301	267,299	241,104	214,846
Fair value of the plan assets	72,884	70,767	65,618	54,705	41,675
Deficiency in plan	210,210	214,534	201,681	186,399	173,171
Adjustment resulting from past experience regarding:					
Plan liabilities	(1,382)	1,802	980	4,841	(122)
Plan assets	5,355	(1,325)	(14)	6,545	(162)

5. Expenses allocated to profit and loss

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Current service cost	22,457	22,991	22,098
Interest cost	13,195	13,363	12,277
Anticipated yield on plan assets	(5,007)	(5,551)	(4,366)
Net actuarial loss (profit) recognized this year *)	(10,973)	215	1,096
Total expenses in respect of employee benefits **)	19,672	31,018	31,105

*) Regarding the change in actuarial assumptions and adjustments resulting from past experience, see paragraphs 3 and 4 above.

**) The expenses were included in the salaries and related expenses under administrative and general expenses, see Note 32.

6. Actual yield

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Actual yield on the plan assets	6,270	3,963	11,378

NOTE 22:- ASSETS AND LIABILITIES FOR EMPLOYEE BENEFITS (Cont.)

c. Other long term benefits

	December 31	
	2012	2011
	NIS in thousands	
Liability for sick-pay	3,524	3,531
Anniversary grant and others	11,800	8,384
	15,324	11,915

NOTE 23:- CREDITORS AND PAYABLES

	December 31	
	2012	2011
	NIS in thousands	
Stock Exchange Clearinghouse and securities	172,310	241
Employees and other salary-related liabilities	126,803	103,881
Expenses payable	149,567	134,501
Suppliers and service providers	128,897	166,437
Government authorities and institutions	25,058	16,847
Deferred acquisition costs in respect of reinsurance	40,993	45,396
Liability to parent company		
Insurance companies and brokers:		
Deposits by reinsurers	68,141	82,728
Other accounts	111,889	185,380
Total insurance companies and brokers	180,030	268,108
Insurance agents	422,841	384,070
Policyholders and members	225,920	221,385
Provision for profit participating policyholders	9,245	13,019
Prepaid premium	115,392	49,048
Others	69,161	46,105
Total creditors and payables	1,666,217	1,449,038

*) See details of assets and liabilities distributed according to linkage basis in Note 37c.

NOTE 24:- FINANCIAL LIABILITIES

This Note provides information regarding the contractual conditions of financial liabilities. Additional information regarding the Group's exposure to interest risks, foreign currency and liquidity risks, are provided in Note 37.

a. Details of financial liabilities

	December 31			
	Book value		Fair value	
	2012	2011	2012	2011
	NIS in thousands			
1. Financial liabilities reported at amortized cost:				
Loans from banking institutions *)	68,793	182,818	69,118	183,504
Loans from non-banking institutions **)	44,456	54,563	47,053	57,852
Bonds constituting second tier capital	828,143	-	873,314	-
Total financial liabilities reported at amortized cost	941,392	237,381	989,485	241,356
2. Financial liabilities reported at fair value through profit and loss:				
Derivatives	103,031	542,721	103,031	542,721
Total financial liabilities reported at fair value through profit and loss ***)	103,031	542,721	103,031	542,721
Total financial liabilities	1,044,423	780,102	1,092,516	784,077
*) includes loans from a bank which is an interested party	16,092	-	16,092	-
**) includes loans from an affiliate, see Note 38 h.3	39,995	52,570	42,591	55,859

***) The book value includes financial liabilities in respect of yield dependent policies in the amount of about NIS 80 million (2011 about NIS 509 million).

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

b. Financial liabilities reported at amortized cost – details regarding interest and linkage

	Effective interest December 31 2012	Effective interest December 31 2011
Linkage basis	Percentage	
Linked to CPI	3.2	3.9
In NIS	2.1	3.3
Linked to foreign currency	2.0	1.9

c. Fair value levels of financial liabilities presented at fair value through profit or loss

The table below analyses financial liabilities that are presented at fair value. The different levels have been defined as follows:

- Level 1: fair value is measured using quoted prices (unadjusted) in active markets for identical instruments
- Level 2: fair value is measured using inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: fair value is measured using inputs that are not based on observable market data (unobservable inputs).

The balance of creditors and payables in the financial statements are the same or proximate to their fair value.

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	-	103,031	-	103,031
Total financial liabilities	-	103,031	-	103,031

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	-	542,721	-	542,721
Total financial liabilities	-	542,721	-	542,721

d. Financial liabilities reported at fair value – the interest rates used to determine the fair value

	December 31 2012	December 31 2011
	Percentage	
Loans	2.0	2.2
Other financial liabilities	1.4	2.0

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds (complex second tier capital at Migdal Insurance)

In the year 2012 a sub-subsidiary of Migdal Insurance Capital Raising Ltd. (hereunder - "Migdal Capital Raising") performed two private issuances to classified investors as detailed in the table below:

	Series A bonds	Series B bonds
Date of issue	1.2012	12.2012
Amount of issue (NIS in thousands) NIS 1 nominal value	500,000	324,656
Issue proceeds	500,000	324,656
Nominal interest rate	3.5%	2.35%
Effective interest rate	3.61%	2.46%
Linkage	fund and interest	fund and interest
Settlement date	12.2021	12.2024
Interest payment dates	2 semi annual payments beginning from June 30, 2012	2 semi annual payments beginning from June 30, 2013
Midroog Ltd. rating	Aa2	Aa2
First early settlement date	7 years after issue	6 years after issue
Possibility of listing for trade on the Stock Exchange	Exists. reduction of 0.2% in the interest rate	Exists. reduction of 0.2% in the interest rate
Pledge of bonds	Not secured under any pledge	Not secured under any pledge
Balance of deferred issue expenses as at December 31, 2012 (NIS in thousands) *)	2,011	1,714

*) Deferred issue expenses are amortized according to the effective interest method.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds (complex second tier capital at Migdal Insurance) (Cont.)

The bonds were listed in the trading system for institutional investors.

The issue proceeds were deposited in Migdal Insurance and it serves as complex second tier capital, in accordance with the Regulator's approvals. Migdal Insurance undertook to bear all the amounts required to settle the bonds of Series A and Series B holders. This commitment is deferred until after the payment of Migdal Insurance's remaining liabilities to its creditors and it comes before its liabilities towards creditors according to the components and instruments included in the first tier capital of Migdal Insurance.

The terms of Series A and Series B bonds determine mechanisms for the deferral of the payment of the interest and/or the principal if on their maturity date there will be certain "suspending circumstances", as defined below. The payment of the principal and/or the interest will be deferred until such suspending circumstances no longer exist or up to three years from the date of repayment of the initially determined principal and/or the interest, at the earlier of the two, unless the Regulator approved the payment of the interest at an earlier date.

"suspending circumstances" are implied when one or more of the following occur:

1. With respect to the postponement of the payment of interest -according to the last financial statements of Migdal Insurance that was published prior to the repayment date of the interest, Migdal Insurance does not have distributable profits as implied pursuant to the Companies Law, 1999 (hereunder - "the companies law".

2. With respect to the postponement of the principal and/or interest payments:

   (1) According to the Migdal Insurance's last financial statements that were published prior to the relevant date of settlement of the interest and/or principal, the amount of the recognized equity of Migdal Insurance is lower than the minimum equity required from it (according to the capital regulations), and Migdal Insurance did not perform an equity supplementation as at the date of publication of the financial statements.

   (2) Migdal Insurance's Board of Directors instructed to postpone the payment of the interest or the principal, if it thought that there is an actual concern regarding Migdal Insurance's ability to meet the minimum shareholders' equity required from it (pursuant to the Capital Regulations), or to repay on time the liabilities whose priority is higher than that of the bonds, provided that a prior approval is received from the Regulator of Insurance.

   (3) The Regulator instructed to postpone the payment of the principal or interest if he realized that there is a significant damage to the recognized shareholders equity of Migdal Insurance or there is a close actual concern regarding Migdal Insurance's ability to comply with the minimum shareholders' equity required from it (pursuant to the Capital Regulations).

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds (complex second tier capital at Migdal Insurance) (Cont.)

As long as all the payments of principal and/or interest whose repayment date is postponed have not yet been settled, Migdal Insurance will not perform any distributions, will not settle any capital note, liability certificate, or loan from its controlling shareholders or the controlling shareholders have a personal interest in them, and will not pay any amount of money for any transaction that was approved or should be approved pursuant to the provisions of Section 270(4) final Section to the Companies Law, unless all the aforementioned postponed payments of the principal or interest have been settled. These restrictions will not apply to the types of payments as detailed in the Regulator's circular in relation to "the composition of the insurer's recognized shareholders' equity" (hereunder - "the composition of shareholders' equity circular").

Migdal Capital Raising will be entitled to redeem the bonds at an early redemption' fully or partially, on condition that the first early redemption date will be at the end of six/seven years from the date of issue (Series A/Series B, respectively). In the event that this right for early redemption will not be exercised, there will be a payment of an additional interest over the interest that the bonds will bear at that time, for the balance of the period at the rate of 50% of the initial risk margin that was determined for the issue. The early redemption will be possible in one of the following cases: a) the issue of a capital instrument (as implied in the capital composition circular) which has the same or higher quality, or; b) receipt of the Regulator's approval at the conditions that will be set-forth.

It was determined that the bonds may be redeemed immediately under certain circumstances, such as a delay in the repayment of any amount of money regarding the bonds, beyond the determined period, the liquidation of Migdal Capital Raising, the appointment of a liquidator or an official receiver, etc. The postponement of the payments of the capital and interest in relation to the bonds, due to suspending circumstances as mentioned, does not grant the right for an immediate repayment of the bonds. The trustee will not be permitted to set-up the unsettled bonds for an immediate redemption, without the prior written approval of the Regulator.

NOTE 25:- PREMIUM EARNED ON RETENTION

	Year ended December 31, 2012		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,357,962	158,095	7,199,868
Premiums in health insurance	692,480	62,595	629,884
Premiums in general insurance	1,406,343	454,398	951,945
Total premiums	9,456,785	675,088	8,781,697
Less – change in the unearned premium balance *)	19,243	26,493	(7,250)
Total premiums earned	9,476,028	701,581	8,774,447

	Year ended December 31, 2011		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	6,846,767	179,274	6,667,493
Premiums in health insurance	614,993	62,850	552,143
Premiums in general insurance	1,446,169	484,339	961,830
Total premiums	8,907,929	726,463	8,181,466
Less – change in the unearned premium balance *)	(15,840)	(7,429)	(8,411)
Total premiums earned	8,892,089	719,034	8,173,055

	Year ended December 31, 2010		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	6,244,549	136,183	6,108,366
Premiums in health insurance	556,000	46,214	509,786
Premiums in general insurance	1,402,730	480,293	922,437
Total premiums	8,203,279	662,690	7,540,589
Less – change in the unearned premium balance *)	(20,349)	(21,968)	1,619
Total premiums earned	8,182,930	640,722	7,542,208

*) Mainly in general insurance, see Note 17.

NOTE 26:- INVESTMENT INCOME (LOSS), NET AND FINANCE INCOME

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Profits (losses) from assets held against yield dependent liabilities			
Investment property	336,198	404,025	213,899
Financial investments:			
Quoted debt assets	1,436,366	450,817	1,121,035
Unquoted debt assets	1,264,472	164,057	786,046
Shares	824,008	(1,964,590)	1,234,852
Other financial investments	1,847,318	(551,418)	1,644,160
Cash and cash equivalents	11,821	32,656	(13,988)
Total profits (losses) from assets held against yield dependent liabilities, net	5,720,183	(1,464,453)	4,986,004
Profits (losses) from assets held against non-yield dependent liabilities, capital and others			
Income from investment property:			
Revaluation of investment property	4,631	10,327	3,807
Current income in respect of investment property	27,539	34,876	31,995
Total income from investment property	32,170	45,203	35,802
Profits (losses) from financial investments, except for interest and linkage differences rate differences and dividend in respect of:			
Available for sale assets (a)	90,138	(47,304)	437,948
Assets reported at fair value through profit and loss (b)	(20,456)	33,704	20,389
Assets reported as loans and debtors (c)	5,333	(8,347)	28,936
Interest income *) and linkage differences from financial assets not at fair value through profit and loss	1,581,519	1,766,789	1,550,492
Interest income and linkage differences from financial assets at fair value through profit and loss	479	1,782	9,279
Profit (losses)from rate differences in respect of investments not measured at fair value through profit and loss and other assets **)	223	33,715	(26,822)
Income from dividend	114,591	299,961	65,262
Total profits from net investments and finance income	7,524,180	661,050	7,107,290
*) In the above income includes interest in respect of financial assets not reported at fair value through profit and losses whose value was impaired	13,516	14,551	8,877

**) Regarding rate differences in respect of financial liabilities see Note 35.

NOTE 26:- INVESTMENT INCOME (LOSS), NET AND FINANCE INCOME (Cont.)

a. Net profits (losses) from investments in respect of available for sale assets

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Net profits from realized securities	200,516	150,338	474,473
Net impairment allocated to profit and loss	(110,378)	(197,642)	(36,525)
Total profits (losses) from investments in respect of available for sale assets	90,138	(47,304)	437,948

b. Profits (losses) from investments in respect of assets reported at fair value through profit and loss

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Net changes in fair value, including realization profit:			
In respect of assets designated upon initial recognized	(439)	8,313	1,653
In respect of assets held for trade	(20,017)	25,391	18,736
Total profits from investments in respect of assets reported at fair value through profit and loss	(20,456)	33,704	20,389

c. Profits (losses) from investments in respect of assets reported as loans and debtors

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Net profits from the realization of assets reported as loans and debtors	-	-	6,106
Net increase (decrease) in impairment allocated to profit and loss	5,333	(8,347)	22,830
Total profits (losses) from investments in respect of assets reported as loans and receivables	5,333	(8,347)	28,936

NOTE 27:- INCOME FROM MANAGEMENT FEES

a. Composition:

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Management fees in the pension and provident branches	426,321	395,216	371,369
Variable management fees in respect of life assurance contracts	171,600 *)	- *)	449,428
Fixed management fees in respect of life assurance contracts	402,143	351,500	310,798
Management fees in respect of investment contracts	473	-	-
Total income from management fees	1,000,537	746,716	1,131,595
Other management fees	136,961	159,242	181,786
Total income from management fees	1,137,498	905,958	1,313,381

*) During the reporting year the Company collected variable management fees in yield dependent policies issued between the years 1991 – 2003 in the amount of about NIS 172 million before tax, after it did not collect variable management fees in the amount of about NIS 357 million before tax in the year 2011.

b. Management fee reduction

In June 2012 the Supervision of Financial Services (Provident Funds) (Management Fees), Regulations 2012, the Supervision of Financial Services (Insurance) (Insurance Contract Conditions) (Amendment), 2012 and the Income Tax Regulation Draft (Principles for Approval and Management of Provident Funds) (Amendment No. 4), 2012, regarding the amendment to the management fees in pension saving products (hereunder – the Regulations), were published. In addition, in June 2012, the Institutional Entities circular regarding management fees for pension saving instruments (hereunder – the circular), was published. The aforementioned directives will be called “the management fees reform”.

NOTE 27:- INCOME FROM MANAGEMENT FEES (Cont.)

b. Management fee reduction (Cont.)

1) Changes in the maximum management fees rate

In accordance with the management fee reform, the maximum_management fees rate for managers insurance, will change gradually (regarding new products), in the new general provident and pension funds. The change in the management fees will not apply to the following:

Insurance policies issued prior to the commencement of the regulations, yield guaranteed insurance fund, yield guaranteed provident fund, old pension fund, new comprehensive pension fund, educational fund, personally managed provident fund, central provident fund, segmental provident fund, provident fund for sick pay, provident fund for vacation and provident fund for other purposes.

Hereunder is a table that describes the main changes in the maximum annual management fees for various products (excluding members receiving annuity).

Maximum management fees	Managers insurance (participating in profits)	Provident fund	New general pension fund
Situation prior to amendment	Up to 2.0% of the accruals + 0.0% of the deposits or a lower rate than the accruals and a highest rate than the deposits (according to the mix approved by the Regulator when the management fees from the deposits were between 0.0% and 13.0%)	Up to 2.0% of the accruals + up to 0.0% of the deposits	Up to 2.0% of the accruals + 0.0% of the deposits
On the transitional period from January 1, 2013 up to December 31, 2013	Up to 1.1% of the accruals + up to 4.0% of the deposits		
Beginning from January 1, 2014	Up to 1.05% of the accruals + up to 4.0% of the deposits		

NOTE 27:- INCOME FROM MANAGEMENT FEES (Cont.)

b. Management fee reduction (Cont.)

2) The entrance of the Regulations into force and the change in the maximum management fees, are expected to decrease the management fees that will be collected by the financial institutions in the Group, compared to the management fees that would have been collected without the said change. In addition, the entrance of the regulations into force might increase the rate of cancellation of policies with higher management fees that the company sold in the past and their replacement or transfer to new policies with low management fees. The Company estimates that the discontinuation of marketing the life assurance plans that are combined with savings which include guaranteed pension coefficients, as mentioned in Note 37.b.3.b(6)., might moderate this issue.

The Company is examining the overall effect of the regulations on its income and profitability, which at this stage cannot be estimated, especially in light of additional reforms in the field of pension savings which entered into force in the recent years and/or which are in the stages of legislation and were designated to increase the competition, the transparency and the mobility in the pension savings field.

NOTE 28:- INCOME FROM COMMISSION

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Insurance agencies' commission	176,364	174,642	158,400
Reinsurance commission, net of change in deferred acquisition costs in respect of reinsurance	133,947	154,710	118,879
Other commissions	40,199	50,564	62,164
Total income from commissions	350,510	379,916	339,443

NOTE 29:- OTHER INCOME

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Capital gain from the sale of fixed assets	200	86	22,475
Other capital gain	500	4,070	-
Other activities	16,325	5,099	1,109
Total other income	17,025	9,255	23,584

NOTE 30:- PAYMENTS AND CHANGE IN LIABILITIES IN RESPECT OF INSURANCE CONTRACTS AND INVESTMENT CONTRACTS ON RETENTION

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
In respect of life assurance contracts:			
Claims paid and outstanding			
Death, disability and others	868,304	862,985	750,442
Less reinsurance	76,177	52,750	53,305
	792,127	810,235	697,137
Surrenders	1,778,361	1,715,191	1,470,341
Maturities	793,309	760,395	610,926
Annuities	224,255	180,024	132,789
Total claims	3,588,052	3,465,845	2,911,193
Increase in liabilities in respect of life assurance contracts (except for change in outstanding) on retention	10,220,392	2,700,510	8,902,888
Increase in liabilities in respect of investment contracts for yield component	39,249	25,764	28,516
Total payments and change in liabilities in respect of insurance contracts and investments contracts on retention, in respect of life assurance contracts	13,847,693	6,192,119	11,842,597
Total payments and change in liabilities in respect of general insurance contracts:			
Gross	846,316	1,104,741	1,013,430
Reinsurance	138,840	277,498	263,502
On retention	707,476	827,243	749,928
Total payments and change in liabilities in respect of health insurance contracts:			
Gross	519,805	394,222	437,928
Reinsurance	29,068	33,625	24,082
On retention	490,737	360,597	413,846
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention:	15,045,906	7,379,959	13,006,371

NOTE 31:- COMMISSION, MARKETING EXPENSES AND OTHER ACQUISTION EXPENSES

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Acquisition expenses:			
Acquisition commission	442,402	393,284	363,551
Other acquisition expenses	437,955	412,718	418,638
Change in deferred acquisition costs	(85,009)	(83,771)	(61,728)
Total acquisition expenses	795,348	722,231	720,461
Other current commissions	539,727	510,695	474,002
Other marketing expenses	46,038	31,297	36,397
Total commission, marketing expenses and other acquisition expenses	1,381,113	1,264,223	1,230,860

NOTE 32:- ADMINISTRATIVE AND GENERAL EXPENSES

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Salaries and related expenses	970,634	938,192	905,932
Depreciation and amortization	178,595	146,575	130,794
Maintenance of office premises and communications	157,912	151,574	142,286
Marketing and advertising	88,256	93,636	126,748
Professional and legal counseling	47,889	52,817	56,783
Others	194,936	171,741	162,133
Total *)	1,638,222	1,554,535	1,524,676
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contract item	(109,218)	(106,269)	(100,278)
Amounts classified in commissions, marketing expenses and other acquisition expenses	(508,853)	(476,417)	(483,597)
Administrative and general expenses	1,020,151	971,849	940,801
*) Administrative and general expenses include expenses in respect of IT	323,772	271,248	261,073

NOTE 33:- SHARE BASED PAYMENT

a. Income recognized in the financial statements

The expenses recognized in the financial statements for services that were received from the employees are presented in the following table:

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
In respect of grants settled in cash	4,879	4,975	2,769
In respect of capital grants	3,885	7,955	13,251
	8,764	12,930	16,020

Share based payment transactions granted by the Company to its employees are described below. During the years 2010 through 2012 no changes or cancellations in the said employee benefit plans were performed.

NOTE 33:- SHARE BASED PAYMENT (Cont.)

b. Additional information regarding share based payment plans

	Plan 2010 (2)	Plan 2009 (1)
Number of options allocated to the Chairman	679,997	650,000
Number of options allocated to the General Manager	1,131,684	1,000,000
Number of options allocated to the other employees included in the plan	13,552,606	9,698,875
Total options allocated	15,364,287	11,348,875
Balance of unrealized options as at the balance sheet date	12,732,657	8,763,750
Conversion ratio	1	1
Adjusted realization price as at December 31, 2012 (3)	0.01	5.66
Date of grant to Chairman of the Board of Directors and general manager	10/2010	9/2009
Date of grant to other employees included in the plan	08/2010	8/2009
Vesting date *)	01/2013	1/2012
Expiration date *)	-	12/2014
Fair value (NIS in millions) as at the date of grant **)		
To the Chairman of the Board of Directors and the General Manager	3.6	3.3
To other employees included in the plan	29.5	18.6

*) According to the 2010 plan the vesting period of the option warrants is 3 years, except for options whose vesting depends on the Company's results versus its main competitors, whose vesting period is 6 years.

The options will be converted into shares at the end of the vesting period. Accordingly, there is no realization period beyond the vesting period (see paragraph (2) below).

**) All the options that were granted in the aforementioned plans were deposited with a trustee in a lump sum track pursuant to Section 102 to the Income Tax Ordinance.

NOTE 33:- SHARE BASED PAYMENT (Cont.)

b. Additional details regarding the share based payment plan (Cont.)

(1) 2009 plan

On August 17, 2009, the Company's Board of Directors approved a share based payment plan for officeholders and managers in the Group.

The plan includes an allocation of 12,000,000 options that are not listed for trade on the Tel-Aviv Stock Exchange granting the participant who holds them the right to receive, through an allocation, up to 12,000,000 Ordinary shares NIS 0.01 nominal value each.

The vesting period of the 2009 Plan ended on December 31, 2011 and the realization period will end on December 31, 2014.

(2) 2010 plan

On August 24, 2010, the Company's Board of Directors approved a long term remuneration plan, in respect of the Group's officeholders and managers. The plan includes cash grants and a private allotment of up to 16,445,413 eligibility deeds (hereunder "the eligibility deeds" / "options"), which are not listed for trade on the Tel Aviv Stock Exchange Ltd., which grant the participant who holds them the right to receive by way of an allotment up to 16,445,413 ordinary options of NIS 0.01 nominal value of the Company, which will be allotted in two stages when the conditions for their allotment is met, as detailed below, and in return for the payment of their nominal value. The Company had actually allotted 15,364,287 eligibility deeds.

On October 21, 2020, the Company's general meeting approved the allotment of the eligibility deeds to the Company's Chairman of the Board of Directors.

The long term remuneration plan for the year 2010 is for the period of 6 years and include two consecutive stages of three years each (hereunder – "stage I and "stage II"). Unlike the previous remuneration plans, the share cost on the date of grant and the change therein during the first 3 years (up to the end of stage I) does not affect the value of the benefit. At the end of stage I, which ends on December 31, 2012, each participant will be entitled to a grant which is at a number of monthly salaries (hereunder – "the target grant", which will be paid to him in accordance with the compliance with the targets as detailed below ("stage I grant"). The amount of stage I grant will be calculated and determined in accordance with the compliance with two targets: compliance with profit targets ("the profitability element"), and the continuation of employment in the Company until that date ("the persistency element"). The total persistency element will be paid in shares and the profitability element will be paid partly by shares and partly in cash, according to the terms of the plan. The number of shares that will be issued will be calculated according to the value of the share on the stock exchange at the end of stage I.

NOTE 33:- SHARE BASED PAYMENT (Cont.)

b. Additional details regarding the share based payment plan (Cont.)

(2) (Cont.)

After the allotment of stage I shares, the shares will be deposited in trust until the end of stage II, which ends on December 31, 2015. Any participant who received an allotment of shares in respect of the profitability element at the end of stage I, will be entitled to an allotment of additional shares of the Company (stage II shares), without any additional payment (except for an insignificant payment of their nominal value). The number of shares will be determined on the basis of the Group’s rating compared to four other groups in the same area of activity, according to parameters that were set forth in the plan.

The book value of part of the liability for this option plan (treated as a cash settled grant plan) is NIS 12,623 thousand, as at December 31, 2012 (in the year 2011 it was NIS 7,744 thousand).

(3) In the 2009 Plan the realization price of each option is determined by the multiplication of the conversion ratio which will be determined by the basic realization price, with the addition of linkage difference to the CPI and adjusted for dividend distribution in accordance with the regulations prescribed in the option program. In the 2010 plan the realization price for each option was determined in return for its nominal price in the sum of NIS 0.01 per share.

(4) In the framework of the acquisition of the subsidiary Infomed - Medical Internet Portal Ltd., on September 26, 2011, a put option was given to one of the shareholders according to which he will be entitled to realize his shares in the acquired company subject to continuing to provide the subsidiary with management services for a period of 60 months. The realization price of the option is a multiplier of 5 on the company's average annual net profit for the two years preceding realization of the option. This option is accounted for as a share-based payment settled in cash. The expense in respect of the said option is insignificant.

NOTE 33:- SHARE BASED PAYMENT (Cont.)

c. Movement during the year

The following table lists the number of share options, the weighted average realization prices of share options and the movement in the number of options during the current year:

	2012		2011		2010	
	Number of options	Weighted average realization price	Number of options	Weighted average realization price	Number of options	Weighted average realization price
		NIS		NIS		NIS
Share options:						
As at beginning of year	26,797,902	2.75	29,042,052	2.63	31,128,392	5.67
Granted during the year	-	-	-	-	15,891,787	0.17
Forfeited during the year	(5,102,870)	4.50	(2,030,324)	1.76	(1,118,375)	5.51
Realized during the year *)	(198,625)	5.97	(213,826)	5.84	(16,859,752)	5.82
As at the end of the year	21,496,407	2.31	26,797,902	2.75	29,042,052	2.63
Realizable as at the end of the year	8,763,750	5.66	2,798,658	6.02	2,919,765	5.86

(*) The average weighted realization price of the share in respect of the options exercise in 2012 – 5.97, in 2011 - 6.27 and in the year 2010 - 7.62.

d. The weighted average remaining contractual life for the share options outstanding as of December 31, 2012 is 2.59 years (in 2011 – 2.64 years and in 2010 – 3.65 years). The anticipated term of these plans range between one to five years for each of the years presented above.

e. The range of exercise prices for exercisable share options outstanding for the year 2012 is NIS 5.97 – NIS 5.66 per option (in 2011 – 5.98 – NIS 5.66, in 2010 – NIS 5.82 - NIS 6 per option).

f. Measurement of the fair value of equity-settled share options

In the 2009 Plan the Company used the binomial model for measuring the fair value of equity-settled share options. In the 2010 plan, according to its economic nature which is derived from the new policy that the Company outlined, the Company used a model for pricing shares for the measurement of the fair value of the benefit which is partly settled by capital instruments (see below comment regarding the price of the share). The measurement is made on the date of grant of the options to the Company's employees. (See comment (2) above).

The following table lists the inputs to the binomial model used for the fair value measurement of the benefit granted to the employees of the Company.

	Plan 2010 (2)	Plan 2009 (1)
Dividend yield per share (%)	3.69	1.33
Expected fluctuation of the share prices (%) *)	-	33.78
Historical fluctuation of the share prices (%)	-	33.78
Risk-free interest rate (%)	2.99	1.49
Realization price (NIS)	0.01	5.74
Life of the options (years)	3-6	6
Price of share at time of grant (NIS) **)	6.98	5.91

(*) The anticipated volatility of the share prices reflects the assumption that the historical volatility of the share prices is a reasonable indication of the anticipated future trends.

(**) In accordance with the 2010 plan, the share price at the time of grant is not used for determining the value of the benefit, as mentioned in paragraph b.2 above.

NOTE 34:- OTHER EXPENSES

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Amortization of intangible assets (except for computer software) *)	26,681	26,572	39,388
Other activities	6,430	187	2,820
Total other expenses	33,111	26,759	42,208

(*) For additional details see Note 4a.

NOTE 35:- FINANCE EXPENSES

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Interest expenses and linkage differences in respect of:			
Liabilities to banks and affiliate *)	5,321	9,334	9,569
Finance expenses in respect of bonds	25,205	-	-
Interest expenses to reinsurers	765	1,016	1,341
Rate differences, net in respect of liabilities **)	734	12,247	(3,082)
Commission and other finance expenses	6,951	2,555	5,572
Total finance expenses	38,976	25,152	13,400

*) For details regarding a loan from an affiliate see Note 38.h.3.
**) For exchange rate difference for financial investments See Note 26.

NOTE 36:- EARNING PER SHARE

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Basic and diluted earnings per share NIS 1 attributed to the Company's shareholders (in NIS)	0.21	0.28	0.74

NOTE 36:- EARNING PER SHARE (Cont.)

a. Basic earnings per share

The calculation of the basic loss per share for the year 2012, was based on the profit attributed to the holders of ordinary shares in the amount of NIS 226,212 thousand (in 2011 and 2010 profit in the amount of NIS 296,268 and NIS 780,898 respectively) divided by the weighted average number of ordinary shares outstanding as detailed below:

Weighted average number of ordinary shares

	Year ended December 31		
	2012	2011	2010
	Number of shares (in thousands)		
Balance as at January 1	1,051,656	1,051,640	1,046,874
Effect of options realized into shares	- *)	11	3,943
Weighted average number of ordinary shares used for calculation of basic earnings per share as at December 31	1,051,656	1,051,651	1,050,817

*) Less than NIS 1 thousand.

b. Diluted earnings per share

The calculation of the diluted earnings per share for the year 2012 was based on the profit attributed to the holders of ordinary shares in the amount of NIS 226,212 thousand (in the years 2011 and 2010 a profit of NIS 296,268 thousand and NIS 780,898 thousand, respectively) divided by the weighted average number of ordinary shares outstanding during the period, after adjustment in respect of all the potential diluting ordinary shares as detailed below

Weighted average of the number of ordinary shares (diluted)

Weighted average of the number of ordinary shares (diluted)

	Year ended December 31		
	2012	2011	2010
	NIS in thousands		
Weighted average number of ordinary shares used for calculation of basic earnings per share	1,051,656	1,051,651	1,050,817
Effect of dilutive potential ordinary shares	13,219	14,020	7,821
Weighted average number of ordinary shares used for calculation of diluted earnings per share as at December 31	1,064,875	1,065,671	1,058,638

NOTE 36:- EARNING PER SHARE (Cont.)

b. Diluted earnings per share (Cont.)

The average market value of the Company's shares, for calculation of the dilutive effect of option warrants to shares, was based on the quoted market prices for the period in which the option warrants were outstanding.

In 2012, in calculating the diluted earnings per share, the convertible securities were not included in respect of 8,236,250 options to employees in the share-based payment plans (ordinary shares potentially diluting), in the year 2011 - 2,678,658 options, since their inclusion has an anti-dilutive effect. In 2010, all the convertible securities were included in respect of options to employees in the share based payment plans (ordinary shares potentially dilutive).

NOTE 37:- RISK MANAGEMENT

a. General

1. The principal risks

The Group operates in the insurance and long-term savings, and financial services areas of activity. The insurance activities focus on life assurance and long term savings (life assurance, pension funds and provident funds), health insurance and general insurance. Financial services activity focuses on the rendering of financial asset management services and the marketing of investments, performance services on the TASE and in regulated markets and custodian services, underwriting and investment banking.

The Company's activities expose it to the following risks:

– market risks;
– liquidity risks;
– insurance risks;
– credit risks;
– operating risks.

These risks are accompanied by general risks such as: legal risks, goodwill risks and business risks.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

1. The principal risks (Cont.)

Market risks – The risk that the fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, among others, risks resulting from changes in interest rates, stock exchange rates, the CPI and foreign currency exchange rates.

Liquidity risks – The risk that the Group will have difficulties in fulfilling obligations related to its liabilities.

Insurance risks –
Life assurance and health insurance risks and actuarial risks in pension funds (the actuarial risks in the pension fund rest with the members, and their effect on the managing company is with respect to the management fees) result from uncertainty in the anticipated future claims payment with respect to the assumptions relating to mortality/longevity rates, morbidity/disability rates, expenses, cancellations or surrenders.
General insurance risks derive mainly from pricing, the valuation of reserves and catastrophic risk.

Credit risks – The risk of a loss that is the result of a borrower/reinsurer failing to meet their obligations, or of changes in credit spreads on the capital market.

Operating risks – The risk of a loss that is the result of inappropriate or failures in internal processes, human errors, system failures or external events.

For additional information on the risks, see paragraph b. below.

The board of directors of Migdal Insurance defines the exposure policy of the insurer and of the profit participating portfolio to the various risks, which includes determining limits of exposure to risks to the extent these can be determined, determining the overall level of exposure to risks taking into consideration the correlation between the various risks, approving tools and controls for measuring and managing the risks, and methods for coping with the risks and with their materialization.

2. Legal requirements

In the insurance and long-term savings activities:

The Regulatory provisions regulate and determine, among others, the arrangements in relation to risks which the companies are exposed to, by providing regulatory requirements such as the following:

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

2. Legal requirements (Cont.)

In the framework of the Supervision of Financial Services Law (Insurance) (Board of Directors and its Committees), 2007 and in relation to the management of exposures to risks, the Board of Directors should define the exposure policy of the insurer and the policyholders to various risks, to determine the ceilings of exposure to risks as far as is possible to determine them, to determine the overall level of exposure to risks, taking into consideration the correlation between the various risks, to approve tools and control for measurement of risks and their management and ways of coping with the risks and with their materialization.

The investment management – directives were determined regarding the manner of investment management by the institutional entities, which, among others, set requirements for the degree of dispersal, limitations on investments and liquidity.

Credit management – directives were set in order to make sure that there will be appropriate management, supervision and control mechanisms for management of credit risks while carrying out investment activities, including regarding the establishment of a credit committee and its roles; setting a policy for providing credit as well as ways of supervision, control and reporting to the various investment committees and to the Board of Directors.

Reinsurers – directives regarding management of exposure to reinsurers ("reinsurers exposure") were prescribed.

Capital requirements – directives were determined regarding the minimum capital requirements, for further details see Note 7.e.

Risk management -

- In the framework of the Bachar legislation a legal requirement was imposed on institutional entities (insurer, pension fund and provident fund) to appoint a risk manager. In October 2006 the Regulator published a circular concerning the appointment of a risk manager for insurance companies and pension funds. In August 2009, a circular was published on a risk management and control system for provident fund management companies ("Risk Management Circulars").

  The risk management according to the Risk Management Circulars, includes the identification of risks that are essential to the insurer's financial strength, examination of the quality of risk management and quantification of the risks in order to come to the valuation of the required capital in order to bear these risks (the economic capital). In this respect, the economic capital is defined as the level of the capital that is required to guarantee the Company's repayment ability against an event of a large loss that might occur at a given level of certainty and during a given period.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

2. Legal requirements (Cont.)

Risk management (Cont.)

According to the Risk Management Circulars the duties of the risk manager are mainly:

- To identify the material insurance and financial risks to the insurer's strength and compliance with his liability to its present and future policyholders or the risks the pension fund or provident fund members are confronted with, the material risks that stem from the assets held against the insurer's liabilities and the material risks that are derived from the assets that are held against yield dependent liabilities.

- Quantification of the exposure and evaluation of the potential risk of the material risks that were identified according to the criteria that will be defined by the insurer, the pension fund or the provident fund and for future periods that will be determined.

- The valuation of the shareholders' equity (the economic capital) that is required from the insurance company in order to bear the material risks while taking the level of correlation between the various risks into account.

- Periodic reporting to the general manager, Board of Directors and the investment committees, as the case may be, which mainly includes the identification of the main risks, the estimate of their potential risk on the future financial situation of the insurer, the pension fund or provident fund members, and an estimate of the controls and the measures that are taken for the management of these risks.

- To provide recommendations for improving the manner of managing the principal risks.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

2. Legal requirements (Cont.)

- Adoption of Solvency II ("the Directive")

In July 2008 the Regulator published a circular determining directives regarding the preparations of the insurance companies in Israel for implementing the directive Solvency II concurrently with the implementation of the Directive in the European Union countries. The Directive includes a comprehensive examination of the risks the insurance companies are exposed to and the determination of standards for handling and measuring them, together with provisions for allocation of capital to risks that are involved with their activities. Apart from the quantitative aspects, the Directive focuses also on the internal supervision and control activities, as well as market discipline, disclosure and reporting. According to the circular the Regulator requires that the insurers will adopt the provisions of the Directive on the date of application of the Directive in the European Union countries.
In March 2009 the Regulator issued a circular of amendments and clarifications to insurance circulars regarding the duties of the risk manager and the preparation for Solvency II. The clarification assigned to the risk manager an additional reporting duty with respect to indications arising from the process of preparing for Solvency II and postponed the reporting dates with respect to other reports so as to match them to the implementation phases provided in the Solvency II circular.

In May 2010, the Regulator distributed to the insurance companies guidelines detailing the following stages towards the application of Solvency II. Under the guideline the Regulator informs the insurance companies about the actions they should take in order to adopt the Directive: adjustments of capital requirements, upgrade of the risk management system, the control and corporate governance in insurance companies, adjustment of the manner of supervision over insurance companies to the risk based method and adjustment of the general regulation environment to the Directive's principles.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

2. Legal requirements (Cont.)

- Adoption of Solvency II ("the Directive") (Cont.)

In September 2012 the Regulator published a final version of a letter regarding the Israeli solvency governance. In this letter the Regulator noted that due to the uncertainty regarding the timetable for implementing Solvency II in Europe, it will not be right to wait for the completion of the Directive's update procedure. In his letter the Regulator specifies the measures he intends to take which include: an adjustment of the Regulation's outline to the Directive on the basis of the differences that were mapped; a demand to submit IQIS once again on the basis of the data of the balance sheet for the year 2011, in accordance with updated guidelines for performance; a report regarding the solvency according to the IQIS model which will be performed commencing from the middle of 2013; publishing a draft guideline for submitting the ORSA report (self evaluation of risk and solvency), submitting the draft ORSA report to the Supervision of Insurance, after discussing its findings in the Board of Directors, at the end of the year 2013. The final ORSA report will be devised up to the end of the year 2014 and the insurers will submit it to the Regulator on a regular basis beginning from the year 2015; capital additions if it turns out that there are such additions according to the ORSA reports, IQIS results, the quality of the corporate governance and the risk management in the company, the necessity to add them during the year 2015, based on methodology that will be published during the year 2014; in addition, the hierarchy of the regulatory interference will be regularized in the event of a financial deterioration in the insurance company's position. In addition, after obtaining adequate experience in the results of IQIS reporting, new risk based capital regulations will be published and the insurance companies will be required to maintain shareholders' equity accordingly.

In December 2012 the Regulator published a circular regarding guidelines for performing IQIS. The purpose of the circular is to guide the institutional entities in respect of carrying out the review, including clarifications and adjustments to the market characteristics and the regulation in Israel, and the necessary reports.

With respect to the performance of the IQIS model, the Company is holding discussions with the Ministry of Finance regarding the manner of application of the provisions of the model.

During the period of preparations for the application of the Directive, guidelines are published for the calculation of capital requirements according to the Quantitative Impact Study (QISS) model, which includes the quantification of a variety of insurance and financial risks that the insurance companies confront based on the requirements defined in the relevant Regulator's circulars. Up to now there were changes in these guidelines from year to year and accordingly the calculated results of the capital requirements have changed accordingly.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

2. Legal requirements (Cont.)

- Adoption of Solvency II ("the Directive") (Cont.)

Operating risks – in addition to the above arrangements, the Regulator published directives regarding the management of specific exposures of which the main ones are: embezzlement and fraud by certain entities within the organization and outside it ("the Embezzlement Circular") and data protection risks management ("data protection").

The effectiveness of the internal control over financial reporting and disclosure (SOX) - additionally, according to the Securities Regulations, the Company applies the relevant procedures pertaining to the review of the effectiveness of the internal control over the Company's disclosure and financial reporting, and includes the necessary reports and certification in connection with them in its financial statements. At the same time, the Group's institutional entities apply the provisions of the Regulator of Insurance regarding the effectiveness of the internal control over disclosure and financial reporting in these institutional entities (that are based on Sections 302 and 404 of the Sarbanes-Oxley Law and the provisions of the SEC).

In the financial services activities:

Migdal Capital Markets and its subsidiaries operate in accordance with the directives of various regulators and the Stock Exchange Articles of Association and Regulations, which define limitations to the ceiling of credit to customers, guarantees, instructions regarding customer activities with respect to derivative financial instruments, etc.

3. Description of procedures and methods of risk management

a) The risk management array includes:

In the insurance and long-term savings activities:

- a risk management forum headed by the Group's CEO in which managers from various fields participate, the actuaries of the various insurance fields and the risks manager.

- the risk management unit is responsible for the concentration of the following principal issues, in cooperation with the headquarter units responsible for the various issues: risk identification and their quantification, submission of reports regarding exposure to current or extraordinary risks to the reporting entities (in other words, to the investment committees, the Board of Directors, the risk management forum, etc.), application of risk valuation systems and their management in the various fields in the Group and the application of the Regulatory directives relating to risk management in the various fields.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

a) The risk management array includes: (Cont.)

In the insurance and long-term savings activities: (Cont.)

The Company has appointed a risk manager for the insurance company and institutional bodies managed by it.

In the financial services activities, an independent system for management of market risks.

The persons responsible for managing market risks are the CEOs of each subsidiary.

Migdal Capital Markets appointed a risk controller who is responsible for controlling the market risks.

b) The Company's risk management policy

The Company's risk management policy is designed to support the Company's achievement of business objectives and valuation of the losses that are liable to result from the exposure to risks that the Company is faced with as a result of its business activities, and the limitation of these losses in accordance with the risk policy that was determined, and at the same time to take note of the changes in the business environment, as well as the Regulatory directives and requirements, as detailed below:

The insurance and long-term savings activities:

Market risks are managed by the investment managers in accordance with the law and the overall policy of the Board of Directors and of the investment committees of the asset portfolios of the members' monies: the profit participating policies, pension funds and provident funds (in which the risk is carried by the members), and that of the Nostro assets portfolios: the insurance businesses and Migdal Holdings ("the Investment Committees").

These bodies receive reports regarding the exposure of the Group's various investment portfolios to changes in the money and capital markets which include, as mentioned, the interest rates, foreign currency exchange rates and inflation, including management of the assets versus the liabilities, and with reference to this, they define the exposure levels to the various investment channels as frameworks for performing the investments by the Group's investment domain, subject to the Ways of Investment Regulations.

For information regarding the exposure to the linkage bases of the managed portfolios see paragraph c hereunder.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

b) The Company's risk management policy (Cont.)

Liquidity risk is managed by the investment managers by regularly monitoring the average duration of assets compared to the average duration of liabilities in the various investment portfolios and by quantifying the anticipated loss in an extreme scenario of the immediate disposal of assets. The matter is discussed in the Board of Directors and in the investment committees of the managed portfolios, both the Nostro portfolios and the members' portfolios, the profit participating portfolios and the pension and provident funds. The exposure limits to risk factors of the assets in the managed portfolios is determined in accordance with this data.

The insurance risks are managed by the insurance field managers and the actuaries of the various branches including the pension funds (in which the risks are carried by the members). The Board of Directors receives the exposure valuation of the maximum loss that is expected from the significant insurance risks, at the level of certainty prescribed, based on the following risk components:

- the extent of the maximum anticipated loss as a result of the exposure to a single large damage, or an accumulation of damages in respect of an extremely large event (catastrophic event), as well the exposure to an unexpected change of the risk factors that are covered in policies sold by the Company, at a given level of certainty during the period of one year.

- the effect of the measures taken by the Company for dispersion, reduction or limitation of the insurance risks, by underwriting procedures and regulations for receipt of business and through reinsurance arrangements, in order to reduce the aforementioned anticipated loss as a result of the exposure to insurance risks.

- the effect of the Company's activities for reducing/limiting the risks, including reinsurance arrangements, the potential effect of the exposures to significant insurance risks on the Company's future financial position and the required shareholders' equity against these risks (economic capital).

Regarding the estimate of the Company's exposure to insurance risks (and to the actuarial risk of the pension fund members), the Board of Directors determines the Company's or the fund's exposure limitations to these risks.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

b) The Company's risk management policy (Cont.)

Credit risks due to investments are managed by the investment manager in accordance with law and the overall policy of the Board of Directors and the investment committees. The policy includes exposure limitations which mainly relate to exposures to individual borrowers, a group of borrowers, exposure to credit risk ratings, liquidity, collateral, etc. The regulatory requirements are also taken into account when determining the abovementioned limitations. The Company has a credit committee which examines and approves transactions according to the level of authorization that was granted to it by each of the various investment committees.

For information regarding the credit rating of assets in the managed portfolios, see paragraph b.4.a).(2) below.

Reinsurers' credit risks – managed by the head of the reinsurance field who presents the Board of Directors with the exposure to credit risks in respect of reinsurers. The Board of Directors determines the exposure limitations to the reinsurers' credit risk rating, among others, in relation to the type of insurance branch (long/short tail), to the individual reinsurer and taking into account the limitations prescribed by the legislative arrangements. For information regarding the rating of reinsurers' balances, see paragraph b.1.4.

Main operating risks – managed by the heads of the domains and with respect to control, organization and methods, regulation, etc. Policy documents taking the existing regulatory directives into account, in connection with the management of operating risks have been approved by the Company's Board of Directors and the Company acts according to them.

In the financial service activities:
Migdal Capital Markets and its subsidiaries, through their employees and risk systems, supervise the various exposures resulting from market risks, credit risks, liquidity risks and operating risks, in the framework of the exposure limitations prescribed by the Boards of Directors and the regulatory directives regarding these risks.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

c) Work processes and the method of identifying risks in the insurance companies

Identification of the material risks, evaluation of their method of management as well as quantification of the exposure and the potential effect of these risks on the future financial position of the Group companies and its policyholders, are carried out together by the risk management unit and the corporate units responsible for the insurance activity, the reinsurance activity, the investment activity and the finance activity, respectively.

The overall risk facing the Company as a result of its activity in the various branches is quantified by calculating the capital versus risk (economic capital) that is required in order to cover the loss arising at a given level of probability over a given period of time for the following principal risk categories:

Market risks and liquidity risks:

The exposure of the investment portfolios to market risks is quantified by measuring the value at risk (VaR), which measures the maximum potential damage at a given probability over a given period of time, and also by examining the damage expected for the Group under various market scenarios. The exposure to market risk is examined by comparing the average duration and internal rate of return of assets and liabilities (ALM) and by examining the effect of changes in interest curves on their fair value. The average duration gap serves as an indication of the liquidity risk in the portfolios (negative gap – a longer average duration of liabilities than of assets – low liquidity risk, and vice versa).
Regarding portfolios in which the exposure to liquidity risks is relatively high (such as the pension fund and provident funds) the expected loss as a result of an extreme scenario of immediate realization of accruals, is also calculated.

In addition, in respect of the managed portfolios (the Nostro portfolios and the asset portfolios of the members’ monies: the profit participating policies, pension funds and provident funds) various performance indices are calculated with respect to the relation between the return that is obtained and the level of risk in the portfolio.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

c) Work processes and the method of identifying risks in the insurance companies (Cont.)

Insurance risks:

In life assurance, health insurance and pension funds – Quantification of the exposure to loss deriving from the risk components of life assurance, health insurance and the actuarial risks in pension funds such as risks of death and disease, life expectancy, a particularly large event such as an earthquake, war or act of terror (catastrophic event), and an increase in rates of cancellations and surrenders. The exposure is quantified by the effect of extreme scenarios on the value of the long term savings portfolios taking into consideration the correlation between the risk factors over a one-year horizon.

In general insurance – The exposure to a significant deterioration in the risk factors covered by the policies such as an individual large event of damage or cumulative damages in respect of a particularly large event, such as an earthquake (catastrophic event), and the effect of reinsurance arrangements on the potential loss for Migdal Insurance is quantified using stochastic models that measure the value at risk (VaR) at a given level of probability over a one-year horizon, mainly on the basis of the behavior of these risks in the past.

A calculation is also made of the exposure to a deterioration in future payments for outstanding claims in excess of the reserves existing for such claims.

Credit risks:

The exposure to risk of credit granted in the various investment portfolios is estimated mainly on the basis of the calculation of the value at risk (VaR) that derives from the effect of changes in credit spreads on the value of these assets as derived from the credit rating and average duration of the asset, and by examining the damage expected for the Group from the credit assets under different scenarios.

The estimate of the exposure to credit risks from reinsurers is mainly based on the probability of a loss at a given level of certainty that derives from the credit rating of the reinsurers.

The credit rating granted in the investment portfolios is rated on the basis of an external rating, if one exists, and of an internal rating of the investment research department, which also examines the external rating.

Regarding internal rating, see paragraph b.4.b.(1) below.

The credit rating of reinsurers is determined principally according to the rating of Standard & Poor’s (S&P). Where S&P has not issued a rating, the rating is determined by another rating company and converted according to a scale provided in the Ways of Investment Regulations.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

c) Work processes and the method of identifying risks in the insurance companies (Cont.)

Operating risks:

In the framework of the application of the directives of the Commissioner of Capital Market Insurance and Savings in relation to Section 404 of the Sarbanes-Oxley Act, Migdal Insurance and other institutional bodies of the Group carried out the process of mapping the main work processes the risks and controls therein, while giving a certain attention also to the aspect of significant operating risks, insofar as they are identified, during the process of mapping and documentation. Thus, the mapping process was actually combined with the general risk management and the management of other risks – such as operating risks.

Quantification of the loss arising deriving from operating risks is included in the calculation of the economic capital by means of accepted parameters that relate to the volume of the Group's activity in the various branches of insurance.

New products:

The process of entering into a new insurance plan or new area of activity in the Group or the updating of existing products in respect of the creation of a new risk in existing activity, is executed according to a procedure for launching a new product that complies with, inter alia, regulatory instructions on this matter. The risks associated with the product are identified and quantified as follows:

Insurance risks – The exposure to insurance risks is measured by the appointed actuary while taking into consideration both the risk expectancy, which serves as a basis for pricing the product, and the exposure to potential losses expected in excess of the risk expectancy, under various scenarios and at various probabilities.

Market risks – In products involving any kind of guaranteed yield, the exposure to market risk is measured using stochastic tools that measure both the expected loss in respect of market risks (which is the basis for pricing the product) and the expected potential loss at a given level of certainty, in respect of such risks.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

d) Risk management control is performed at a number of the Group centers as follows:

- each headquarter unit is responsible in its field, for compliance with the Group's procedures and the Board of Directors and the investment committee's directives regarding the limitations of the exposure to risks.

  The Group has professional forums in various areas such as, investments and the insurance and pension branches, under the management of the CEO and the heads of domains. The run-off of exposure to insurance risks in the various insurance branches is regularly reviewed in these forums and accordingly, also as in the run-offs in other areas, the management makes decisions regarding the performances in these areas of activity.

- the control array, which is spread out in the various fields of activity in the Group and managed by the heads of the domains and the control manager, who examines the work procedures as well as compliance and application of regulations and acts to locate and minimize the risks, according to the annual control plan as part of the working plan that was approved by the Board of Directors.

- the risks management unit. See paragraph a.3.a) above.

- the internal auditor combines in his work plans issues that were defined in the risks survey as issues that require special attention.

Market risks and liquidity risks

The exposures of the Group's various asset portfolios are measured monthly and include the risk indices described in paragraph 3.c above, as well as the situation of the exposures to risk factors compared to limitations that were determined by the Board of Directors and the various investment committees.

The exposure to interest risk which is measured by means of the average duration gap between assets and liabilities, is performed once a quarter.

Exposure reports are provided regularly to the respective investment committees of the various asset portfolios. A summary of the asset portfolios' risk indices is reported by the CEO to the management and Board of Directors in the framework of the CEO's monthly report to the Board of Directors.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

d) Risk management control is performed at a number of the Group centers as follows: (Cont.)

Insurance risks

In life assurance, health insurance and pension fund – There is ongoing control over developments in the exposures to insurance/actuarial risks, such as risks relating to death, life expectancy, loss of capacity to work, portfolio preservation, expenses, etc., and their effect on both the insurance reserves and the value of the long-term savings portfolio, as well as on the profitability of the products and the value of the Group's new sales.

In general insurance – There is ongoing control over the developments and trends in exposures to insurance risks of the various insurance branches, which mainly derive from changes in the frequency of the claims and their severity as well as in expenses and in other costs, and their effect on both the profitability of the products and on the insurance reserves.

Credit risks of investments

The situation of borrowers of credit provided in the framework of the Group's various investment portfolios is examined once a quarter by the Group research unit, if there has been a change in the credit risk of the borrower. In addition, the credit unit regularly examines the financial covenants of the credit and compliance with the instructions of regulators, the Board of Directors and the investment committees. The exposure to credit risks of the various investment portfolios, including the exposure to borrowers, industries and segments, ratings of borrowers, problematic debts, etc., are brought before the investment committees once a quarter for discussion.

Reinsurers' credit risks

The reinsurance area examines the rating of reinsurers that are planned to participate in reinsurance arrangements before they are renewed. The quality of the reinsurers is also examined by the "underwriting office" when entering into facultative agreements in policies for large enterprises.

The rating of reinsurers compared to the insurance reserves, the outstanding claims as well as to the exposure to earthquakes of reinsurers is examined regularly by the finance unit.
The finance unit regularly monitors collection from reinsurers.

NOTE 37:- RISK MANAGEMENT (Cont)

a. General (Cont.)

3. Description of procedures and methods of risk management (Cont.)

d) Risk management control is performed at a number of the Group centers as follows: (Cont.)

Other operating risks

Information security – Surveys and penetration tests to information systems are performed in order to detect weak points and contend with them.
Fraud and embezzlement, and human errors – These are handled by the control system.
Regarding preparation for disaster - the Company has a plan of action in the event of a disaster which includes, inter alia, an overseas backup site for information about policyholders and members. During 2011 the Company made a decision which was approved by the Board of Directors to significantly improve its disaster recovery readiness and to establish an additional backup site in Israel (instead of the site abroad) which will facilitate RPO (Return Point Objective) for up to 4 hours and RTO (Return to Operations) of up to 24 hours. Parallel to this decision, the Company adopted additional emergency reference scenarios for which it will provide a response.

The Company believes that this activity will be completed during the course of the coming year.

b. Details of the risks

1. Market risks

A market risk is the risk that the fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, among others, risks resulting from changes in interest rates, stock exchange rates, the CPI and foreign currency exchange rates. Regarding the effect of a sensitivity analysis in these variables on the profit (loss) for the period and on comprehensive income See paragraph b.1.a).

Interest risk – The risk that the fair value or future cash flows of a financial instrument will change as a result of changes in market interest rates.
In most of the Group's business the average duration of the assets does not match the average duration of the liabilities and mainly that of the life assurance liabilities in which the average duration of liabilities is considerably longer than the average duration of assets. As a result, a decrease in the interest rate results in lower future yields when refunding the assets as compared to the liabilities and to a decrease in the embedded value of the life assurance portfolio as well as to a decrease the future embedded yield of the members' monies.
In general insurance, a decrease in the interest rate results in lower profitability on products due to a reduction in income from investments against the reserves.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

Market risks (capital instruments/real assets) – Risks deriving from a change in share prices or a change in the fair value of other assets.

Risks related to the Consumer Price Index – A real loss deriving from erosion in the value of shekel assets as the result of inflation being higher than the expectations reflected in the capital market, as compared to CPI-linked insurance liabilities.

Currency risk – The risk that the fair value or future cash flows of a financial instrument will change as a result of changes in foreign currency exchange rates.

The investment income standing against the insurance reserves and the shareholders' equity has a significant effect on the insurance companies' profits. A major part of the Group's asset portfolio is invested in quoted securities in the capital market, and in financial derivatives, which are characterized by fluctuations as a result of political and economic events in Israel and around the world. Quoted securities are reported based on their stock exchange value as at the reporting date. Therefore, the fluctuations in the value of these investments are likely to have a significant effect on the Group's profitability and shareholders' equity. The extent of the effect on profits depends on the characteristics of the insurance liabilities (yield dependent, non yield dependent) and the management fee terms of the products against which the relevant reserve is held.

Yield dependent liabilities are liabilities in respect of contracts in which the beneficiary is entitled to receive insurance benefits that depend on the yield derived from investments made against the liabilities in respect of these policies, less management fees as follows:

- In respect of policies issued until 2004, fixed management fees as well as variable management fees at the rate of 15% of the real yield after deducting the fixed management fees.
- In respect of policies issued as from 2004 – fixed management fees.

With respect to the assets and liabilities in respect of these products the insurance companies do not have direct exposure to changes in interest, fair value of the investments or the CPI. The effect of the financial results on the profits of the insurance companies is limited to the exposure derived from the variable management fees based on the fluctuations in the yield received by the policyholders, and only in respect of policies issued until 2004, and from the overall amount of the liabilities from which the fixed management fess of the insurer are derived with respect to all the yield dependent products.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

In light of the aforementioned, the sensitivity tests and repayment dates of the liabilities specified in the following paragraphs do not include yield dependent contracts.

Generally, any change of 1% in the real yield on investments in the framework of yield-dependent contracts in respect of policies issued up to the year 2004, whose scope of liabilities at December 31, 2012 is about NIS 46 billion (previous year about NIS 41 billion), will affect the management fees by an amount of about NIS 69 million (previous year about NIS 60 million). When the yield on these contracts is negative, the Company does not collect variable management fees, and only collects the fixed management fees of 0.6% of the accrual, as long as there is no positive yield that covers the accumulated negative yield. Since at December 31, 2011, there was a real net accrued negative yield for the policyholders at the rate of 5.99%, there was no immediate effect on the profit as a result of the change of 1% in the real yield on investments in yield-dependent contracts. In the year 2012, following the positive trend in the capital markets, the Company covered all the real accumulated investment losses incurred to the policyholders.

For additional information, see Note 27.

The effect of this change on policies that were issued from 2004 onwards is insignificant.

In non-yield dependent life assurance (in respect of the portion of the life assurance portfolio that is not backed by designated bonds), in general insurance and in equity there is no full correlation between the linkage basis of the assets and the linkage basis of the liabilities. In non-yield dependent life assurance - the major part of the life assurance portfolio is in respect of yield guaranteed policies, mainly backed by designated bonds (Hetz – life linked bonds) issued by the Bank of Israel for the duration of the policy's entire term. Therefore, the Company has financial coverage overlapping the main liabilities regarding interest and linkage over the policy's term. As at December 31, 2012, the designated bonds covered about 69% (previous year about 68%) of all the insurance liabilities in life assurance in these programs.

The changes in the capital market, in the CPI and in foreign currency exchange rates, might have a significant effect on the Group's results of activities.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

a) Sensitivity tests relating to market risks

Hereunder is a sensitivity analysis of the effect of a change in these variables on the profit (loss) for the period and on the comprehensive income (loss) (equity). The sensitivity analysis relates to the carrying amount of the financial assets, the financial liabilities and liabilities in respect of insurance contracts and investment contracts in respect of the relevant risk variable as at each reporting date, and assumes that there is no change in all the other variables. Thus, for example, the change in interest is under the assumption that all the other parameters have not changed. The sensitivity analysis does not include, as mentioned, the effects of the yield dependent contracts as detailed above. In addition, it is assumed that the said changes do not reflect an impairment of assets reported at amortized cost or of available for sale assets and therefore, the above sensitivity test did not include impairment losses in respect of these assets.

The sensitivity analysis only reflects the direct effects and does not reflect the ancillary effects.

It should also be noted that the sensitivity is not necessarily linear. Hence, larger or smaller changes in relation to the changes described below are not necessarily a simple extrapolation of the effect of those changes.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

a. Sensitivity tests relating to market risks (Cont.)

As at December 31, 2012:

	The interest rate (1) (2)		Investments in capital instruments (3)		Rate of change in the CPI		Rate of change in the foreign currency exchange rate (5)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	981	(970)	778	164	(27,810)	27,810	22,832	(22,832)
Comprehensive income (loss) (4)	(119,622)	129,824	120,432	(119,490)	(27,810)	27,810	120,742	(120,742)

*) As of December 31, 2010 the rate of change is in foreign currency while as at December 31, 2009 and December 31, 2008 the change of rate is in relation to the dollar only.

As at December 31, 2011:

	The interest rate • (2)		Investments in capital instruments (3)		Rate of change in the CPI		Rate of change in the U.S. Dollar exchange rate (5)	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
	NIS in thousands							
Profit (loss)	2,109	(2,066)	9,401	(9,142)	(20,121)	20,121	18,201	(18,201)
Comprehensive income (loss) (4)	(118,851)	129,735	114,882	(114,622)	(20,121)	20,121	100,378	(100,378)

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

a) Sensitivity tests relating to market risks

(1) The analysis of sensitivity to interest changes relates to both fixed-interest and variable-interest instruments. With respect to fixed-interest instruments, the exposure is to the book value of the instrument, and for variable-interest instruments the exposure is in relation to cash flows from the financial instrument. To calculate the sensitivity analysis for variable-interest instruments, the change in the interest rate from the beginning of the year was taken into account also for assets that were acquired during the course of the year.
The sensitivity tests are based on the carrying value and not on economic value. The sensitivity tests did not take into account, from the assets with direct interest risk, unquoted debt assets at fixed interest, cash and cash equivalents, reinsurance assets, unquoted financial liabilities and liabilities in respect of insurance contracts and investment contracts.

(2) The sensitivity analysis does not include the effect on insurance liabilities since in life insurance and health insurance the discount rate is usually derived from the tariff interest and in general insurance the liabilities are not discounted. The Company performs adequacy tests of guaranteed-yield life assurance reserves against the value-in-force of the portfolio. See Note 2.i.1(h). The 1% decrease in the interest will bring about a reducing in the income and in the comprehensive income by about NIS 800 million after tax.

(3) Investments in instruments that have no fixed cash flow, or alternatively, the company has no information about this flow (according to the definition in IFRS-7, they do not include investments in affiliates).

(4) The sensitivity analysis in respect of comprehensive profit (loss) also express the effect on profit (loss) for the period.

(5) The change in foreign currency exchange rates includes the effect non-monetary items and others whose value in the balance sheet amounts to about NIS 1.6 billion.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

b) Direct interest risk

Direct interest risk is the risk that the change in the market interest will cause a change in the fair value or in the cash flows deriving from the asset or the liability. This risk relates to assets settled in cash. The addition of the word "direct" emphasizes the fact that the interest change can also effect other types of assets but not directly, such as the effect of the interest change on the share rates.

Hereunder are details of assets and liabilities according to exposure to interest risks:

	December 31, 2012		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	5,224,001	16,072,852	21,296,853
Unquoted debt assets:			
"Hetz – life linked" bonds	17,277,271	731,965	18,009,236
Other	3,061,721	7,612,104	10,673,825
Other financial investments	787	-	787
Cash and cash equivalents	2,261,829	2,376,263	4,638,092
Reinsurance assets	1,042,007	8,062	1,050,069
Total assets with direct interest risk	28,867,616	26,801,246	55,668,862
Assets without direct interest risk (*)	7,429,073	33,835,146	41,264,219
Total assets	36,296,689	60,636,392	96,933,081
Liabilities with direct interest risk:			
Financial liabilities	947,336	3,494	950,830
Liabilities in respect of insurance contracts and investment contracts	28,549,237	60,062,274	88,611,511
Others	157,091	121,016	278,107
Total liabilities with direct interest risk	29,653,664	60,186,784	89,840,448
Liabilities without direct interest risk **)	2,151,461	145,685	2,297,146
Total liabilities	31,805,125	60,332,469	92,137,594
Total assets net of liabilities	4,491,564	303,923	4,795,487
Off balance sheet risk (liabilities to grant credit)	142,636	805,490	948,126

*) Assets without direct interest risk – include shares, fixed assets and real estate for lease, deferred acquisition costs and other assets, as well as balance sheet groups of financial assets (outstanding premiums, insurance companies' current balances and debtors and receivables) whose average duration is up to six months and therefore the interest risk is relatively low in their respect.

**) Liabilities without direct interest risk include: tax reserves, various debit and credit balances, etc.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

b) Direct interest risk (Cont.)

	December 31, 2011		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:	4,640,308	12,515,618	17,155,926
Quoted debt assets			
Unquoted debt assets:			
"Hetz – life linked" bonds	16,449,790	717,275	17,167,065
Other	3,570,994	7,846,464	11,417,458
Other financial investments	-	-	-
Cash and cash equivalents	1,497,706	750,299	2,248,005
Reinsurance assets	1,174,335	7,114	1,181,449
Total assets with direct interest risk	27,333,133	21,836,770	49,169,903
Assets without direct interest risk (*)	6,920,446	30,008,503	36,928,949
Total assets	34,253,579	51,845,273	86,098,852
Liabilities with direct interest risk:			
Financial liabilities	271,439	508,663	780,102
Liabilities in respect of insurance contracts and investment contracts	27,277,993	51,388,142	78,666,135
Others	157,294	114,323	271,617
Total liabilities with direct interest risk	27,706,726	52,011,128	79,717,854
Liabilities without direct interest risk **)	1,795,900	45,676	1,841,576
Total liabilities	29,502,626	52,056,804	81,559,430
Total assets net of liabilities	4,750,953	(211,531)	4,539,422
Off balance sheet risk (liabilities to grant credit)	186,463	978,786	1,165,249

*) Assets without direct interest risk – include shares, fixed assets and real estate for lease, deferred acquisition costs and other assets, as well as balance sheet groups of financial assets (outstanding premiums, insurance companies' current balances and debtors and receivables) whose average duration is up to six months and therefore the interest risk is relatively low in their respect.

**) Liabilities without direct interest risk include: tax reserves, various debit and credit balances, etc.

Comment:
See paragraph b.3.b), (3).(a) hereunder regarding the discount interest rate used to calculate the insurance liabilities in life assurance and health insurance.

The Company does not discount its general insurance liabilities. For further details see paragraph b.3.c) hereunder.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

1. Market risks (Cont.)

c) Details of the exposure to economic branches for investments in shares *)

	As at December 2012					
	Listed in - Tel-Aviv 100 Index	Listed	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:						
Industry	142,235	35,129	-	135,966	313,330	49.6
Construction and real estate	31,069	2,633	3,775	6,270	43,747	6.9
Commercial	6,317	5,852	-	6,972	19,141	3.0
Communication and computer services	49,442	15,750	-	69,736	134,928	21.3
Banks	69,369	-	-	-	69,369	11.0
Financial services	-	-	-	22,274	22,274	3.5
Other business services	-	4,510	-	-	4,510	0.7
Holding companies	13,024	39	-	12,331	25,394	4.0
Total	311,456	63,913	3,775	253,549	632,693	100

	As at December 2011					
	Listed in - Tel-Aviv 100 Index	Listed	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:						
Industry	176,232	44,922	6,084	206,095	433,333	55.2
Construction and real estate	22,578	1,987	3,818	32,716	61,099	7.8
Commercial	23,330	5,170	-	5,427	33,927	4.3
Communication and computer services	47,510	6,008	-	41,936	95,454	12.2
Banks	72,939	-	-	-	72,939	9.3
Financial services	18,029	-	-	10,218	28,247	3.6
Other business services	2,525	5,482	-	-	8,007	1.0
Holding companies	21,255	18,505	-	12,247	52,007	6.6
Total	384,398	82,074	9,902	308,639	785,013	100

*) Not including investments in affiliates. See Note 7.a.1.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

2. Liquidity risks

Liquidity risk is the risk that the Group will have difficulties in fulfilling obligations related to its liabilities.

The Group is exposed to risks resulting from uncertainty regarding the date the Group will be required to pay claims and other benefits to policyholders in relation to the scope of the monies that will be available for that purpose at that same date. However, a significant part of its insurance liabilities in the life assurance segment are not exposed to the liquidity risks due to the nature of the insurance contracts as described below.

Yield dependent contracts, in life assurance – according to the terms of the contracts, the owners are entitled to receive only the value of the said investments. Hence, if the investment value increases there will be a corresponding increase in the Company’s liabilities, net of the management fees that the Company collects.

Non-yield dependent contracts, in life assurance in the sum of about NIS 25 billion, which form about 29% of the insurance liabilities in life assurance at December 31, 2012 (previous year, the sum of about NIS 24 billion, respectively), are in respect of non-yield dependent contracts but the yield is guaranteed at a rate that was agreed upon. These contracts are partly backed by designated bonds (Hetz – “life linked bonds”) issued by the Bank of Israel. The Group is entitled to realize these bonds when the redemption of these bonds is required.

Hence, the Group’s liquidity risk against insurance liabilities is mainly due to the balance of assets that are not designated bonds and are not held against yield dependent contracts. These assets constitute, as at December 31, 2012 about 12% of the Group's total assets (about NIS 12 billion). As at December 31, 2011 these assets constitute about 14% of all the Group’s assets (about NIS 12 billion).

From the said asset balance, at December 31, 2012, the sum of about NIS 6 billion (previous year about NIS 5 billion) are quoted assets and cash and cash equivalents.

It should be noted, however, that a possible necessity to raise sources of funds unexpectedly and in a short time might require a quick realization of a large portion of assets and their sale at prices that do not necessarily reflect their market value.

According to the Investment Regulations Migdal Insurance is required to hold liquid assets, as defined in the Investment Regulations, against the shareholders' equity and against other liabilities, at an amount which will be not less than 30% of the minimum shareholders' equity required from Migdal Insurance, with the adjustments as detailed in the Investment Regulations.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

2. Liquidity risks (Cont.)

Management of assets and liabilities

Migdal Insurance manages its assets and its liabilities in accordance with the Supervision Law requirements and regulations.

The tables below concentrate the estimated settlement dates of the Migdal Insurance's non-discounted insurance and financial liabilities. Since the amounts are non-discounted, they do not match the balances of the insurance and financial liabilities in the statement of financial position.

a) The estimated settlement dates of the liabilities in life assurance and health insurance are included in the tables as follows:
Savings monies – contractual settlement dates, namely, retirement age, without cancellation assumptions, under the assumption that the savings will continue as a lump sum and not as annuity.
Annuity in payment, occupational disability in payment and long-term care in payment – on the basis of an actuarial estimate.
Outstanding claims and risk reserves – reported under the column "without a defined settlement date".

b) The estimated settlement dates of the liabilities in respect of general insurance contracts were included in the tables as follows:
Insurance liabilities assessed by the actuary – on the basis of an actuarial estimate.
Liabilities in statistical insurance branches, estimated by an actuary are reported based on an actuarial estimate, according to past claims payments experience.
Insurance liabilities in non-statistical liability insurance branches and excess of income over expenses (accrual) are reported in the column - "without a defined settlement date".
Insurance liabilities in non-statistical property and other insurance branches, and in branches the actuary does not sign off on - are included in the column of settlement up to 3 years.

c) The settlement dates of the financial liabilities and liabilities in respect of investment contracts were included on the basis of the settlement dates of the contracts. In contracts in which the opposing party is entitled to choose the time of payment, the liability is included on the basis of the earliest date that the Company can be required to pay the liability.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

2. Liquidity risks (Cont.)

Liabilities in respect of life assurance and health insurance contracts *)

	Up to one year	Over one year and up to 5 years	Over 5 years and up to 10 Years	Over 10 years and up to 15 years	Over 15 years	Without a defined settlement date	Total
	NIS in thousands						
As at December 31, 2012	5,087,200	6,601,721	7,479,625	7,317,154	4,924,898	262,491	31,673,089
As at December 31, 2011	2,982,537	5,799,333	7,050,399	6,974,464	5,677,025	185,444	28,669,202

*) Does not include in respect of yield dependent contracts.

Liabilities in respect of general insurance contracts

	Up to 3 year	Over 3 years and up to 5 years	Over 5 years	Without a defined settlement date	Total
	NIS in thousands				
As at December 31, 2012	2,172,955	584,628	642,736	194,015	3,594,334
As at December 31, 2011	2,338,215	582,903	672,797	154,484	3,748,399

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

2. Liquidity risks (Cont.)

Financial liabilities and liabilities in respect of investment contracts:

	Up to 1 year *)	Over 1 year and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Over 15 years	Without a defined settlement date	Total
	NIS in thousands						
	9						
As at December 31, 2012:							
Financial liabilities **)	210,897	133,222	853,414	1,858	-	-	1,199,391
Liabilities in respect of non yield dependent investment contracts	7,112	214,094	47,694	70,855	1,664	-	341,419
Liabilities in respect of yield dependent investment contracts	-	-	-	-	-	273,477	273,477
As at December 31, 2011:							
Financial liabilities **)	711,301	74,125	-	1,811	-	-	787,237
Liabilities in respect of non-yield dependent investment contracts	315,680	211,093	47,868	69,277	1,686	-	645,604
Liabilities in respect of yield dependent investment contracts	-	-	-	-	-	-	-

*) Liabilities up to one year include the amount of about NIS 33 million (in 2011 - the sum of about NIS 117 million) to be settled upon demand. These liabilities were classified for settlement of up to one year even though the actual settlement date is likely to be in later years.

**) Including financial liabilities in respect of yield-dependent policies in the amount of about NIS 80 million at December 31, 2012 (in 2011 about NIS 509 million).

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk

a) General

The insurance risks:

Life assurance and health insurance risks:

Life assurance and health insurance risks mainly result from uncertainty in the anticipated future claims payment in relation to the assumptions relating to the mortality/longevity rates, morbidity/disability rates, expenses, cancellation or surrenders.

General insurance risks:

Pricing – the exposure to deterioration in the risk factors covered by the policy beyond the actuarial valuation according to which this premium was determined for covering these risks. The gaps may be due to random changes in the business results and to changes in the average claim cost and/or the frequency of the claims as a result of various reasons.

Valuation of the insurance liabilities (reserve for outstanding claims) – the exposure to deterioration in future payments of the outstanding claims above the estimate of the Company's liability for these claims.

Catastrophe risk:

An exposure to the risk that a single event of vast effect (catastrophe), such as earthquake, war or terror, will cause a high percent of accumulated damage. The significant catastrophic event to which the Company is exposed is earthquake.

The size of the maximum loss that is expected in general insurance business, as a result of an exposure to a large single damage or an accumulation of damages in respect of a significantly large event at a maximum probable loss (weighted MPL for an event about once every 350 years, which is estimated according to the recent models that the Company has) of about 1.70%, is about NIS 3,766 million, gross, and about NIS 73 million on retention.

In life assurance business there is a requirement to hold capital against loss in respect of a particularly large-scale event with low probability at a rate of 0.17% of the amount at risk in respect of death (formerly the reserve for extraordinary risks).In addition, there is a CAT type reinsurance agreement which covers death claims resulting from a catastrophe (such as an earthquake or war of any kind, including nuclear, biological or chemical war). The cover in this type of reinsurance agreement is USD 150 million after a deductible of USD 40 million in the event of an earthquake, and USD 80 million in the event of war.

For further information on various insurance branches for which the insurer is exposed to insurance risk, see details of insurance liabilities according to insurance risks in Note 3.d.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies

(1) General

Hereunder is the description of the various insurance products and assumptions used in the calculation of the liabilities in their respect, according to the type of product.

In general, in accordance with the Regulator's directives, the insurance liabilities are calculated by the actuary according to the accepted actuarial methods and consistent to the previous year. The liabilities are calculated in accordance with the relevant coverage data, such as: age and sex of policyholder, term of insurance, date of commencement of insurance, type of insurance, periodic premium and the amount of the insurance.

(2) Actuarial methods for calculating insurance liabilities

"Adif" type and "Investment tracks" insurance programs:

In "Adif" and "Investment track" insurance programs are insurance products there is an identified savings component. The basic and main reserve is at the level of the accumulated savings plus the yield according to the policy's terms as follows:

– Principal linked to investment portfolio yield (yield dependent contracts)

– Principal linked to the CPI plus a fixed guaranteed interest or credited by a guaranteed yield against adjusted assets (yield guaranteed contracts).

In respect of insurance components that are attached to these policies (occupational disability, death, long term care, etc.), the insurance liability is calculated separately as mentioned below.

"Endowment" type policies (Traditional) and others:

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(2) Actuarial methods for calculating insurance liabilities (Cont.)

The "Endowment" type insurance programs and similar programs combine a savings component in the event that the policyholder is still alive at the end of the term of the program with an insurance component of death risk during the period of the program. In respect of these products, the insurance liability is calculated for each coverage as a discount of the cash flows in respect of the anticipated claims, including a payment at the end of the period, net of future anticipated premiums. This calculation is based on assumptions according to which the products were priced and/or on assumption based on the claims experience, including the interest rates (hereunder – tariff interest), mortality or morbidity tables. The calculation is according to the net premium reserve method, which does not include the component that was loaded on the premium tariff for covering the commissions and expenses, in the anticipated flow of receipts and on the other hand it does not deduct the anticipated expenses and commissions. The reserve in respect of yield dependent traditional products is calculated according to the actual yield that was obtained, net of management fees.

Liabilities for annuities in payment are calculated in accordance with the anticipated mortality rate, based on updated mortality tables that were created after an examination of the Company's experience and with the assistance of data published in the Regulator's circular from 2007.

Liabilities in respect of annuities paid for life in respect of valid policies (paid and settled) which have not yet reached the stage of realization of annuity or the policyholder has reached retirement age and the actual payment did not yet begin, are calculated according to the probability of annuity withdrawal and in accordance with the anticipated life expectancy on the basis of the updated mortality tables. At the time of updating the mortality tables and/or updating the probability of taking an annuity, there is a gradual increase of the liabilities for annuity taking into consideration the anticipated profits from the policies until the policyholders reach retirement age in accordance with the Regulator's circular. The higher the guaranteed annuity coefficients of the policies the greater the increase required.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(2) Actuarial methods for calculating insurance liabilities (Cont.)

Other life assurance programs include pure risk products (occupational disability, death, long term care) sold as independent policies or attached to policies with a basic program such as “Adif”, “Investment track” or “Traditional”. An actuarial liability is calculated in respect of these programs. The calculation is according to the method called the Net Premium Reserve.

In respect of prolonged claims in payment, in long term care and occupational disability insurance, the insurance liability is calculated according to the duration of the anticipated payment, and it is discounted according to the tariff interest rate of the product and of the anticipated future duration of the claim consistent with the claimant's age and seniority.

The reserves for the insurance of individual medical expenses are calculated based on the net premium reserve. The calculation assumptions regarding parameters relating to morbidity and cancellation assumptions were based on the Company’s experience, with a conservative margin, as generally accepted for the calculation of reserves.

The outstanding claims in the sub-branch surgery, are calculated according to the claim triangles (Chain Ladder, Bornhuetter-Ferguson) regarding claims that are paid according to the months of damage, without discounting, and without a range indication. The outstanding claims in the sub-branches of transplant and surgeries abroad, are calculated on the basis of the claims department report.
The outstanding claims in the sub-branch medications are calculated on the basis of an actuarial model, according to the monthly payments and claim seniority.

The insurance liabilities in respect of group insurance consists of a liability in respect of unearned premium, IBNR reserve (claims incurred but not yet reported), reserve for continuity and provision for future losses, if necessary.

The liabilities for outstanding claims in life assurance mainly include provisions for outstanding claims for death cases.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(3) Main assumptions used in the calculation of the insurance liabilities

(a) The discount rate

In respect of the insurance programs of the “Endowment” type and similar (Traditional) and pure risk products with fixed premiums, the interest used for discounting is as follows:

In insurance plans mainly backed by designated bonds, the tariff interest is between 3% to 5%, linked;

In respect of yield dependent products, issued in the years 1991 and onwards, a tariff interest rate of 2.5%, linked.
In accordance with the policy’s conditions, changes in interest will be imputed to the policyholders.

A decline in the long-term interest rate may increase the insurance reserves in respect of the free component (which is not backed be designated bonds) of policies in which the savings component includes a guaranteed yield which is higher than the discount interest, due to the need to provide an additional reserve within the framework of a liability adequacy test (LAT). The Company examined the adequacy of the liabilities in respect of the insurance contracts (LAT) and found that when taking the rate of the existing reserves into consideration, there is no need for a supplementation that derives from the LAT. See Note 2.i.1.g) above.

(b) Mortality and morbidity rates

(1) The mortality rates used in the calculation of the insurance liabilities in respect of the policyholders’ mortality before retirement age (in other words not including mortality of the policyholders who receive old age pension and monthly compensation for occupational disability or long term care) are usually similar to the rates used for determining the tariff.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(3) Main assumptions used in the calculation of the insurance liabilities

(b) Mortality and morbidity rates (Cont.)

(2) Liability for annuity in payment is calculated according to the updated mortality tables.

An increase in the mortality rate assumption, due to an increase in the actual mortality to a level that is higher than the existing assumption, will cause an increase in insurance liabilities in respect of mortality of policyholders before reaching the retirement age and a decrease in liability for life annuities.

It should be noted that in the last decades there is an opposite trend of increase in the life expectancy rate and a decrease in mortality rates. The mortality assumption that is used for calculating the liability for annuity, takes into consideration an assumption in respect of a future increase in life expectancy.

(3) The morbidity rates relate to the frequency of claims in respect of dread disease, occupational disability, long term care, surgery and hospitalization, disability from accidents, etc. These rates are determined on the basis of the Company's experience or reinsurers' research. In the long term care and occupational disability branches the period for payment of claims is determined in accordance with the Company's experience or reinsurers' research.

If the assumption regarding the morbidity rate will increase, also the insurance liability in respect of illnesses due to dread disease, occupational disability, long term care, surgery and hospitalization and disability from accidents, will increase.

(c) Annuity take-up rates

Life assurance contracts, that include a savings component, were managed, in respect of monies deposited up to the year 2008 in two tracks: a lump sum track or an annuity track. In part of the contracts the policyholder is entitled to choose the track at the time of retirement. Since the amount of the insurance liability is different in each of these two tracks, the Company must determine the take-up rates of policies where the policyholders will choose the annuity track. This rate is determined according to the Supervision's directives and adjusted to the Company's experience. Beginning from the year 2008 all the savings premiums that were deposited in the framework of life assurance are designated for annuity.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(3) Main assumptions used in the calculation of the insurance liabilities

(d) Cancellation rates

The cancellation rates effect the insurance liabilities in respect of deferred annuity and in respect of part of the health insurances. The cancellation of insurance contracts can be due to the cancellation of policies initiated by the Company due to discontinuation of the premium payments or surrenders of policies at the policyholders' request. The assumptions regarding the cancellation rates are based on the Company's experience and they are based on the type of product, the life span of the product and sales trends.

(e) Continuity rates

There are health insurances and group long term care insurances in which the policyholders are entitled to continue to be insured under the same conditions, even if the group contract is not renewed. In respect of this option of the policyholders, the Company has a liability that is based on assumptions regarding the continuity rates of the group insurances and the continuity rates of the contracts with the policyholders after the group contract expires.

The higher the probability that the group contract will not be renewed (a higher continuity rate), the higher the insurance liability for continuity of insurance coverage under the previous conditions without the underwriting being adjusted for the change in the policyholders' state of health.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(4) Sensitivity analysis

	December 31, 2012					
	Morbidity rate		Rate of cancellations (surrenders, settlements and reductions)		Death rate	
	NIS in thousands					
	+10%	-10%	+10%	-10%	+10%	-10% *)
Profit (loss)	(94,713)	-	(1,388)	1,652	37,544	(413,259)

	December 31, 2011 **)					
	Morbidity rate		Rate of cancellations (surrenders, settlements and reductions)		Death rate	
	NIS in thousands					
	+10%	-10%	+10%	-10%	+10%	-10% *)
Profit (loss)	(2,503)	-	4,846	(4,915)	10,738	(395,113)

*) Mainly due to the supplementary reserve for annuities.

**) The comparative figures were reclassified so that the sensitivity analysis is carried out only for reserves that are calculated on the basis of updated assumptions (including the adequacy test of the reserves - LAT)

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(5) Changes in the main assumptions used for calculating the insurance liabilities

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a. The liabilities in respect of annuities that are paid for the whole lifetime in respect of policies in force which have not year reached the stage of actual realization of the annuity or have not yet reached the retirement age, are calculated according to the probability of taking the annuity and according to the anticipated life expectancy, as well as the cancellation rates that were expected, as well as the relevant discount rates in the annuity portfolio until the retirement date. These estimates are calculated according to the Company's experience and in combination with the data included in the Treasury's circular.

Changes in the assumptions regarding the discount rate, the life expectancy or in actual policyholder take-up rates, will affect the balance of these liabilities.

The provision for the complementary reserve for annuities is done gradually, in accordance with the Regulator's directives, taking into account the profits that are expected from the policies until the policyholders reach the retirement age.

The gradual provision is done by using the K discount factor. This factor is limited to the rate of the future income that is expected from the management fees or from the financial spread stemming from investments held against insurance reserves in respect of the policy or from premium payments, net of the expenses that relate to the policy. The K factor is determined in the manner that it will provide an adequate gradual accumulation of the reserve until the anticipated retirement date.

- In July 2012 the Regulator published a draft position document and a clarification letter regarding the updating of the demographic assumptions array in pension funds and life assurance (hereunder – "the draft") following which in March 2013 a circular regarding the calculation of reserves for payment of annuities in life assurance policies was published and it replaces the Circular that was published in the year 2007 (hereunder – "the new Circular").

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(5) Changes in the main assumptions used for calculating the insurance liabilities

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b. (Cont.)

Hereunder are the principal points:

The new draft and circular include updated directives for the calculation of provisions for reserves for annuities in life assurance policies, which include guaranteed annuity coefficients. The draft relates, among others, to the new pensioners' mortality tables, future improvement in mortality rates, and to the rate of exercise of the annuity and the resulting implications on the amount of the reserves and the method of devising them.

In the financial statements for the year 2012, the Company updated its estimates regarding the liabilities to annuities on the basis of the updated estimates of life expectancy and future improvements included in the draft annuity circular, among others, in light of the trends arising from the draft annuity circular.

Consequently, the Company recorded, in the second quarter of the year 2012, an immediate provision for the supplemental annuity reserve and decreased the comprehensive income in the amount of about NIS 180 million before tax.

In addition, the Company updated the estimates, as mentioned in (a) above, following the accumulated experience in acquired and recorded an additional immediate provision in the sum of about NIS 77 million before tax (2011 - NIS 50 million).

The new Circular determines, among others, that the insurance company will cautiously determine two K values. One in respect of policies in which the saving component is yield dependent (“yield dependent policies”) and the other in respect of policies in which the saving component includes a guaranteed yield (“guaranteed yield policies”) as opposed to the previous calculation which was based on a single K value.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(5) Changes in the main assumptions used for calculating the insurance liabilities

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b. (Cont.)

Hereunder are the principal points:

The calculation of two K values compared to a single K value for the entire portfolio allows a more precise attribution of the supplemental reserve for annuity to the various insurance contracts.

The circular's transitional provisions determine that on the transitional date the total reserve that is calculated on the bases of two K values will not be less than the total reserve that would have been calculated according to a singly K value.

The shift to two K values did not change the total provision to the supplementary reserve for annuities, since the reserve that is attributed to yield dependant policies decreased by about NIS 420 million, whereas the reserve that is attributed to guaranteed yield policies increased by the same amount.

c. The supplementary reserve for annuity, included in the Company's books, is NIS 2,069 million and NIS 1,567 million at December 31, 2012 and 2011, respectively. The balance of the provisions will be recognized gradually in profit and loss, using the aforementioned discounting K factor, until the policyholders reach retirement age, amounting to NIS 1,750 million at December 31, 2012.

It should be noted that the figures listed above, in connection with the supplementary reserve for annuity and in connection with the balance of the provisions to be recognized in future, relate to money that was accumulated in the policies up to the end of each of the reporting periods and they do not include liability for additional future accrual.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(6) Change in the provisions relating to the sale of life assurance plans that are combined with savings that include annuity coefficients which include guaranteed life expectancy (hereunder - "guaranteed annuity coefficients")

In November 2012 the circular “Annuity Factors with Embedded Guaranteed Life Expectancy”. According to the Circular it was determined, among others, that beginning from January 1, 2013, an insurance company will not market life assurance plans combined with savings that include guaranteed annuity coefficients, except for: 1. Whoever is at least 60 years old on the date of sale 2. Whoever has a life assurance contract with guaranteed annuity coefficients and wishes to cancel it altogether and transfer his money to a new insurance contract with guaranteed annuity coefficients, subject to additional rules set out in the Circular that was published in this regard.

According to a letter that was published following the aforementioned circular, the marketing of insurance plans with guaranteed annuity coefficients in the year 2013 will be on condition that the Regulator will approve the business plan that will be submitted to him. Furthermore, the volume of life assurance contract with guaranteed coefficients that will be sold in the year 2013, by virtue of the aforementioned permit, will not exceed NIS 75 million and the number of insurance contracts that will be sold will not be more than 6,000 contracts.

The discontinuation of marketing policies which include guaranteed annuity coefficients as mentioned above, might improve the preservation rate of policies marketed up to the year 2012, inclusive. Regarding this issue, also see Note 27b.2.

Not all the arrangements have been published and the proposed arrangements are only drafts. Furthermore, the Regulator's approval for the new insurance plan that replaces the existing managers' insurance plan with a guaranteed annuity coefficient, was not yet approved. The Company is unable to estimate the overall impact of the aforementioned on its financial statements, its activities, the preservation of the policies portfolio and the profitability therein.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

b) Insurance risk in life assurance and health policies (Cont.)

(6) Change in the provisions relating to the sale of life assurance plans that are combined with savings that include annuity coefficients which include guaranteed life expectancy (hereunder - "guaranteed annuity coefficients") (Cont.)

Following the Regulator's publications as mentioned above, Midroog Ltd. (hereunder - "Midroog") decided in July 2012 to enter a number of insurance companies in general, and specifically those who operate in the line of long term insurance, including the Company, into a follow-up list.

In September 2012, after Midroog examined the impact of the Regulator's publications as mentioned above, the insurance companies, including the Company, were removed from the follow-up list. Midroog stated that it will continue its follow-up of the impact of the cancellation of the annuity coefficient on the profitability of the insurance companies in the medium and long range.

c) General insurance contract insurance risks

(1) Summary description of the main insurance branches in which the Group operates:

The Group’s activities focus on the branches of motor act, motor casco, property insurance and liability insurance.

Motor act insurance covers, pursuant to the motor insurance ordinance, the owner of the vehicle and the driver for any liability they may be liable to pursuant to the Road Accident Victims Compensation Law, 1975, due to bodily damage caused to the driver of the vehicle, the passengers in the vehicle, or pedestrians injured by the vehicle, as a result of the use of the motor vehicle. The claims in this branch are characteristic by a long tail, namely, sometimes a long time passes from the date of the event to the time the claim is finally settled.

Motor casco insurance is a voluntary insurance and it is the most common voluntary insurance in the framework of general insurance. Motor casco insurance includes damage coverage for the insured vehicle and property damages that the insured vehicle will cause to a third party.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(1) Summary description of the main insurance branches in which the Group operates: (Cont.)

The cover is usually limited to the value of the damaged vehicle and/or to the limit of liability for third party specified in the policy.

The tariff for motor casco insurance requires an approval, as well as an approval of the entire policy, by the Regulator of Insurance and it is a differential actuarial tariff (which is not uniform for all the policyholders and adjusted to risk). The said tariff is based on a number of parameters, those related to the vehicle insured by the policy (such as type of vehicle, production year, type of protection, etc.), as well as those relating to the characteristics of the policyholders (number of drivers of the vehicle, age of the drivers, previous claims experience, etc.).

The underwriting process is performed partly through the tariff itself and partly through the underwriting policy of the Group as determined from time to time.
In most instances, the motor casco insurance policies are issued for a period of one year. Furthermore, in most cases, claims in respect of these policies are clarified close to the time of occurrence of the insured event.

Liability insurance is designed to cover the policyholders' liability by law in respect of damage that he may cause to any third party. The main types of insurance are: liability insurance towards a third party, employers' liability insurance and other liability insurance such as professional liability, product liability and directors' and officeholders' liability. The policies in liability insurances are usually issued for the period of one year. However, the time it takes to handle the claims in this branch is longer and might go on for a number of years, due to several reasons: the damage covered by the policy was caused to a third party who is not the policyholder, the time that passes between the date of the event which is the subject of the claim and the time the liability and the damage are determined and the claim is filed, is relatively long.

In many cases it involves relatively complicated factual and legal inquiries, both, regarding the policyholders' liability, as well as the scope of the damage, the period of limitation in respect of the cause of the claim is longer than the period of limitation which is generally accepted in property insurance. The claims in this branch are characterized by a "long tail", namely, a long time passes from the date of the event until the final settlement date of the claim.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(1) Summary description of the main insurance branches in which the Group operates: (Cont.)

Property insurances are designated to grant the policyholder coverage against physical damage to his property. The main risks covered by property policies are fire risks, explosions, theft, earthquake and natural disasters. The property insurances sometimes include coverage for consequential damage (loss of profits) due to the physical damage to the property. Property insurances constitute an important factor in comprehensive residential insurance, business premises insurances, engineering insurances, freight in transit (marine, cargo, aviation) etc.

In most cases, the property insurance policies are issued for a period of one year. In addition, in most cases the claims in respect of these policies are handled close to the time the insurance event had occurred.

(2) Principles for calculating actuarial valuations in general insurance:

(a) Liabilities in respect of general insurance contracts include the following main components:

- Provision for unearned premium
- Excess of income over expenses (accrual)
- Outstanding claims and provision for insufficient premium

The provision for unearned premium reflects the premium component relating to the period after the balance sheet date, according to generally accepted accounting principles. These reserves do not reflect the actuarial liabilities of unexpired risks and therefore they do not depend on any special assumptions.

Excess of income over expenses (accrual) – in branches were the time required to give notification of the damage and/or for determining the damage and compensation for the damage, takes a long time and might go on for a number of years, for example: in the liability and motor act branches, the excess of income over expenses reserve is calculated on a three year funded basis (hereunder – “the excess”) which is comprised of the insurance fees and the income from investments computed at the rate of 3%, in real terms, net of claims and expenses, net of the reinsurers’ share, separately for each branch and underwriting year. The accumulated surplus until the end of the third year from the date of the beginning of the insurance, net of the unexpired risks reserve (hereunder – “the accrual”), is included under the outstanding claims item. Losses, if any, are included in the current results.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(2) Principles for calculating actuarial valuations in general insurance: (Cont.)

(a) Liabilities in respect of general insurance contracts include the following main components: (Cont.)

Regarding the proposed changes for calculating insurance reserves in general insurance, including the cancellation of the surplus, see paragraph b.3.c) (6) below.

The outstanding claims, including the reinsurers' share therein, in the statistical branches (the liabilities, motor act, motor casco, comprehensive residential and personal accidents branches), were calculated by the appointed actuary in general insurance Ms. Anat Cohen-Toledano, who stated, among others, that the valuations were performed in accordance with generally accepted actuarial principles, and the assumptions and methods for valuating the provisions were determined by her, according the best of her professional judgment, and in accordance with the guidelines, directives and principles (see actuary's statement attached to the financial statements).

The actuarial valuations are mainly based on data bases in respect of the paid claims that also include direct expenses for the settlement of claims and the deductible. Subrogations and salvage recoveries are taken into consideration in the data base that serves for calculating the actuarial estimates of the outstanding claims. In accordance with the directives of the Regulator of Insurance, the valuations also included indirect costs for settlement of claims in respect of all the branches in which the Company operates in general insurance.

In addition, according to the Regulator's directives, provisions for premiums that do not cover the anticipated cost of the claims (hereunder – premium deficiency), are included, if necessary, in the motor act, motor casco and comprehensive residential branches. This provision, if it is set-up, is reported under outstanding claims.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(2) Principles for calculating actuarial valuations in general insurance: (Cont.)

(b) In accordance with the Regulator's directives, the outstanding claims are calculated by the actuary, according to the generally accepted actuarial methods, consistently with the previous year. The choice of actuarial method suitable for each insurance branch is determined by the actuary, according to the compatibility of the method to the branch. The valuation of outstanding claims in the Group is based, in most of the branches, on actual claims payments and in some of the branches it is based on the accumulated cost of the claims. The main assumption in these models is: the stability of the claims run-off, namely, past behavioral pattern will also continue in the future.

(c) In the motor act, employer's liability, third party and motor casco branches, the calculations are based on the actual claims payments. In comprehensive residential, professional liability, product warranty and personal accidents branches, the calculations are based on the accumulated cost of the claims (the actual claims payment with the addition of individual valuations).

(d) When valuating exceptionally large claims, the valuation is based on individual estimates of the Company's experts.

(e) Regarding special cases that were not fully expressed in the payments, as detected by the Company from time to time, there are specific provisions on the basis of the relevant legal and/or statistical estimates.

(f) There might be new events which that are not really expressed in the present claims payment. If it turns out that the actual experience will be different from the accumulated experience in the present claims payment, additional provisions might be required in the future.

(g) The actuarial valuation is based on statistical estimates that include an uncertainty component. The statistical estimate is based on various assumptions, which will not necessarily be realized. The assumptions used in the actuarial forecast effect the final results of the provision. Therefore, the actual claims cost might be higher or lower than the statistical estimate.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(2) Principles for calculating actuarial valuations in general insurance: (Cont.)

(h) Assumptions that were determined in the past might change in accordance with new information that will be received in the future. In such cases, the outstanding claims will change according to the change in the assumptions and the actual results, and the differences resulting during the reported year will be included in the general insurance business statement.

(i) The actuarial calculations do not include a reduction due to discounting of future claims payments. In branches where there are big variances, there is an addition for the risk margin (standard deviation).

(j) The provision for outstanding claims for residual insurance arrangements (hereunder – the “Pool”) was performed based on the calculations of the Pool’s actuary.

(k) The outstanding claims are calculated on a gross level and the reinsurers’ share in the outstanding claims is estimated taking the type of agreement into consideration (proportional/non-proportional).

(3) Details of the actuarial methods in the main insurance branches

The following actuarial models were utilized in order to estimate the outstanding claims, in a combination with the various assumptions:

(a) Link ratio: - this statistical method is based on the claims run-off (payment run-offs and/or total claims run-off, run-off of the number of claims, etc.), in order to estimate the anticipated run-off for the existing and future claims. This method is mainly suitable after a sufficient period of time has passed from an event or the underwriting of the policy, and there is enough information from the existing claims in order to estimate the total anticipated claims. The Sherman Power Curve method provides an appropriate curve for the link ratio.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(3) Details of the actuarial methods in the main insurance branches (Cont.)

(b) Bornhuetter-Ferguson: - this method combines early estimates (apriori) that is known to the company or in the branch, and an additional estimate based on the claims themselves. The early estimate utilizes premiums and loss ratio for evaluating the total claims. The second estimate utilizes the actual claims experience based on other methods (such as link ratios). The combined claims valuation weighs the two estimates, and a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or for a new business, or a business with insufficient historical information.

(c) Averages: - in certain cases, like in the Bomhuetter-Ferguson method, when the claims experience in the recent periods is insufficient, the historical average method is utilized. In this method the claims cost is determined based on the cost of the claim per policy for earlier years and the number of policies in the later years. Likewise, the claims cost is calculated based on the forecast of the number of claims (the link ratio method) and the historical average claim.

(d) Model for large claims: In order to calculate repayments from reinsurance, the Company uses a “log normal” type of curve adjustment technique.

The election of the appropriate actuarial method for every insurance line and for each event/underwriting year, is determined based on the judgment of the actuary according to its compatibility with the case at hand, and there is also a combination of the various methods.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(3) Details of the actuarial methods in the main insurance branches (Cont.)

(e) Other

For claims regarding occupational diseases in employers' liability insurance, which are claims based on prolonged damage, a provision is calculated on the basis of future expected cost. In claims of this type there is no specific date on which the employee was injured and the damage is formed as the result of prolonged exposure to the risk factors. Claims of this type are characterized by a very long period of time between the beginning of exposure to the risk factors and the date the claim is reported (long tail claims).

(4) Hereunder is a description of the actuarial methods that were applied in the main insurance lines:

(a) Motor act and liability lines:

The basic models used by the Company are the Link Ratio, which is based on the actual data and the adjustment of the Sherman Power Curve. The model is at the level of the underwriting year and is calculated at the level of the gross claims.

In the recent underwriting years, the Company uses the Bornhuetter Ferguson method, which is based on claims per policy in the motor act line and on the Loss Ratio basis in the liability branches.

Since the valuation of the outstanding claims is calculated, as mentioned, at a gross level, there is a model for estimating the reinsurance outstanding claims.

In non-proportional reinsurance (excess of loss), the model for the old underwriting years is based on the treatment of individual claims, whereas in the recent underwriting years it is based on an adjustment of the curve for the large claims and on the risk rate derived from the reinsurance premium. In proportional reinsurance, including facultative, it is based on the estimate of individual outstanding claims for old years and recent years according to the loss ratio rate.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(4) Hereunder is a description of the actuarial methods that were applied in the main insurance lines: (Cont.)

(b) Motor Casco:

The Company uses the Link Ratio model which is based on actual payments at the level of monthly damages. There are separate models for accident damages and theft damages. The data is at a gross level.

In the recent damage months, the Company uses the Bornhuetter Ferguson method, which is based on claims per policy.

The outstanding claims valuation is calculated on the gross level. The reinsurance component in this line of business is insignificant.

(c) Comprehensive residential:

The Company uses the Link Ratio model which is based on the cumulative cost of the claims (claim payments plus individual estimates). The model is applied at the level of monthly damages and the data is at the level of gross claims.

In the last damage month, the Bornhuetter Ferguson method was used. This model is based on claims per policy.

In this line of business, the reinsurance is proportional and the retention is calculated based on the actual reinsurance rates in each damage year.

(d) Personal accidents:

The Company uses the Link Ratio model based on the cumulative cost of claims (claim payments plus individual estimates). The model is applied at the underwriting year level and the data used is at the level of the gross claims.

In the last underwriting years, the Bornhuetter Ferguson method was used, on the basis of Loss Ratio.

In this line of business, the reinsurance is in part proportional and in part excess of loss type reinsurance. The retention is calculated based on the actual reinsurance rates in each underwriting year.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(4) Hereunder is a description of the actuarial methods that were applied in the main insurance lines: (Cont.)

(e) Lines of business in which non-actuarial provisions were set-up:

Based on the directives of the Regulator of Insurance, the Group also examined calculation of the actuarial reserves in the other main lines: comprehensive business premises insurance, engineering insurance, contractors insurance, marine insurance, aircraft insurance and insurance of goods in transit.

Due to a lack of statistically significant information, an actuarial model was not applied for these lines.

The outstanding claims with respect to these lines were included based on estimates that included the following components:

- Known outstanding claims, that include an appropriate provision for handling expenses up to the end of the period, but were not yet paid as at the financial statements date. This provision is mainly based, on an individual valuation of each claim, based on the opinion received from the Company's attorneys and experts handling the claims. Most of the claims are backed by reinsurance and therefore the effect of the deductible collected from the policyholder is immaterial.

- A provision for claims incurred but not yet reported (IBNR) based on past experience.

(5) Changes in assumptions, facts (rulings and legislation) and in actuarial models and their impact on the provisions.
In the last year, no significant changes in the actuarial models were made.
It should be noted that the change in assumptions/methods described above and/or additional information in respect of factors detailed above, could result in changes to the actuarial estimates.

(6) Proposed changes for calculating insurance reserves in general insurance

In January 2013 the Supervision of Financial Services Regulations (Insurance) (Insurance Reserve Calculation in General Insurance), 2013 (hereunder – "the new regulations") and a circular (hereunder together – "the Amendment"), were published and they deals with the update of the existing law provisions regarding the calculation of insurance reserves in general insurance.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(6) Proposed changes for calculating insurance reserves in general insurance (Cont.)

The amendment cancels the Supervision of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984, and new regulations will replace them. The main change that will take place when the regulations come into force will be the cancellation, beginning from the financial statements as at March 31, 2014, of excess income over expenses reserve (hereunder – "the reserve"). Presently Menorah Insurance calculates the reserve for the period of 3 to 5 years in the general insurance branch with long tail claims (mainly motor act and liability), for which an actuarial valuation is calculated.

In addition in July 2012 the Commissioner's draft position document was published (hereunder – "the Commissioner's Position") regarding the best practice for actuaries when for calculating the insurance reserve in general insurance for the purpose of the financial statements to adequately and properly reflect the insurance liabilities. The Commissioner's Position includes, among others, the following determinations:

a. "An adequate reserve for covering the insurer's liabilities" which means that it is fairly likely – namely, the probability of at least 75% that the insurance liabilities that was determined will be sufficient to cover the insurer's liabilities.

b. Whenever there is more certainty regarding the compatibility of the assumptions and models, the actuary should chose the assumptions and models that best estimate the anticipated insurance liabilities. A margin for uncertainty should be added to this, separately.

c. The capitalization rate of the liabilities flow (products with long tail liabilities).

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

3. The insurance risk (Cont.)

c) General insurance contract insurance risks (Cont.)

(6) Proposed changes for calculating insurance reserves in general insurance (Cont.)

d. Grouping – for calculating margins in respect of uncertainty in the statistical branches (as defined in the circular), each branch should be treated separately, but the risks (or damage) from all the underwriting years in the branch can be grouped together. In non-statistical branches, all the branches can be related to in the same manner.

e. Determination of the amount of insurance liability for policies sold in intervals close to the reporting date and for risks after the balance sheet date.

Migdal Insurance is examining the overall effect of the amendment on the financial statements, together with the Commissioner's position. At this stage it is not possible to evaluate the effect, since the Commissioner's position is under discussion and clarifications between the insurance companies and the Commissioner.

4. Information regarding credit risks in respect of assets against non-yield dependent contracts

Credit risk is, as mentioned, the risk of loss if a borrower fails to meet its obligations, or if there is a change in the credit margins in the capital market.
The failure of a counterparty to meet its obligations due to a deterioration of its repayment
ability, including insolvency, may affect the Group's business results.
Credit assets that are given from members' monies and quotable credit assets in the Nostro portfolios, calculated according to fair value, are also influenced by changes in the credit margins as reflected in the capital market or in a downgrading of the obligor's credit rating.

With respect to the rating sources, see paragraph d.2 below.

The book value approximates the maximum credit risk. Therefore, the "total" column represents the maximum credit risk.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

a) Debt assets credit risks

(1) Breakdown of debt assets according to their location:

	December 31, 2012		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	4,879,458	20,318,444	25,197,902
Abroad	344,543	20,548	365,091
Total debt assets	5,224,001	20,338,992	25,562,993

	December 31, 2011		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	4,203,663	19,931,671	24,135,334
Abroad	436,645	89,113	525,758
Total debt assets	4,640,308	20,020,784	24,661,092

(*) Quoted debt assets are classified mainly under the available for sale category and are reported at fair value.

Also see details of assets divided into ratings, below.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

a) Debt assets credit risks

(2) Details of assets divided into ratings

(a) Debt assets

	Local rating *)				
	December 31, 2012				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets					
Government bonds	3,189,292	-	-	-	3,189,292
Corporate bonds	827,524	835,420	12,649	14,573	1,690,166
Total quoted debt assets in Israel	4,016,816	835,420	12,649	14,573	4,879,458
Unquoted debt assets					
Government bonds	17,277,271	-	-	-	17,277,271
Corporate bonds	401,926	455,719	35,302	411	893,358
Deposits in banks and financial institutions	1,230,725	827	-	-	1,231,552
Other debt assets according to guarantees:					
Mortgages	-	-	-	56,124	56,124
Loans on policies	-	-	-	154,657	154,657
Other guarantees	199,907	317,100	-	169,732	686,739
Not guaranted	5,032	12,522	-	1,189	18,743
Total unquoted debt assets in Israel	19,114,861	786,168	35,302	382,113	20,318,444
Total debt assets in Israel	23,131,677	1,621,588	47,951	396,686	25,197,902
From this debt assets according to internal rating	83,980	369,718	-	-	453,698
Includes debt assets in internal rating whose rating was reduced by the Company	-	40,212	-	-	40,212

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

a) Debt assets credit risks (Cont.)

(2) Details of assets divided into ratings (Cont.)

(a) Debt assets (Cont.)

	A and above	BBB	Rated lower than BBB	Unrated	Total
	International rating *)				
	December 31, 2012				
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	85,663	-	-	-	85,663
Corporate bonds	44,709	189,041	3,995	21,135	258,880
Total quoted debt assets abroad	130,372	189,041	3,995	21,135	344,543
Unquoted debt assets					
Deposits in banks and financial institutions	-	8,104	-	12,444	20,548
Total unquoted debt assets abroad	-	8,104	-	12,444	20,548
Total debt assets abroad	130,372	197,145	3,995	33,579	365,091

*) Each rating includes all the ranges, for example: A includes A-up to A+.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

a) Debt assets credit risks (Cont.)

(2) Details of assets divided into ratings (Cont.)

(a) Debt assets (Cont.)

	Local rating *)				
	December 31, 2011				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets					
Government bonds	2,238,737	-	-	-	2,238,737
Corporate bonds	902,946	1,031,464	5,534	24,982	1,964,926
Total quoted debt assets in Israel	3,141,683	1,031,464	5,534	24,982	4,203,663
Unquoted debt assets					
Government bonds	16,449,790	-	-	-	16,449,790
Corporate bonds	448,601	490,445	31,492	-	970,538
Deposits in banks and financial institutions	1,390,614	3,811	-	-	1,394,425
Other debt assets according to guarantees:					
Mortgages	-	-	-	77,933	77,933
Loans on policies	-	-	-	158,474	158,474
Other guarantees	215,934	469,802	-	160,982	846,718
Not guaranted	5,111	22,527	-	6,155	33,793
Total unquoted debt assets in Israel	18,510,050	986,585	31,492	403,544	19,931,671
Total debt assets in Israel	21,651,733	2,018,049	37,026	428,526	24,135,334
From this debt assets according to internal rating	92,448	313,960	-	-	406,408
Includes debt assets according to internal rating whose rating was deducted by the Company	-	-	-	-	-

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

a) Debt assets credit risks (Cont.)

(2) Details of assets divided into ratings (Cont.)

(a) Debt assets (Cont.)

	International rating *)				
	December 31, 2011				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	76,338	-	-	-	76,338
Corporate bonds	170,509	189,798	-	-	360,307
Total quoted debt assets abroad	246,847	189,798	-	-	436,645
Unquoted debt assets					
Deposits in banks and financial institutions	83,732	-	5,381	-	89,113
Total unquoted debt assets abroad	83,732	-	5,381	-	89,113
Total debt assets abroad	330,579	189,798	5,381	-	525,758

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

a) Debt assets credit risks (Cont.)

(2) Details of assets divided into ratings (Cont.)

(b) Credit risks in respect of other assets (In Israel)

Additional information

	Local rating *)				
	December 31, 2012				
	AA and above	BBB to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Debtors and receivables, except for reinsurers' balances	-	-	-	242,905	242,905
Deferred tax assets	15,263	-	-	-	15,263
Other financial investments	-	-	-	219,723	219,723
Cash and cash equivalents	1,641,508	560,583	-	-	2,202,091

	Local rating *)				
	December 31, 2011				
	AA and above	BBB to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Debtors and receivables, except for reinsurers' balances	-	-	-	244,343	244,343
Deferred tax assets	19,361	-	-	-	19,361
Other financial investments	-	-	-	223,629	223,629
Cash and cash equivalents	1,440,157	8,455	-	-	1,448,612

*) Each rating includes all the ranges, for example: A includes A- up to A+.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

b) Debt assets credit risks (Cont.)

(2) Details of assets divided into ratings (Cont.)

(c) Credit risks in respect of off balance sheet instruments (In Israel)

	Local rating *)				
	December 31, 2012				
	AA and above	BBB to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Unutilized credit lines	46,611	96,025	-	-	142,636

	Local rating *)				
	December 31, 2011				
	AA and above	BBB to A	Lower than BBB	Not rated	Total
	NIS in thousands				
Unutilized credit lines	42,249	144,214	-	-	186,463

*) Each rating includes all the ranges, for example: A includes A- up to A+.

(d) Credit risks in respect of other assets (abroad)

	International rating *)				
	December 31, 2012				
	A and above	BBB	Lower than BBB	Not rated	Total
	NIS in thousands				
Other financial investments	-	-	-	1,118,209	1,118,209
Cash and cash equivalents	59,738	-	-	-	59,738

	International rating *)				
	December 31, 2011				
	A and above	BBB	Lower than BBB	Not rated	Total
	NIS in thousands				
Other financial investments	-	-	-	772,362	772,362
Cash and cash equivalents	49,094	-	-	-	49,094

*) Each rating includes all the ranges, for example: A includes A- up to A+.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

b) Additional information regarding credit risks

(1) In May 2012 the Regulator approved that Migdal Insurance will use an internal credit rating model (hereunder - "the model"), which was published by it. According to the approval, with respect to the legal provisions regarding credit rating, the rating according to this model will be regarded as an equivalent rating from the point of view of the rating risk of a rating company, up to August 31, 2013, subject to the following conditions:

(a) The model will be used within the framework of the structure, the methodology and the procedures that were presented to the Regulator during the process of examining the model;

(b) The model will be valid for evaluating the credit of companies in Israel, which are: operating companies (not including companies from the field of promotional real estate); holding/investment companies; companies operating in the fields of: banking, leasing and profit generating real estate.

(c) A significant change in the model's structure, including its expansion to fields that are not specified in paragraph (b) above, requires the Regulator's prior approval.

(d) The rating according to the model will not be used for determining the rate of the required capital due to credit risk.

In addition, the approval sets-forth provisions regarding immediate and periodic reports that Migdal Insurance should submit to the Regulator regarding the model.

(2) There is a difference in the rating scale between debt assets in Israel and debt assets abroad. It should be noted that in accordance with the Capital Market Circular 2008-6-1, regarding the publication of the conversion scale between the Israeli rating and the International rating, the Regulator instructed that up to January 1, 2009 the rating companies who received approval from the Commissioner of the Capital Market, Insurance and Savings to operate as a rating company in accordance with the Capital Market Circular 2004/1, to publish a conversion scale between the local and international rating.

(3) Information regarding credit risks in this Note does not include the assets for yield dependent contracts that are reported in paragraph d below.

(4) Regarding reinsurers’ exposure to credit risk see paragraph b.(4.1) below.

(5) Regarding outstanding premium balances in the amount of NIS 446,330 thousand (year 2011 - NIS 434,983 thousand), see Note 10.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

b) Additional information regarding credit risks

(6) Aging of investments in unquoted financial debt assets:

	December 31 2012	December 31 2011
	NIS in thousands	
Debt assets whose value was not impaired		
Without arrears	20,065,747	19,829,601
In arrears(*):		
Up to 90 days	16,096	26,234
Between 90 to 180 days	3,188	5,690
Over 180 days	31,066	28,423
Total debt assets whose value was not impaired	20,116,097	19,889,948
Debt assets whose value was impaired:	272,104	181,416
Gross assets whose value was impaired		
Impairments allocated to profit and loss (accrued)	(49,209)	(50,580)
Total unquoted debt assets	20,338,992	20,020,784

It should be noted that the above amounts do not constitute the actual amount in arrears, but rather they include the debt balance involved in the arrears.

*) Mainly loans on policies against which there are full redemption values and/or mortgages.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

b) Additional information regarding credit risks

(7) Details of exposure to economic sectors for investments in quoted and unquoted financial debt assets

	December 31, 2012		
	Balance sheet credit risk		Off balance sheet risk
	Amount NIS in thousands	% Of the total	NIS in thousands
Economic sector			
Industry	299,471	1.2	109,442
Construction and real estate	563,592	2.2	33,194
Electricity and water	-	-	-
Commercial	6,802	-	-
Transportation and storage	20,887	0.1	-
Communication and computer services	226,654	0.9	-
Banks	2,661,587	10.4	-
Financial services	114,071	0.4	-
Other business services	454,683	1.8	-
Maintenance companies	273,214	1.1	-
Private individuals	381,702	1.5	-
Other	8,104	-	-
Government bonds	20,552,226	80.4	-
Total	25,562,993	100	142,636

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts (Cont.)

b) Additional information regarding credit risks

(7) Details of exposure to economic sectors for investments in quoted and unquoted financial debt assets (Cont.)

	December 31, 2011		
	Balance sheet credit risk		Off balance sheet risk
	Amount NIS in thousands	% Of the total	NIS in thousands
Economic sector			
Industry	198,329	0.8	76,225
Construction and real estate	574,643	2.3	-
Electricity and water	134,620	0.5	67,989
Commercial	17,890	0.1	-
Transportation and storage	85,896	0.3	-
Communication and computer services	282,948	1.1	42,249
Banks	2,766,234	11.3	-
Financial services	384,820	1.6	-
Other business services	37,305	0.2	-
Maintenance companies	915,096	3.7	-
Private individuals	498,446	2.0	-
Other	-	-	-
Government bonds	18,764,865	76.1	-
Total	24,661,092	100.0	186,463

4.1. Reinsurers' credit risks

Migdal Insurance insures part of its business by reinsurance, most of which is done through reinsurers abroad. However, the reinsurance does not release the direct insurers from their commitment towards their policyholders according to the insurance policies.

Migdal Insurance is exposed to risks resulting from uncertainty regarding the reinsurers' ability to pay their share in the liabilities in respect of insurance contracts (reinsurance assets). This exposure is managed by a current follow-up of the reinsurers rating in the international market and their following through on monetary liabilities.

The Company is exposed to concentrated credit risk to an individual reinsurer, due to the reinsurance market structure and the limited amount of reinsurers with sufficient rating.

In accordance with the Regulator's directives, once a year the Company's Board of Directors determines the limits of the maximum exposure to the reinsurers with whom the Company has engaged and/or will engage, which is mainly based on their international rating. These exposures are managed in the Company by individual valuation of each of the reinsurers separately.

In addition, Migdal Insurance's exposures are dispersed between various reinsurers, and the principal ones are reinsurers who are usually rated at relatively high international ratings

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4.1. Reinsurers' credit risks (Cont.)

	As at December 31, 2012										
			Reinsurance assets							Debts in arrears (b)	
Rating group: (d)	Total reinsurance premiums for 2012	Balances in debit (credit) net	In life assurance	In health insurance	In property insurance	In Liability insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure (a) (c)	Between half a year and one year	Over one year
	NIS in thousands										
AA and above											
Swiss Reinsurance Co	77,937	(19,839)	2,450	4,708	25,400	23,973	2,224	-	34,468	-	-
Munich Reinsurance Co.AG	47,026	(9,349)	2,240	5,670	23,956	74,391	-	-	96,908	-	-
Others	128,089	(5,287)	83,176	4,105	56,943	42,441	16,337	10,043	154,998	53	2
	253,052	(34,475)	87,866	14,483	106,299	140,805	18,561	10,043	286,374	53	2
A											
Assicurazioni Generali SpA (e)	228,160	(20,551)	2,705	194	208,008	200,882	9,752	803	380,683	-	-
Others (g)	171,678	(16,491)	258	324	123,272	110,183	34,147	638	182,761	7	7
	399,838	(37,042)	2,963	518	331,280	311,065	43,899	1,441	563,444	7	7
BBB (g)	16,575	(502)	-	-	16,935	8,070	5,681	-	18,822	-	-
Lower than BBB – or unrated (f)	5,623	(3,306)	58	-	2,334	27,393	-	-	26,479	291	154
Total	675,088	(75,325)	90,887	15,001	456,848	487,333	68,141	11,484	895,119	351	163

Comments:

1. (a) The total exposure to reinsurers is: debit (credit) balances, net, reinsurance assets, net of the deposits and net of the amount of letters of credit received from reinsurers as a guarantee for their liabilities.
   (b) After deduction of the provision for doubtful debts in an amount of NIS 1,309 thousand.
   (c) The total provisions for doubtful debts, plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,092 thousand which constitutes about 0.2% of the exposure as at December 31, 2012. The reduction with respect to previous years results, among others, from the recognition of part of the debts as bad debts and from the collection of old debts.
   (d) The rating is determined mainly according to the S&P rating company. In cases where S&P did not provide a rating, the rating was determined by another rating company whose rating was converted in accordance with a conversion scale as determined pursuant to the Ways of Investment Regulations. Each rating includes all the ranges, for example: A includes A- through A+.
   (e) The total premiums of the Company's former controlling shareholder include premiums in facultative reinsurance at the rate of 100% in the amount of about NIS 56 million in respect of one policyholder.
   (f) The non-rated group includes balances for outstanding claims through brokers from business that was received up to and including the year 2003 in the amount of about NIS 8,692 thousand.
   (g) Including an insignificant balance in respect of a reinsurer from the Generali Group which is the Company's former controlling shareholder.
2. The total exposure of the reinsurers in the event of an earthquake at the probability of damage of 1.70% (weighed MPL) is about NIS 3,693 million (the MPL is estimated by the last models held by the Group). The most significant reinsurer is Generali, which is the controlling shareholder in the Company, and its share in this exposure is about NIS 861 million.
3. There are no other reinsurers apart from those detailed above that the exposure in their respect is above 10% of the overall exposure of reinsurers or the premium in their respect is over 10% of the premiums for reinsurance for the year 2012.

NOTE 37:- RISK MANAGEMENT (Cont)

b. Details of the risks (Cont.)

4.1. Reinsurers' credit risks (Cont.)

	As at December 31, 2011										
			Reinsurance assets							Debts in arrears (b)	
Rating group: (D)	Total reinsurance premiums for 2011	Balances in debit (credit) net	In life assurance	In health insurance	In property insurance	In liabilities insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure (a) (c)	Between half a year and one year	Over one year
	NIS in thousands										
AA and above											
Swiss Reinsurance Co	75,395	(17,063)	2,623	5,941	23,175	29,678	2,669	-	41,685	-	-
Munich Reinsurance Co. AG	56,438	(11,041)	2,273	4,564	27,533	80,828	248	-	103,909	-	-
Others	102,346	(14,899)	70,701	1,430	60,523	42,762	7,315	10,279	142,923	1	3
	234,179	(43,003)	75,597	11,935	111,231	153,268	10,232	10,279	288,517	1	3
A											
Assicurazioni Generali SpA (e)	270,982	(38,348)	3,161	188	256,410	223,417	12,190	822	431,816	-	-
Others	216,142	(61,312)	586	345	183,731	126,055	60,306	653	188,446	13	2
	487,124	(99,660)	3,747	533	440,141	349,472	72,496	1,475	620,262	13	2
BBB (g)	44	(64)	-	-	190	30	-	-	156	-	-
Lower than BBB – or not rated (f)	5,116	(5,454)	274	-	3,202	31,829	-	-	29,851	347	123
Total	726,463	(148,181)	79,618	12,468	554,764	534,599	82,728	11,754	938,786	361	128

Comments:

1. (a) The total exposure to reinsurers is: debit (credit) balances, net, reinsurance assets, net of the deposits and net of the amount of letters of credit received from reinsurers as a guarantee for their liabilities.
   (b) After deduction of the provision for doubtful debts in an amount of NIS 1,761 thousand.
   (c) The total provisions for doubtful debts, plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,351 thousand which constitutes about 0.3% of the exposure as at December 31, 2011. The reduction with respect to previous years results, among others, from the recognition of part of the debts as bad debts and from the collection of old debts.
   (d) The rating is determined mainly according to the S&P rating company. In cases where S&P did not provide a rating, the rating was determined by another rating company whose rating was converted in accordance with a conversion scale as determined pursuant to the Ways of Investment Regulations. Each rating includes all the ranges, for example: A includes A- through A+.
   (e) The total premiums of the Company's former controlling shareholder include premiums in facultative reinsurance at the rate of 100% in the amount of about NIS 68 million in respect of one policyholder.
   (f) The non-rated group includes balances for outstanding claims through brokers from business that was received up to and including the year 2003 in the amount of about NIS 9,332 thousand.
   (g) Including an insignificant balance in respect of a reinsurer from the Generali Group which is the Company's controlling shareholder.
2. The total exposure of the reinsurers in the event of an earthquake at the probability of damage of 1.75% (weighed MPL) is about NIS 4,223 million (the MPL is estimated by the last models held by the Group). The most significant reinsurer is Generali, which is the controlling shareholder in the Company, and its share in this exposure is about NIS 1,258 million.
3. There are no other reinsurers apart from those detailed above that the exposure in their respect is above 10% of the overall exposure of reinsurers or the premium in their respect is over 10% of the premiums for reinsurance for the year 2011.

NOTE 37:- RISK MANAGEMENT (Cont)

c. Details of assets and liabilities distributed into linkage basis

	December 31, 2012					
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non-monetary items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Intangible assets	-	-	-	1,267,683	-	1,267,683
Deferred tax assets	-	-	-	15,263	-	15,263
Deferred acquisition costs	-	-	-	1,624,573	99	1,624,672
Fixed assets	-	-	-	786,214	-	786,214
Investments in affiliates	78,650	-	-	526,336	-	604,986
Investment property for yield dependent contracts	-	-	-	-	3,916,486	3,916,486
Other investment property	-	-	-	538,204	-	538,204
Reinsurance assets	154,038	851,465	36,504	-	8,062	1,050,069
Current tax assets	-	94,834	2,687	-	2,708	100,229
Debtors and receivables	197,397	-	1,520	23,887	31,979	254,783
Outstanding premiums	51,845	220,820	29,322	-	144,343	446,330
Financial investments for yield dependent contracts	-	-	-	-	54,156,452	54,156,452
Other financial investments:						
Quoted debt assets	1,823,489	3,055,969	344,543	-	-	5,224,001
Unquoted debt assets	132,630	20,166,593	39,769	-	-	20,338,992
Shares	-	-	-	632,693	-	632,693
Others	-	-	6,999	1,330,933	-	1,337,932
Total other financial investments	1,956,119	23,222,562	391,311	1,963,626	-	27,533,618
Cash and cash equivalents for yield dependent contracts	-	-	-	-	2,376,263	2,376,263
Other cash and cash equivalents	2,181,547	-	80,282	-	-	2,261,829
Total assets	4,619,596	24,389,681	541,626	6,745,786	60,636,392	96,933,081

NOTE 37:- RISK MANAGEMENT (Cont)

c. Details of assets and liabilities distributed into linkage basis (Cont.)

	December 31, 2012					
	In NIS unlinked	In NIS linked to the CPI	denominated in foreign currency or linked thereto	Non-monetary items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Total capital	-	-	-	4,795,487	-	4,795,487
Liabilities						
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	542,669	27,947,157	59,411	-	-	28,549,237
Liabilities in respect of yield dependent insurance contracts and investment contracts	-	-	-	-	60,062,274	60,062,274
Deferred tax liabilities	-	-	-	534,366	-	534,366
Liabilities for employee benefits, net	67,897	89,194	-	-	121,016	278,107
Liabilities in respect of current taxes	-	2,970	-	-	-	2,970
Creditors and payables	882,182	469,831	127,753	117,075	69,376	1,666,217
Financial liabilities	11,037	906,630	40,895	6,058	79,803	1,044,423
Total liabilities	1,503,785	29,415,782	228,059	657,499	60,332,469	92,137,594
Total capital and liabilities	1,503,785	29,415,782	228,059	5,452,986	60,332,469	96,933,081
Total balance sheet exposure	3,115,811	(5,026,101)	313,567	1,292,800	303,923	-
Exposure to base assets through derivative instruments in Delta terms	(212,883)	50,439	68,102	94,342	-	-
Total exposure	2,902,928	(4,975,662)	381,669	1,387,142	303,923	-

NOTE 37:- RISK MANAGEMENT (Cont)

c. Details of assets and liabilities distributed into linkage basis (Cont.)

	December 31, 2011					
	In NIS unlinked	In NIS linked to the CPI	denominated in foreign currency or linked thereto	Non-monetary items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Intangible assets	-	-	-	1,240,774	-	1,240,774
Deferred tax assets	-	-	-	19,361	-	19,361
Deferred acquisition costs	-	-	-	1,539,547	116	1,539,663
Fixed assets	-	-	-	679,188	-	679,188
Investments in affiliates	86,104	-	-	493,501	-	579,605
Investment property for yield dependent contracts	-	-	-	-	3,519,950	3,519,950
Other investment property	-	-	-	497,226	-	497,226
Reinsurance assets	172,017	952,224	50,094	-	7,114	1,181,449
Current tax assets	-	49,567	75	-	4,565	54,207
Debtors and receivables	178,759	-	2,663	26,377	42,600	250,399
Outstanding premiums	41,596	240,985	43,719	-	108,683	434,983
Financial investments for yield dependent contracts	-	-	-	-	47,411,946	47,411,946
Other financial investments:						
Quoted debt assets	1,670,226	2,535,896	434,186	-	-	4,640,308
Unquoted debt assets	230,591	19,732,384	57,809	-	-	20,020,784
Shares	-	-	-	785,013	-	785,013
Others	-	-	25,468	970,523	-	995,991
Total other financial investments	1,900,817	22,268,280	517,463	1,755,536	-	26,442,096
Cash and cash equivalents for yield dependent contracts	-	-	-	-	750,299	750,299
Other cash and cash equivalents	1,431,661	-	66,045	-	-	1,497,706
Total assets	3,810,954	23,511,056	680,059	6,251,510	51,845,273	86,098,852

NOTE 37:- RISK MANAGEMENT (Cont)

c. Details of assets and liabilities distributed into linkage basis (Cont.)

	December 31, 2011					
	In NIS unlinked	In NIS linked to the CPI	denominated in foreign currency or linked thereto	Non-monetary items and others	Liabilities in respect of yield dependent contracts	Total
	NIS in thousands					
Total capital	-	-	-	4,539,422	-	4,539,422
Liabilities						
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	552,958	26,647,502	77,533	-	-	27,277,993
Liabilities in respect of yield dependent insurance contracts and investment contracts	-	-	-	-	51,388,142	51,388,142
Deferred tax liabilities	-	-	-	386,937	-	386,937
Liabilities for employee benefits, net	57,084	100,210	-	-	114,323	271,617
Liabilities in respect of current taxes	-	5,601	-	-	-	5,601
Creditors and payables	719,390	428,124	206,139	49,709	45,676	1,449,038
Financial liabilities	44,792	122,480	86,451	17,716	508,663	780,102
Total liabilities	1,374,224	27,303,917	370,123	454,362	52,056,804	81,559,430
Total capital and liabilities	1,374,224	27,303,917	370,123	4,993,784	52,056,804	86,098,852
Total balance sheet exposure	2,436,730	(3,792,861)	309,936	1,257,726	(211,531)	-
Exposure to base assets through derivative instruments in Delta terms	(267,648)	102,047	(80,103)	245,704	-	-
Total exposure	2,169,082	(3,690,814)	229,833	1,503,430	(211,531)	-

NOTE 37:- RISK MANAGEMENT (Cont)

d. Information regarding financial investments for yield dependent contracts

1. Composition of investments according to linkage basis

	December 31, 2012				
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non financial items and others	Total
	NIS in thousands				
Cash and cash equivalents	2,013,477	-	362,786	-	2,376,263
Quoted assets	5,984,400	10,048,081	129,535	25,291,980	41,453,996
Unquoted assets	74,034	8,428,074	415,029	7,888,996	16,806,133
Total assets	8,071,911	18,476,155	907,350	33,180,976	60,636,392
Exposure to the base asset through derivative instruments in Delta terms	10,823,652	-	(11,632,618)	808,966	-

	December 31, 2011				
	In NIS unlinked	In NIS linked to the CPI	Denominated in foreign currency or linked thereto	Non financial items and others	Total
	NIS in thousands				
Cash and cash equivalent	388,000	-	362,299	-	750,299
Quoted assets	4,653,882	7,754,056	113,248	22,226,106	34,747,292
Unquoted assets	102,274	8,442,219	108,637	7,694,552	16,347,682
Total assets	5,144,156	16,196,275	584,184	29,920,658	51,845,273
Exposure to the base asset through derivative instruments in Delta terms	9,262,722	-	(9,477,761)	215,039	-

NOTE 37:- RISK MANAGEMENT (Cont)

d. Information regarding financial investments for yield dependent contracts

2. Credit risk for assets in Israel

	Local rating *)				
	December 31, 2012				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	8,358,428	-	-	-	8,358,428
Other debt assets - quoted	4,416,833	3,911,504	12,790	64,891	8,406,018
Other debt assets - unquoted	3,773,951	3,220,479	71,037	546,637	7,612,104
Total debt assets in Israel	16,549,212	7,131,983	83,827	611,528	24,376,550
From this debt assets at internal rating	378,778	2,096,349	6,652	-	2,481,779
Includes debt assets at internal rating whose ranting was reduced by the Company	-	591,688	-	-	591,688

	Local rating *)				
	December 31, 2011				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	6,216,020	-	-	-	6,216,020
Other debt assets - quoted	4,157,038	2,705,496	17,672	30,508	6,910,714
Other debt assets - unquoted	5,494,847	1,739,065	56,397	556,152	7,846,461
Total debt assets in Israel	15,867,905	4,444,561	74,069	586,660	20,973,195
From this debt assets at internal rating	829,813	813,449	-	-	1,643,262
Includes debt assets at internal rating whose ranting was reduced by the Company	-	-	-	-	-

*) The sources for the rating level in Israel are the rating companies “Ma’a lot” and “Midroog. The rating company’s data were converted into rating signs according to generally accepted conversion coefficients. Each rating includes all the ranges, for example: A includes A- through A+.

**) The book value forms a proximity to the maximum credit risk. Therefore, the total column represents the maximum credit risk.

NOTE 37:- RISK MANAGEMENT (Cont)

d. Information regarding financial investments for yield dependent contracts

3. Credit risk for assets in abroad

	International Rating *)				
	December 31, 2012				
	A and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	24,197	-	16,174	-	40,371

	International Rating *)				
	December 31, 2011				
	A and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	25,084	64,816	16,262	-	106,162

*) The sources for the rating level aboard are the rating companies S&P, Moody's and Fitch, which were approved by the Regulator of Insurance. Each rating includes all the ranges, for example: A includes A- through A+.

**) The book value forms a proximity to the maximum credit risk. Therefore, the total column represents the maximum credit risk.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. General

1. The Company is controlled by Eliahu Insurance. On October 29, 2012 the transaction in which Generali sold all its shares in the Company to Eliahu Insurance was completed, thus as of that date, it stopped being the Company's controlling shareholder. Mr. Shlomo Eliahu controls Eliahu Insurance, directly and indirectly, and he is the Company's controlling shareholder. Due to the change in controlling shareholders, the Company conducted a re-mapping of the relations with related parties and interested parties. For more details regarding the change in controlling shareholders in the Company, see Note 1b.

2. Within the completion of the control acquisition transaction, the Company received an undertaking from Generali towards it, by virtue of the agreement for the transfer of control signed between Eliahu and Generali, pursuant to which Generali undertook to allow Migdal Insurance to continue and renew with it reinsurance treaties, as per Migdal Insurance's discretion, for a period of five years, up to the exposure limit to Generali effective at that time. This undertaking was stipulated by renewing in the same conditions and subject to the same provisions (including regarding insurance fees) as extended to the Company by the leading participants in the high-quality international reinsurance market. See the Immediate Report issued by the Company on October 29, 2012 (Ref. No. 2012-01-266412).

3. Mr. Shlomo Eliahu, who is serving as of October 29, 2012, also as a Director in the Company, holds, directly and indirectly (except his holdings via the Company and its subsidiaries), at approx. 8.49% in Bank Leumi le-Israel Ltd. ("Bank Leumi") (another approx. 4.04% of Bank Leumi's share capital are held by the Company and its subsidiaries), as well as a direct and indirect holding (except his holdings via the Company and its subsidiaries), at approx. 27.1% in Union Bank Ltd. ("Union Bank") (another approx. 0.46% of Union Bank's share capital are held by the Company and its subsidiaries).

   Accordingly, the Group's transactions with Bank Leumi and Union Bank, are considered as transactions in which the Company's controlling shareholder (Eliahu) has a "personal interest". (This is in addition to them being, starting from the date on which he started serving as a Director in the Company, engagements in which a Senior Officer in the Company has a personal interest).

4. During the reported period Bank Leumi was an interested party of the Company and held about 9.8% of the Company's shares. After the reported period, in January 2013, Bank Leumi sold, on two different dates, about 5.1% of the Company's shares, so that after these sales Bank Leumi holds about 4.7% of the Company's shares. Prior to the transfer of control of the Company it was not necessary to obtain the approval of the Group companies' various organs for the engagement of the Group companies with Bank Leumi. With respect to the sale of Bank Leumi shares, see the immediate reports dated January 3, 2013 and January 8, 2013 (Ref. No. 2013-01-004302 and 2013-01-008517).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

a. General (Cont.)

5. For sake of convenience, and since the engagements with Bank Leumi and the companies held by it ("the Igud Group) were performed during the reported period and before they became companies in which the controlling shareholder of the company has a personal interest in them, the financial data and verbal reports regarding the Eliahu Group will relate to the controlling shareholder and the companies held by the controlling shareholder, directly or indirectly, at 50% or more of the means of control and will not relate to Bank Leumi and Bank Igud.

6. Transactions that were performed during the reported period with Leumi Group, before the transfer of control, are reported as a whole, without separating the financial data relating to the period prior to the transfer of control in the Company and thereafter. Transactions that were performed with the Igud Group during the reported period, prior to the transfer of control, are not reported. The transactions with Bank Leumi and Bank Igud are presented in the table hereunder.

7. The following details regarding transactions with a controlling shareholder are divided into two parts, one of them is Eliahu's part and the other is Generali's. in Eliahu's part there is a specification of transactions that were approved in accordance with Section 270(b) to the Companies Law and the Sundries Chapter. In Generali's part there are details of three chapters, the first one is the Transactions chapter in accordance with Section 270(4) to the Companies Law, a Transactions chapter which is not detailed in Section 270(4) to the Companies Law and they are not negligible, and the Sundries chapter.

8. There is no specification of transactions with a controlling shareholder or with whom the controlling shareholder has a personal interest, which are negligible in accordance with the negligibility tests set by the Board of Directors, for transactions with a controlling shareholder or the controlling shareholder has a personal interest therein or an interested party, as detailed in paragraph i below.

   Part of the insurance and monetary activities of the Company and its subsidiaries, during the ordinary course of business, is done with a former controlling shareholders of the Company, Generali Group, with interested parties belonging to the Bank Leumi Group and with parties that are related to the Company, with Elihau Insurance and with the Union Bank Group. The following details do not include income, expenses and balance sheet balances resulting from said activities, except as detailed below.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. Balances with interested and related parties

Composition:

	December 31, 2012			
	Eliahu Group	Generali	Affiliates	Bank Leumi Group, Union Bank Group and and other related parties *)
	NIS in thousands			
Reinsurance assets	58	411,894	-	-
Debtors and receivables	255	-	-	-
Debt assets	-	-	68,045	3,943,857
Shares	-	-	-	419,571
Eliahu Insurance's share in liabilities in respect of co-insurance insurance contracts	(23,326)	-	-	-
Creditors and payables	-	(30,303)	-	(1,093)
Financial liabilities	-	-	(39,995)	(16,092)

*) The interested party's highest balance of debt assets during the year amounted to NIS 4,814,422 thousand.

Composition: (Cont.)

	December 31, 2011			
	Eliahu Group	Generali	Affiliates	Bank Leumi Group, Union Bank Group and and other related parties *)
	NIS in thousands			
Reinsurance assets	-	483,300	-	-
Debtors and receivables	-	895	1,496	-
Debt assets	-	-	79,257	3,043,282
Shares	-	-	-	166,956
Creditors and payables	-	(51,438)	-	-
Financial liabilities	-	-	(52,896)	-

*) The interested party's highest balance of debt assets during the year amounted to NIS 3,768,961 thousand.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

c. Transactions with interested and related parties

	December 31, 2012			
	Eliahu Group	Generali	Affiliates	Bank Leumi Group, Union Bank Group and and other related parties
	NIS in thousands			
Premiums earned - reinsurance	-	245,180	-	-
Reinsurance commission	-	43,816	-	-
Reinsurance claims and outstanding claims	-	72,917	-	-
Premiums received	-	9,052	-	-
Eliahu Insurance’s share in premiums	9	-	-	-
Eliahu Insurance’s share in payments and change in liabilities in respect of gross insurance contracts	185	-	-	-
Commissions and profit participating in group insurances	-	-	-	14,911
Distribution and operating agreements	-	-	-	23,897
Agent commission and other commissions	-	-	7,448	3,507
Leasing fees/usage fees	-	274	-	3,229
Advertizing services	-	-	1,200	-
Income from commissions	-	-	-	505

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

c. Transactions with interested and related parties

	December 31, 2011			
	Eliahu Group	Generali	Affiliates	Bank Leumi Group, Union Bank Group and and other related parties
	NIS in thousands			
Premiums earned - reinsurance	-	271,159	-	-
Reinsurance commission	-	59,654	-	-
Reinsurance claims and outstanding claims	-	166,955	-	-
Premiums received	-	10,852	4,783	3,374
Commissions and profit participating in group insurances	-	-	-	18,353
Distribution and operating agreements	-	-	-	28,411
Agent commission and other commissions	-	-	6,243	9,773
Leasing fees/usage fees	-	174	-	1,776
Advertizing services and other services	-	-	3,611	-
Income from commission	-	-	-	732

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

c. Transactions with interested and related parties

	December 31, 2010			
	Generali	Affiliates	Proportionally consolidated companies	Bank Leumi Group, Union Bank Group and and other related parties
	NIS in thousands			
Premiums earned - reinsurance	237,746	-	-	-
Reinsurance commission	37,728	-	-	-
Reinsurance claims and outstanding claims	126,267	-	-	-
Premiums received	8,196	960	-	5,664
Commissions and participating in profits in group insurances	-	-	-	20,583
Distribution and operating agreements	-	-	-	27,573
Agent commission and other commissions	-	1,659	2,396	5,470
Leasing fees/usage fees	175	-	-	334
Advertizing services and other services	-	1,736	-	-
Insurance annuity payment	-	-	-	300
custodian commission	-	-	-	717

c. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest

Chapter A - transactions pursuant to Section 270(4) to the Companies Law

1. Engagement for the absorption of a new business in general insurance of Eliahu Insurance

a) On November 18, 2012, an agreement was signed between Migdal Insurance and Eliahu Insurance, regarding the absorption of a new business in general insurance as defined below, of Eliahu Insurance in Migdal Insurance, as described below (hereunder - "the agreement"). See the Company's immediate report dated November 12, 2012 regarding this issue, in connection with the engagement in a transaction with a controlling shareholder of the Company, which does not require the approval of the General Meeting, as well as the Company's immediate report dated November 12, 2012, Ref. No. 2012-01-277848 (hereunder - "the immediate report").

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest (Cont.)

Chapter A - transactions pursuant to Section 270(4) to the Companies Law (Cont.)

1. Engagement for the absorption of a new business in general insurance of Eliahu Insurance (Cont.)

b) In the framework of the agreement Eliahu Insurance undertook to act and to do everything necessary in order that the new policies for customers insured with Eliahu Insurance in the area of general insurance whose insurance period is from January 1, 2013 (hereunder "the new policies", "Eliahu's customers" and "the new business in general insurance", respectively), will be issued in Migdal Insurance, and also to transfer to Migdal Insurance (subject to the provisions of the law) all the information that is required to perform any necessary action in order to ensure a continued and immediate issuance of new policies to Eliahu's customers, with Migdal Insurance.

c) According to the agreement, the new business in general insurance will be at no consideration from Migdal Insurance to Eliahu Insurance, unless it will be agreed upon and approved in the future, as mentioned in paragraph e' below.

d) Pursuant to the agreement, the following actions were taken, commencing from January 1, 2013:

(1) Eliahu Insurance transferred to Migdal Insurance the list of all the agents with whom Eliahu Insurance is engaged in the area of general insurance ("Eliahu agents"), the agreements with them and any relevant ancillary information. Also, Eliahu Insurance and Migdal Insurance outlined the way Eliahu agents should be addressed with an offer to Eliahu customers to renew/prepare in Migdal Insurance new policies (all or part thereof – as decided by Migdal Insurance), under the conditions set forth by Migdal Insurance, as set forth in the agreement. Accordingly, agreements were signed with Eliahu agents, that some of them were also Migdal Insurance agents, and they arranged the conditions regarding new business in general insurance. As detailed in the Immediate Report, the terms of engagement with Eliahu Insurance do not obligate Migdal Insurance to engage in new policies and it will engage in new policies with Eliahu customers that it would choose to engage with, with no commitment to certain conditions, and also the engagement will be as per its discretion, including underwriting, when necessary.

(2) Migdal absorbed about 40 employees who are working on the absorption of new business in general insurance.

(3) Migdal Insurance decided to use Eliahu Insurance's information systems for the activity of issuance and engagement vis-à-vis Eliahu agents in certain lines of business.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest (Cont.)

Chapter A - transactions pursuant to Section 270(4) to the Companies Law (Cont.)

1. Engagement for the absorption of a new business in general insurance of Eliahu Insurance (Cont.)

e) Negotiations regarding Eliahu's payment

(1) Pursuant to the agreement, as early as possible, and anyway by June 30, 2013 (or another date agreed upon by the parties), Migdal Insurance (via the organs defined by its Audit Committee and Board of Directors) and Eliahu Insurance, shall negotiate the payment in respect of new business in general insurance. It is hereby clarified that Migdal Insurance does not have to agree to any payment, and that in order to outline its position regarding this matter, Migdal Insurance may rely on all the relevant circumstances regarding the new business in general insurance, as they were prior to the engagement. Furthermore, and without derogating from the above, Migdal Insurance will implement any calculation method and/or evaluation, that will be defined by the competent organs, as per its sole discretion, and may determine the assumptions upon which any payment should be made, all as per its discretion and according to its decisions.

(2) If the parties agree about payment, the transaction will be brought to the approval of the Company's and Migdal Insurance's competent organs as an "extraordinary transaction" with the controlling shareholder, as defined in the Companies Law – 1999 ("the Companies Law"), and the payment of the consideration will be subject to receiving all the required approvals as per the provisions of Clause 275 to the Companies Law.

(3) If the parties do not reach a consent regarding payment - if the parties do not reach a consent regarding payment or if the payment is not duly approved by the Company's and Migdal Insurance's competent organs by June 30, 2013 (or another date, if the deadline is postponed with the parties' consent) ("the last date for consent"), then Eliahu Insurance's liabilities regarding the absorption of new business in general insurance shall stop being effective starting from the last date for consent, as well as:

(a) Migdal Insurance will give back to Eliahu Insurance the list of Eliahu agents given to it ("the list") and shall not keep any copy of the list. It is hereby clarified that giving back the list to Eliahu Insurance as set forth above:

- Will not undermine Migdal Insurance's right to financial results stemming from the execution of the absorption of new business in general insurance, both vis-à-vis Eliahu's customers and vis-à-vis Eliahu's agents; and

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest (Cont.)

Chapter A - transactions pursuant to Section 270(4) to the Companies Law (Cont.)

1. Engagement for the absorption of a new business in general insurance of Eliahu Insurance (Cont.)

e) Negotiations regarding Eliahu's payment (Cont.)

(3) (a) (Cont.)

- For the removal of doubt, it will not undermine Migdal Insurance's right to address Eliahu customers and Eliahu agents and/or continue the commercial relations with them and/or offer Eliahu customers who bought new policies in Migdal Insurance to continue engaging with it for the acquisition of policies in the future.

(b) Eliahu Insurance will be entitled to negotiate with another insurance company as per its choice, without derogating to Migdal Insurance's rights set forth above, and for this purpose Eliahu insurance will be entitled to transfer to the other insurance company the list and all the information about Eliahu Insurance's agents and insureds as it had it as of December 31st, 2012, so that the other insurance company as set forth above may offer them to renew the policies with it starting from after the last date for consent and on. It is clarified that this Clause does not exempt Eliahu Insurance (or its Senior Officers or controlling shareholders) from any duty that applies to them as per the Law towards Migdal Insurance.

(c) Migdal Insurance will not pay any consideration to Eliahu and no other limits will apply to its activity (except the non-usage of the list) and Eliahu will have no complaint nor demand towards Migdal in respect of all the activities that were made as per above (or in relation with its termination) and/or in respect of not reaching a consent about the payment due to any reason and/or the non-approval of payment in the Company's and Migdal Insurance's competent organs for any reason whatsoever.

f) As of the publication of this Report, the parties have not reached such agreements.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest (Cont.)

Chapter A - transactions pursuant to Section 270(4) to the Companies Law (Cont.)

1. Engagement for the absorption of a new business in general insurance of Eliahu Insurance (Cont.)

g) As specified, this is an absorption of a new business in general insurance which will commence in the year 2013. In view of the fact that no consideration was decided upon between the parties and even when a consideration will be outlined, the amount to be paid requires the approval of the competent organs of the Company and Migdal Insurance, as well as receiving all the necessary approvals pursuant to the provisions of Clause 275 to the Companies Law, the consideration that will be paid, and if it will be paid, was not expressed in the financial statements as at December 31, 2012.

h) Indemnification

It was agreed that Eliahu Insurance will indemnify Migdal Insurance (as per the set mechanism) in respect of any liability that will apply to Migdal Insurance or a claim or demand that will be filed against it or any damage that will be incurred by it in respect of one or more of the following cases: any liability or responsibility regarding Eliahu customers whose reason is prior to the date upon which any new policy is signed in Migdal Insurance; any liability or responsibility towards Eliahu agents that is not related with new policies or regarding Migdal Insurance's activity vis-à-vis the agents as to the new policies; regarding Eliahu employees – in respect of claims or arguments of any Eliahu employee who have not started being employed by Migdal Insurance, or the rights of Eliahu employees who have started being employed by Migdal Insurance, stemming from the period that preceded their employment in Migdal Insurance or in respect of any claim or argument of any employee who started being employed by Migdal, and which is based on their previous employment in Eliahu (such as claims of continuity, sequence, change in wage conditions, etc.); any other liability or responsibility towards a third party whose reason or origin is in a period prior to January 1, 2013; any other exposures of Migdal Insurance in respect of Eliahu's activity in the past or in the future.

2. The employment of Ofer Eliahu and Eliahu Eliahu

After the reporting period, on March 6, 2013, after the approval of the Board of Directors of the Company and Migdal Insurance and after the Compensation Committed of the Company and the approval of Migdal Insurance's Audit Committee on January 29, 2013, the Company's General Meeting approved the employment of Mr. Eliahu Eliahu, the brother of Mr. Shlomo Eliahu, the Company's controlling shareholder, as the General Insurance Businesses manager in the Central district in Migdal Insurance, at a monthly salary of NIS 50,000 and ancillaries, including annual leave, vacation, sick leave, car maintenance, expense reimbursement, social provisions, disability income insurance and provisions for educational fund. The remuneration that is expected to be paid to Mr. Eliahu Eliahu in the year 2013 is NIS 925 thousand, at the cost to the employer.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest (Cont.)

Chapter A - transactions pursuant to Section 270(4) to the Companies Law (Cont.)

2. The employment of Ofer Eliahu and Eliahu Eliahu (Cont.)

If at the end of 3 years from the date of commencement, the approvals of the Company's authorized institutions will be required in order to continue to employ Mr. Eliahu Eliahu, including the approval of the General Meeting pursuant to Clause 275 to the Companies Law or any other similar approval, the validity of the agreement after these 3 years will be subject to receiving these approvals pursuant to the provisions of the law.

The conditions of the employment of Mr. Ofer Eliahu which were presented for the approval of the Company's General Meeting, were not approved by the required majority.

See the Company's immediate report dated March 6, 2013 (Reference No. 2013-01-055917) and the amended immediate report dated March 7, 2013 (Reference No. 2013-01-057603) and the amended immediate report (Reference No. 2013-01-002080).

Chapter B - Miscellaneous

3. Insurance joint venture

Migdal Insurance and Eliahu Insurance have a life assurance joint venture, at a material amount, which was signed long before the transfer of control of the Company, under which the Company operates yield guaranteeing life assurance policies, for itself and for Eliahu Insurance. To the best of the Company's knowledge, after the reporting period, on January 1, 2013, Eliahu Insurance sold its share in the said transaction to a third party (an insurance company).

4. Claims recoveries

Migdal Insurance has claims recoveries against Eliahu Insurance and some of them were filed after the transfer of control of the Company. In the framework of the claims recoveries Eliahu Insurance is asked to compensate Migdal Insurance for the expenses it had for the payment of insurance benefits that Migdal Insurance paid to its policyholders for cases in which the policyholders of Eliahu Insurance were involved.

Eliahu Insurance has claims recoveries against Migdal Insurance in which Migdal Insurance is required to compensate Eliahu Insurance for insurance benefits that Eliahu Insurance paid to its policyholders for cases in which the policyholders of Migdal Insurance were involved.

The claims between the parties are in an immaterial amount.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Generali Group – the Company's engagement with Generali or with whoever Generali has a personal interest

Chapter B - Miscellaneous (Cont.)

General - the Company is examining its legal position regarding the existence of a personal interest that Eliahu, the Company's new controlling shareholder, who acquired the control from Generali, has regarding the Group's engagements with Generali and the companies under its control. Until this issue is finally settled, the Company decided, for sake of prudence only, and although apparently after the transfer of control, these are not transactions that Mr. Shlomo Eliahu has a personal interest in, to approve the engagements with Generali also after the transfer of control pursuant to the provisions of the law regarding transaction with controlling shareholders.

In light of the transfer of control during the reporting period from Generali to Eliahu Insurance as mentioned above, and in view of the fact that event after the transfer of control the Company acted regarding the transactions with Generali, as mentioned above, in accordance with the provisions of the law with respect to transactions with controlling shareholders, the following description of transactions with a controlling shareholder of that the controlling shareholder has a personal interest therein, will be described also regarding transactions with Generali, although some of them are after the date of transfer of control.

Chapter A - Transactions pursuant to Clause 270(4) to the Companies Law

1. Reinsurance transactions - reinsurance contracts

a) General

The Group enters into reinsurance contracts ("reinsurance contracts") and facultative agreements ("selective agreements") ("facultative agreements") with various reinsurers (hereunder collectively – "the reinsurance transactions"). Reinsurance transactions are executed in the Company's various areas of activity, life assurance, health insurance and general insurance (property and liabilities insurance). Generali has a material part in reinsurance contracts and facultative agreements, as part of the reinsurance Generali provides to all the Generali group companies around the world. It is clarified that Generali does not take part in all the reinsurance transactions of Migdal Insurance and that part of Migdal Insurance's liabilities are not even ceded to reinsurers but remain as retention.

In the past Generali was an insurance company with a rating of AA- according to S&P, and from January 27, 2012, after a downgrading in the other agencies as well, it was also downgraded by S&P to "A". On July 17, 2012, the Company found out that Moodys downgraded Geneali's rating to Baa1. On July 24, 2012 Fitch approved Generali's rating at -A.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Generali Group – the Company's engagement with Generali or with whoever Generali has a personal interest

Chapter A - Transactions pursuant to Clause 270(4) to the Companies Law (Cont.)

1. Reinsurance transactions - reinsurance contracts (Cont.)

b) Annual approvals - reinsurance contracts

(1) Annual approval for the year 2012 - all the reinsurance contracts with Generali in general insurance, life assurance and health insurance for the year 2012, that are in the ordinary course of business and at market terms were approved on an annual basis. These transactions were classified as an "extraordinary transaction" in accordance with Section 270(4) of the Companies Law following the aggregate of the transactions being material. The transactions were submitted for approval in accordance with Regulation 1(5) of the Companies Regulations (Relief in Transactions with an Interested Party) – 2000 ("the Relief Regulations"). The undertaking is at market terms and in the ordinary course of business and does not impair the interests of the Company.

The Company's Board of Directors and Migdal Insurance approved the Company's engagement in reinsurance contracts for the year 2012 on December 27, 2011 after receiving the approval of the Company's Audit Committee and of Migdal Insurance from December 22, 2011. For the annual approval for the year 2012 see the Company's immediate report from December 28, 2011, ref. no. 2011-01-377178.

The Company and Migdal Insurance have established criteria and standards to make sure that all reinsurance contracts that Migdal Insurance will make with the Generali group according to this annual approval, are market conditions and these examinations are detailed in the immediate report mentioned above.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Generali Group – the Company’s engagement with Generali or with whoever Generali has a personal interest

Chapter A - Transactions pursuant to Clause 270(4) to the Companies Law (Cont.)

1. Reinsurance transactions - reinsurance contracts (Cont.)

b) Annual approvals - reinsurance contracts (Cont.)

(1) Annual approval for the year 2013 - all the reinsurance contracts in general insurance, life assurance and health insurance for the year 2013, that are in the ordinary course of business and at market terms were approved on an annual basis. These transactions were classified as an “extraordinary transaction” in accordance with Section 270(4) of the Companies Law following the aggregate of the transactions being material. The transactions were submitted for approval in accordance with Regulation 1(5) of the Relief Regulations. The undertaking is at market terms and in the ordinary course of business and does not impair the interests of the Company.

The Company’s Board of Directors and Migdal Insurance approved the Company’s engagement in reinsurance contracts for the year 2013 on January 14, 2013 after receiving the approval of the Company's Audit Committee and of Migdal Insurance from January 10, 2013. For the annual approval for the year 2013 see the Company’s immediate report from January 15, 2013, ref. no. 2013-01-013568.

The Company and Migdal Insurance have established criteria and standards to make sure that all reinsurance contracts that Migdal Insurance will make with the Generali group according to this annual approval, are market conditions and these examinations are detailed in the immediate report mentioned above.

It should be noted that the annual approval for the contracts of the year 2013 were approved as mentioned above, although it was after the transfer of control of the Company, for sake of prudence only, until the Company's legal stand will be outlined in relation to transactions with Generali, as detailed above.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Generali Group – the Company's engagement with Generali or with whoever Generali has a personal interest

Chapter A - Transactions pursuant to Clause 270(4) to the Companies Law (Cont.)

1. Reinsurance transactions - reinsurance contracts (Cont.)

c) Generali's rate of participation in premiums and exposure in reinsurance contracts

(1) General Insurance

Regarding the Generali's actual rate of participation in premiums and exposure in reinsurance contracts in the year 2012, as approved and as it actually was, as well as the maximum rate of participation that was approved in 2013 for general insurance, see the Company's immediate report dated January 15, 2013, Ref. No. 2013-01-013668.

(2) Financial information - general insurance contracts

The total reinsurance premiums that were transferred to the Generali Group regarding the coverage of reinsurance contracts in general insurance which are included in the annual approval for the year 2012, is about NIS 34 million, which form about 15% of the reinsurance premium regarding reinsurance contracts in general insurance in the said year.

The total insurance amounts for exposure to earthquakes which were transferred to Generali in the framework of reinsurance contracts in general insurance within the annual approval for the year 2012 is about NIS 193 million in MPL terms, which form about 9% of the total exposure to earthquakes, which is transferred in the framework of reinsurance contracts in general insurance in the said year.

The total reinsurance premiums and insurance amounts for exposure to earthquakes which will actually be transferred to Generali Group regarding the coverage of reinsurance contracts in general insurance which are included in the annual approval for the year 2013, will be determined according the volume of business that the Group will perform during the year 2013.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Generali Group – the Company’s engagement with Generali or with whoever Generali has a personal interest

Chapter A - Transactions pursuant to Clause 270(4) to the Companies Law (Cont.)

1. Reinsurance transactions - reinsurance contracts (Cont.)

c) Generali's rate of participation in premiums and exposure in reinsurance contracts (Cont.)

(3) Reinsurance contracts - life assurance health insurance and Long Term Care (LTC)

Regarding the Generali's actual rate of participation in premiums in reinsurance contracts in the year 2012, as approved and as it actually was, as well as the maximum rate of participation that was approved for the year 2013 in the area of life assurance, health insurance (including LTC), see the Company's immediate report dated January 15, 2013, Ref. No. 2013-01-013668.

It should be noted that in the areas of life assurance and health insurance, as well as LTC, in which the policies are long term policies, the reinsurance contracts usually cover (excluding catastrophe insurance contracts) the policies that will be sold from the year of approval and they are valid until the cancellation of the policies, even if the reinsurance contract is not renewed during the following years. Likewise, policies in the aforementioned areas of activity that were sold in previous years by Migdal Insurance are covered by previous years' reinsurance agreements (contractual and facultative), as well as with Generali, commencing from the 70's and onwards (hereunder - "the old portfolio").

The total amount of Generali Group's reinsurance premiums according to the above reinsurance contracts, in respect of a new business in the year 2012 (excluding an old portfolio) is about NIS 3.3 million, which forms about 37% of the total reinsurance premiums regarding reinsurance contracts in the area of life assurance and health insurance including LTC. In the framework of reinsurance contracts in the area of life assurance and health insurance, Migdal Insurance is entitled to profit participation commissions.

The Group did not engage in facultative agreements in life assurance and health insurance for a new business in the year 2012. Premiums in relation to engagement in facultative agreements that were signed in the past and are still in force, are included in the abovementioned premium amounts of the old portfolio.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Generali Group – the Company's engagement with Generali or with whoever Generali has a personal interest

Chapter A - Transactions pursuant to Clause 270(4) to the Companies Law (Cont.)

1. Reinsurance transactions - reinsurance contracts (Cont.)

c) Generali's rate of participation in premiums and exposure in reinsurance contracts (Cont.)

(3) Reinsurance contracts - life assurance health insurance and Long Term Care (LTC) (Cont.)

The total amount of Generali Group's reinsurance premiums regarding the coverage of reinsurance contracts in life assurance and health insurance including LTC that are included in the annual approval for the year 2013, will be determined according to the volume of the business that the Group will perform during the year 2013.

2. Reinsurance transactions - facultative agreements in reinsurance

a) Framework agreement for the years 2010 - 2012

Due to the large amount of facultative agreements and in order to make the Group's work procedures easier and more efficient and to establish general framework conditions for general insurance facultative reinsurance agreements with the Generali group, the Company's Board of Directors and Migdal Insurance, after receiving the approval of the audit committee, approved framework conditions for Migdal Insurance's engagement in facultative reinsurance agreements with the Generali Group for the years 2010 - 2012. The framework conditions also include criteria for examining market conditions and materiality, which all together comprise the framework conditions for the agreements.

Any facultative agreement with the Generali Group in the field of general insurance, which complies with the general conditions and meets the market conditions and does not deviate from the significant conditions as prescribed, will be considered as an "ordinary transaction" that does not require further approval of the Audit Committee and Board of Directors.

In addition, the framework agreement determines conditions, criteria and limitations as follows:

(1) Conditions and limitations that relate to the transferred premiums and the total volume of the facultative transactions each year; and

(2) Conditions and limitations that relate to the insurance amounts that will be transferred to the Generali Group (exposure); and

(3) Conditions and limitations that relate to a single transaction in property insurance and liabilities insurance; and

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Generali Group – the Company’s engagement with Generali or with whoever Generali has a personal interest

2. Reinsurance transactions - facultative agreements in reinsurance (Cont.)

a) Framework agreement for the years 2010 - 2012 (Cont.)

(4) Conditions that relate to the rating of Generali Group during the period of approval, and its compliance with the rating conditions of reinsurers as determined by the Company's Board of Directors; and

(5) The materiality conditions regarding the reinsurance premium amount which will be transferred to Generali Group for each facultative agreement; and

(6) Criteria and standards were set regarding the market conditions.

Each facultative agreement with Generali Group which meets the general framework conditions and meets the test of the market conditions and the materiality that were set-forth in the approval, will be considered as an "ordinary transaction" which does not require an additional approval of the Audit Committee and the Board of Directors. Whenever the general framework conditions are met, but in view of the circumstances, the market conditions test or the materiality condition set forth in the framework agreement are not met, the transaction will be considered as an "extraordinary transaction" which will require an approval pursuant to Regulation 1(3) to the Relief Regulations, after the Audit Committee and the Board of Directors will examine the details of the engagement.

The framework terms for the facultative agreements with Generali were approved by the Company’s general meeting on January 20, 2010.

For additional details regarding approval of the framework terms for facultative agreements as mentioned and the voting results of the general meeting, see the Company’s immediate reports from December 6, 2009 and January 20, 2010.

b) Special approvals - an approval of facultative reinsurance transactions in accordance with the Relief Regulations after Generali's rating was lowered

The Company's policy regarding the exposure to reinsurers includes various conditions regarding the reinsurer's rating, in respect of "short" tail and "long" tail, as well as conditions that restrict the ability to engage with any reinsurer above a certain volume of accumulated exposure, depending on the amount, the rating and the volume of its activity in Israel. In view of the decline in Generali's rating as specified in paragraph e.1 above, the Company is at a deviation versus the overall maximum exposure limit in accordance with the aforementioned policy. Accordingly, during the reporting year the Company gradually decreased the exposure to reinsurances in the Generali Group.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Eliahu Group – the Company’s engagement with Eliahu or with anyone Eliahu has a personal interest

Chapter A – transactions pursuant to Section 270(4) of the Companies Law (Cont.)

2. Reinsurance transactions - facultative agreements in general insurance (Cont.)

b) Special approvals - an approval of facultative reinsurance transactions in accordance with the Relief Regulations after Generali's rating was lowered (Cont.)

As long as the Company's exposure was higher than the cumulative exposure defined in the policy, no facultative reinsurance transactions with Generali were performed, for the sake of prudence, in accordance with the framework approval until after a detailed analysis of each transaction and a specific approval for each transaction.

The facultative agreements were presented to the Audit Committee and the Board of Directors of Migdal Insurance and the Company for their approval as “extraordinary” transactions, for the sake of prudence, in accordance with Regulation 1(5) to the Relief Regulations, even though they were performed during the ordinary course of business and under market conditions and they are essentially insignificant.

In accordance with the abovementioned, beginning from March 26, 2012 the Company’s Board of Directors and the Board of Directors of Migdal Insurance approved the engagement terms in the facultative_reinsurance agreements in various areas of insurance which were renewed every calendar month, beginning from April 1, 2012 up to the end of the reporting period.

The Board estimates that the non-renewal of these reinsurance agreements might have compromised both, the results of operations of the Company and its goodwill and customers, who have an ongoing relationship with the Company. However, the Company had difficulties to locate reinsurers who will offer competitive offers at the premium level offered by Generali, in relation to reinsurance agreements and as a result it was necessary to perform these transactions with Generali (instead of losing the transaction). For this reason and in light of the fact that these are engagements in transactions that were performed during the ordinary course of business, under market conditions, which are essentially insignificant, and do not compromise the Company, the authorized institutions approved the engagement despite the exception vis a' vis the maximum exposure limit according to Company policy regarding exposure to reinsurers.

It should be noted the these facultative agreements were presented for an approval, as mentioned above, even after the transfer of control of the Company, for sake of prudence only, until the formulation of the Company’s legal position in relation to transactions with Generali, as detailed in paragraph e.1 above.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest

Chapter A – transactions pursuant to Section 270(4) of the Companies Law (Cont.)

2. Reinsurance transactions - facultative agreements in general insurance (Cont.)

b. Special approvals - an approval of facultative reinsurance transactions in accordance with the Relief Regulations after Generali's rating was lowered (Cont.)

The total reinsurance premiums for the Generali Group in 2012 in connection with reinsurance coverage for facultative agreements is about NIS 127 million.

The total amount of insurance regarding exposure to earthquake which was transferred to Generali in respect of facultative agreements for 2012 is about NIS 37 billion.

Regarding the premiums rate transferred to the Generali Group from the total reinsurance premiums in 2012, in connection with general insurance facultative agreements during the said year, and its share in the exposure transferred in the facultative agreements in general insurance in the year 2012, see the Company's immediate report dated January 14, 2013 reference number 2013-01-013173.

For a description of the reinsurance agreements details, including their classification, for the sake of prudence, as an “extraordinary" transaction, their compliance with market conditions, during the ordinary course of business, and the reference to their significance, see the Immediate Report dated March 26, 2011 (Ref. No. 2012-01-080229); Immediate Report dated April 24, 2012 (Ref. No. 2012-01-108753); Immediate Report dated May 30, 2012 (Ref. No. 2012-01-140007); Immediate Report dated June 13, 2012 (Ref. No. 2012-01-154692); Immediate Report dated July 18, 2012 (Ref. No. 2012-01-188817); Immediate Report dated August 14, 2012 (Ref. No. 2012-01-209739); Immediate Report dated September 13, 2012 (Ref. No. 2012-01-238677); Immediate Report dated October 18, 2012 (Ref. No. 2012-01-259056); Immediate Report dated November 28, 2012 (Ref. No. 2012-01-292536); Immediate Report dated December 18, 2012 (Ref. No. 2012-01-313764).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest

Chapter A – transactions pursuant to Section 270(4) of the Companies Law (Cont.)

2. Reinsurance transactions - facultative agreements in general insurance (Cont.)

c. Special approvals - approval of facultative reinsurance transactions in the year 2013 accordance with the relief regulations

From the beginning of the year 2013, after the end of the reporting period and in light of the fact that the framework approval had expired, facultative reinsurance engagements which were performed during the ordinary course of business, under market conditions, which are not essentially significant, and do not compromise the Company, were presented for the approval of the Audit Committee and the Company's Board of Directors and Migdal Insurance. For a description of the details of the reinsurance agreements, including their classification, for the sake of prudence, as an "extraordinary" transaction, their compliance with market conditions, during the ordinary course of business, and the reference to the question of their significance, see the Immediate Report dated January 14, 2013 (Ref. No. 2012-01-013173); Immediate Report dated February 28, 2013 (Ref. No. 2013-01-050661); Immediate Report dated March 19, 2013 (Ref. No. 2013-01-011020).

3. Approval of an operation in which Generali has a personal interest

Prior to the acquisition of control of the Company by Eliahu and in light of the holdings of Mr. Eliahu in Bank Leumi and the Union Bank, on June 12, 2012, the Anti-Trust Director General published his decision to approve the transaction, subject to a condition prohibiting an engagement by the Company, including any person related to it, in an agreement with a related trading company for the execution of transactions in members' assets, in which the remuneration shall be paid from the members' assets, unless via a tender granting an equal opportunity for every trading company to participate in it, and the tender should include at least four trading companies (hereinafter: "the merger condition").

The merger condition applies to all trading companies (Stock Exchange members, that execute transactions for others in one or more of the following: securities, future contracts, foreign securities and foreign currencies) that the controlling shareholder in the Company holds at least 5% in them (which, as of the date upon which the control transfer transaction was carried out, as well as of the date of this report) are Bank Leumi and Union Bank.

On July 3, 2012 the Company's Board of Directors decided not to appeal against the merger conditions, after the Company's Audit Committee classified the decision as an "action" pursuant to Clause 255 to the Companies Law, in which Directors serving in Generali as well have a personal interest and which is not material. See Immediate Report dated July 3, 2012 (Ref. No. 2012-01-175143).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest

Chapter A – transactions pursuant to Section 270(4) of the Companies Law (Cont.)

3. Approval of an operation in which Generali has a personal interest (Cont.)

It should be noted that pursuant to a clarification received from the Anti-Trust Director General, on July 18, 2012 the option to extend an engagement that existed at the time between Migdal trust Funds Ltd. (the funds company) and Bank Leumi regarding the trading of derivatives abroad, was exercised ("the funds agreement regarding derivatives abroad"), without having to comply with the merger conditions, since such option was exercised before the actual completion of the control acquisition, and before it was known whether the control acquisition would be carried out and whether all the other necessary regulatory approvals would be received. The funds agreement regarding derivatives abroad was extended up to March 13, 2015.

On the basis of all the aforementioned, the engagement of the Group companies with the Leumi Group or with the Union Group regarding the performance of transactions with the members' assets regarding which the consideration is paid from the members' assets, except for the funds agreement regarding derivatives abroad up to March 13, 2015, is subject to the compliance with the merger conditions, in addition to the necessary approvals regarding this issue pursuant to the Companies Law.

4. Granting an exemption from responsibility and a liability for indemnification which was granted to the Company's officeholders who are serving as officeholders of the controlling shareholder's company

Pursuant to Clause 275 (1A) (2) to the Companies Law, regarding existing transactions in which the Company is a party to and the Company's controlling shareholder might have a personal interest in them, the Audit Committee decided on November 19, 2012, to limit up to November 30, 2020 (the period of about nine additional years from the date of approval by the Audit Committee and about fourteen years altogether from the date of the original decision regarding the exempt from responsibility and liability for compensation) the period of events during which the Company's existing exemption and indemnification arrangements will apply, insofar as they will not be replaced by other arrangements, as well as letters of exemption or indemnity that will be provided from time to time by the Company according to the arrangements for exemption and indemnification existing in the Company, in relation to the officeholders in the Company where the controlling shareholder of the Company might be regarded as having a personal interest for granting the exemption and indemnity letters, to those serving or will serve from time to time. For further details regarding the exemption period, see the Immediate Report the Company published on November 29, 2011 (Ref. No. 2011-01-344328). Also see Note 39 regarding this issue.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Eliahu Group – the Company's engagement with Eliahu or with anyone Eliahu has a personal interest

Chapter A – transactions pursuant to Section 270(4) of the Companies Law (Cont.)

5. Approval of updated indemnification letters for officeholders of the Company in which the controlling shareholder might be considered as having a personal interest to grant them the indemnity letter

On February 7, 2012, the Company's General Meeting approved the granting of updated indemnity letters to officeholders in a company in which the controlling shareholder, Generali Group, might be considered as having a personal interest therein, as appointed from time to time. These updated indemnity letters are the same as the indemnity letters that will be granted to all the Company's Directors and officeholders. Also see Note 39 in this respect.

For additional details regarding these indemnity letters, see the Immediate Report published by the Company on February 7, 2012 (Ref. No. 2012-01-036555).

6. Extension of the lease contract in Aachen

On September 22, 2008 the Company's audit committee approved the transaction with Generali ABM, a subsidiary of Generali in Aachen, Germany, to extend the leasing contract regarding the backup site in Aachen, Germany which provides services for Migdal's computer unit. This agreement was presented for reasons of caution for the periodic review of the Audit Committee on January 19, 2012, and was approved by the committee.

Chapter B – Transaction not mentioned in Section 270(4) to the Companies Law and are not insignificant

Regarding guidelines and principles for the classification of a controlling shareholder's transaction as an insignificant transaction pursuan to Regulation 41(a)(6) to the Securities Regulation (Preparation of the Annual Financial Statements), 2010 ("Insignificance Procedure"), see paragraph i below.

The Group engages, as mentioned, in facultative agreements with various reinsurers, and among others, with the Generali Group. The facultative agreements are prepared from time to time with respect to specific insurance engagements of Migdal Insurance with a particular customer or in relation to a specific coverage for that customer which is excessive and/or is higher than the coverage in the reinsurance contracts and/or due to individual underwriting considerations. Each of these reinsurance transactions are often insignificant transactions. However, the combination of all these transactions in not insignificant. A description of these reinsurance transactions is included in the framework of the approvals detailed above.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

f. Interested party

During the reporting period Bank Leumi was an interested party in the Company and held about 9.8% of the Company's shares. After the reporting period, in January 2013, Bank Leumi sold, on two different dates, about 5.1% of the Company's shares, and after these sales Bank Leumi holds 4.7% of the Company's shares. Regarding the engagement with Bank Leumi see paragraph g below.

g. Other related parties

1) Bank Leumi

Part A – Interested party transactions

1. During the ordinary course of business Migdal Insurance engages, among others, with an interested party of the Company, Bank Leumi, in transactions in which the management fees and tariffs that are collected from Bank Leumi employees who manage the pension insuranc, are determined, and this includes additional insurance coverages that are purchased alongside with the pension insurance, through Migdal Insurance.

2. Without qualifying the aforementioned, the Company and its subsidiaries entered into agreements, before the transfer of control in the Company to the Eliahu Group and before Bank Leumi was turned into a corporation in which the Company's controlling shareholders has a personal interest, with Bank Leumi and companies in the Leumi Group in a number of the Group's main areas of activity including insurance transactions, insurance brokerage, collection services, consultation for pension products, distribution of mutual funds, operation of pension products, financial services and in leasing of assets, as described below:

a) Insurance brokerage. Migdal Insurance paid Maalot Insurance Agency Ltd., from the Leumi Group, commissions in respect of brokerage of insurance products in the years 2010, 2011 and 2012 in the total amount of about NIS 4,639 thousand, NIS 5,019 thousand and NIS 5,686 thousand, respectively.

b) Collection services. Migdal Insurance collects, through Bank Leumi, and a bank clearing center, insurance premiums that are paid to the Company. The total amount of commission which Migdal Insurance paid in respect of the said services in the years 2010, 2011 and 2012, amounted to NIS 1,336 thousand, NIS 1,265 thousand and NIS 1,262 thousand, respectively.

c) Distribution agreements. Migdal Makfet is signed against Bank Leumi on agreements according to which it pays the bank distribution commission in respect of performing pension consultation transactions as defined in the Pension Products Consultation Law it manages. The total amount paid to the Bank Leumi in respect of the said services in the years 2010, 2011 and 2012, amount to NIS 3,922 thousand, NIS 4,128 thousand and NIS 3,641 thousand, respectively.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Other related parties (Cont.)

1) Bank Leumi (Cont.)

Part A – Interested party transactions (Cont.)

2. (Cont.)

d) Operating services. Leumi Capital Markets Ltd., from the Leumi Group. Leumi Capital Markets Ltd. provides operating services, computer services and management of members' rights for the provident funds and educational funds which management were transferred to the management of Leumi Capital Markets. The total amount paid to Bank Leumi in respect of the said services in the years 2012, 2011 and 2010 is NIS 8,460 thousand, NIS 12,000 thousand and NIS 11,170 thousand, respectively. For details regarding the extension of the agreement see paragraph 5 below.

e) Brokerage and custodian services. The Company and its subsidiaries acquire during the ordinary course of business brokerage and custodian services from companies in the Leumi Group. The payments for these services in the years 2010, 2011 and 2012 are NIS 907 thousand, NIS 1,086 thousand and NIS 1,619 thousand, respectively. Bank Leumi, acquires from a wholly consolidated company, Migdal Stock Exchange Services (N.E.) Ltd., brokerage services. The payments for these services in the years 2010, 2011 and 2012, are NIS 505 thousand, NIS 732 thousand and NIS 717 thousand, respectively.

f) Deposits, bonds and capital notes. From time to time the Company and its subsidiaries make long term and short term deposits and hold cash balances and short term deposits with Bank Leumi, which is an interested party of the Company and purchases bonds and capital notes.

g) Mutual funds distribution commission. Migdal Mutual Funds Management Ltd., a company owned by Capital Markets, marketed mutual funds through Bank Leumi. The total amount paid to Bank Leumi in the years 2012, 2011 and 2010 is NIS 11,366 thousand, NIS 12,282 thousand and NIS 12,762 thousand, respectively.

h) Leasing of assets. The Company and its subsidiaries rent to the Leumi Group companies, Bank Buildings Ltd. and Bank Clearing Center Ltd., a number of assets across the country. The leasing fees in respect of these assets amounts to NIS 3,229 thousand in the reporting year.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Other related parties (Cont.)

1) Bank Leumi (Cont.)

Part B – Transactions pursuant to Section 270(4) to the Companies Law

3. Bank activities – treasury and current investments with Bank Leumi

After the reporting period, in January 2013 the Company's Board of Directors approved that the Group companies, except for Capital Markets, may engage, among others, with the Leumi Group in the framework of the treasury activities and current investments of the Company and the companies it controls. This activity was performed in the past, however, from the date of transfer of control of the Company, and in light of the fact that the Company's controlling shareholder has a personal interest in Bank Leumi, this activity requires approvals which were not required in the past.

Since the market conditions change from one engagement to anothr, conditions were set in relation to significant transactions under which it will be possible to ensure that the engagements are done under market conditions. These criteria were determined, among others, after considering the volume of the Group’s assets, the volume of its transactions and activities including the activities that are relevant to the type of transaction, the frequency of the transactions that are considered and the existence of many similar transactions in the customers' money management market and granting services in the capital market as a whole and specifically in the group, the volume of transactions and their effect on the Group’s activities and its business results and the practices engaged by the Group.

Approved engagements are the engagements during the ordinary course of business and under market conditions. In addition, the approved engagements included conditions that if they are fulfilled it will be possible to ensure that the engagements are under market conditions that do not deviate from the generally accepted conditions for similar transactions with other banks.

These criteria were determined, among others, after taking into consideration the volume of the Migdal Group assets, the volume of its business and activities, including the relevant activities for the type of transaction, frequency of the transactions that are related to, existence of similar transactions in the market, the volume of the transactions and their effect on Migdal Insurance Group’s activities, its business results and the practices engaged by Migdal Insurance Group. In addition, each of such individual engagement and commissions paid for it to the bank, have no significant effect on the Company’s profitability, its property or its liabilities. Therefore, the approved engagements are defined, subject to the following, as engagements which are not “extraordinary transactions”. Nevertheless, due to the volume of the managed and/or deposited assets with the bank and/or volume of activity performed through them in respect of unquoted derivatives and for sake of prudence, the Company decided to classify the engagement for managing a bank account, deposits, receipt of securities custodian services and activities in OTC as significant engagements.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Other related parties (Cont.)

2) Bank Leumi (Cont.)

Part B – Transactions according to Section 270(4) to the Companies Law (Cont.)

3. Bank activities – treasury and current investments with Bank Leumi (Cont.)

In addition, for sake of prudence, it was decided to also regard the engagements between the Bank and the funds who manage only one bank account as a significant engagement. Accordingly, and for sake of prudence only, as noted above, these engagements were classified as significant transactions and hence they are regarded as "extraordinary transactions" (hereunder together – "the engagements classified as significant").

In view of the aforementioned, the transactions that were classified as significant were presented for approvals pursuant to Regulation 1(5) to the Reliefs Regulations (Engagement Under Market Conditions, during the ordinary course of business and does not compromise the Company). Also see the Immediate Report dated January 30, 2013 (Ref. No. 2013-01-025002).

The engagements will be re-examined and approved once in three years or following any change in circumstances.

Part C - Transactions not accounted for in Clause 270(4) to the Companies Law and are not insignificant

4. Insurance of the assets of Bank Leumi's borrowers

On January 10, 2013 the Company's Audit Committee and the Audit Committee of the Migdal Insurance approved the Company's engagement in a transaction to insure the assets of Bank Leumi's borrowers. The insurance period is for 12 months in the year 2013 and the expected premium is about NIS 11,000 thousand in respect of which Migdal Insurance will pay to Bank Leumi the maximum commission as prescribed by law.

The Audit Committee discovered that the transaction is not "exceptional". The engagement is part of Migdal Insurance's ordinary course of business in the field of insurance. The terms of the transaction are according to the market conditions in light of the payment of commission at a similar rate for insurance of borrowers' assets which the Company performed this year with another bank (which is not a related party).

The transaction is insignificant since there is a full reinsurance coverage in its respect. The premium for the transaction does not exceed 2% of the total general insurance premiums of the Company. In this respect, the last reported total annual premiums is for the year 2011, as well as the total premiums as at 9/2012 and they are calculated on an annual basis. This transaction is reported in the Immediate Report dated January 13, 2013 (Ref. No. 2013-01-011751) in light of the classification of the transaction as a transaction that is not "insignificant" in accordance with the classification that was determined by the Company's Board of Directors as detailed in paragraph i below.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Other related parties (Cont.)

1) Bank Leumi (Cont.)

Part C - Transactions not accounted for in Clause 270(4) to the Companies Law and are not insignificant (Cont.)

5. Extension of the Provident funds operation agreement

On January 14, 2013, after the reporting period, and after the approval of the Company's Audit Committee on January 2, 2013, the Company's Board of Directors approved the engagement of Migdal Makefet with Leumi Capital Market Services Ltd., of the Leumi Group, in an agreement for receiving operating services for all the provident and educational funds managed by Migdal Makefet, whose main points are as follows: to transfer the provident funds managed by Migdal Makefet and were managed up to then by another operator, to the operation of Leumi Capital Markets; an update of the appendix to the operating services and its modification according to the changes in regulations that applied since the date of signing the original agreement; conversion of the funds that were not included in the original operating agreement to the systems of Leumi Capital Market. A commission will be paid in return for the operating services, as a function of the volume of the operated assets and it will not be higher than the annual rate of 0.07% of the assets of Migdal Makefet that are operated by Leumi Capital Markets.

The agreement is for the period of three years.

The engagement in the operating agreement is an engagement during the Company's ordinary course of business, in market conditions and in the Company's favour. Nevertheless, and for sake of prudence only, this transaction was classified as significant an thus as an "extraordinary transaction". In view of the aforementioned, the engagement was presented for approval pursuant to Regulation 1(5) to the Reliefs Regulations (Transaction Under Market Conditions, during the ordinary course of business and does not compromise the Company). Also see the Immatiate Report dated January 15, 2013 (Ref. No. 2013-01-013635)

2) Union Bank

1. After the change in the Company's controlling shareholder on October 29, 2012, the Union Bank became the Company's related party and a corporation in which the Company's controlling shareholder has a personal interest. The financial data regarding the Company's transactions with the Union Group are beginning from the date the control of the Company was changed as mentioned above. The data in the above tables do not include information regarding the period prior to the change in control in the Company as mentioned.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Other related parties (Cont.)

2) Union Bank (Cont.)

Transactions pursuant to Clause 270(4) to the Companies Law

2. After the reporting period, in January 2013, the Company's Board of Directors approved that the Group companies, apart from Capital Markets, will engage, among others, with the Union Group, in the framework of the activities of the Treasury and the current investments of the Company and the companies under its control. This type of activity was performed in the past, however, from the date of transfer of control of the Company, this activity requires approvals that were not required in the past.

Since the market conditions differ from one engagement to another, certain conditions were determined regarding significant transactions and when they are fulfilled it will be possible ensure that the engagement is performed under market conditions. These criteria were determined, among others, after considering the volume of the Group's assets, the volume of its business and activities, including the activities that are relevant to the type of transaction, the frequency of these transactions and the existence of many other similar transactions in the market of management of customers' monies and granting services in the capital market as a whole and specifically in the Group, the volume of the transactions and their impact on the Group's activity and its business results, as well as the practices according to which the Group operates.

The engagements that were approved are engagements during the ordinary course of business and under market conditions. In addition, the approved engagements included conditions that when they are fulfilled it will be possible to make sure that the engagements are performed under market conditions that do not deviate from the standard conditions in respect of similar transactions with other banks. These criteria were determined, among others, after considering the volume of the assets of Migdal Insurance Group, the volume of its business and activities, including the activity that is relevant to the type of transaction, the frequency of the transactions under consideration, the existence of similar transactions in the market, the volume of the transactions and their affect on the activities of Migdal Insurance Group and its business results, as well as the practices that are utilized by the Migdal Insurance Group. In addition, each of these engagements, as well as the commissions that are paid in its respect to the bank do not have a material affect of the Company's profitability, its property or its liabilities. Therefore the engagements that were approved were defined, subject to the aforementioned, as engagements that are not "extraordinary transactions".

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Other related parties (Cont.)

2) Union Bank (Cont.)

Transactions pursuant to Clause 270(4) to the Companies Law (Cont.)

2. (Cont.)

Nevertheless, due to the volume of the assets that are managed and/or deposited with the bank and/or the volume of activity that is performed through them regarding unquoted derivatives and for the sake of prudence, the Company decided to classify the engagement for the management of a bank account, for making deposits, to receive securities custodian services and activities in unquoted securities (OTC), as significant engagements, In addition, for sake of prudence, it was decided to also regard the engagements between the banks and the funds that manage one bank account, as a significant engagement. Based on the aforementioned and for sake of prudence only, as mentioned above, these engagements were classified as significant transaction and thus as "extraordinary transactions" (hereunder together:"engagements that were classified as significant"). In view of the aforementioned, the engagements that were classified as significant were presented for an approval pursuant to Regulation 1(5) to the Reliefs Regulations (Engagements Under Market Conditions) during the ordinary course of business, which does not compromise the Company.

The engagements will be re-examined and approved once in three years or when there is any change in the circumstances. See also the Immediate Reprot dated January 30, 2013 (Ref. No. 2013-01-025002).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

h. Affiliates

1. Regarding investments in affiliates and dividend distribution by the affiliates see Note 7, Investments in Investees

2. In June 2009, a wholly consolidated company, Migdal Real Estate Holdings Ltd., granted an affiliate, Ramat-Aviv Mall Ltd., a loan in the total amount of about NIS 142,000 thousand. Part of the said amount (about NIS 76,000 thousand) was held against an allocation of capital notes. The said amount is not linked to the CPI and does not bear interest. The capital note is reported in the financial statements at its present value (NIS 65,232 thousand) linked to the consumer price index. An additional portion (about NIS 67,000 thousand) was given against the allocation of shares that can be redeemed under certain conditions. These shares were redeemed during the course of 2010.

3. In November 2010 an affiliate, Ramat-Aviv Mall Ltd., granted a wholly consolidated company, Migdal Real Estate Holdings Ltd., a loan in the total amount of NIS 64,000. This amount is linked to the CPI and bears interest at the rate of 4.2% and will be settled in five equal annual installments beginning from November 2011. At December 31, 2012, the outstanding loan is about NIS 40,000 thousand.

4. The Company paid an affiliate, Reshef Insurance Agency (2004) Ltd., commission for marketing insurance products and pension products in the years 2012, 2011 and 2010 in the total amounts of about NIS 3,063 thousand, NIS 2,960 thousand, and NIS 2,165 thousand, respectively.

5. The Company paid an affiliate, Orlan Insurance Agencies (1994) Ltd., commissions for marketing insurance products and pension products in the year 2012 in the total amount of about NIS 2,278 thousand,

i. The Company's policy regarding negligible transactions

1. The Company's Board of Directors has adopted guidelines and principles for the classification of a transaction of the Company or a company under its control ("the Group") pursuant to Regulation 41 (a) (6) of the Securities Regulations (Preparation of Annual Financial Statements), 2010 ("Negligible Procedure ") . These principles and guidelines are also used to examine the scope of the disclosure and reporting required pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970 ("The Reporting Regulations") for public companies in connection with transactions with interested parties and/or controlling shareholders, both in periodic report as determined in Regulation 22 to the Reporting Regulations, as well as for examining the necessity for an immediate reporting framework regarding such transaction, as determined in Regulation 37 (a) (6) to the Periodic Reports Regulations.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. The Company's policy regarding negligible transactions (Cont.)

2. On March 26, 2012 the Company's Board of Directors decided to update the guidelines and rules for classification of an insignificant transaction, as detailed below:

   The Group conducts or may conduct transactions with a controlling shareholder during the ordinary course of business, including, but not only, the following types of business and characteristics: reinsurance transactions, both reinsurance contracts and facultative agreements, acquisition of assets, leasing of real estate, acquisition of products and services via a controlling shareholder, cooperation including in relation to joint investments, receipt of financial or economic services. It should be clarified that the abovementioned transactions do not constitute a final list.

   The Company's Board of Directors prescribed, that a transaction of a controlling shareholder of the Company or its subsidiaries will be considered as an "insignificant transaction", if it has all the following conditions:

   (1) It is not an extraordinary transaction (as implied in the Companies Law).

   (2) In the absence of special considerations under the circumstances, a controlling shareholder's transaction, will be considered as insignificant if:

      a. The scope of any transaction does not exceed NIS 8 million and in a reinsurance transaction (the volume of the premiums transferred to the insurer after deducting commissions it pays to the Company), the controlling shareholders' share does not exceed NIS 4 million, and these amounts are adjusted to the increase of the known CPI as at January 2012 and -

      b. The results of its easurement versus the relevant criteria (one or more), as noted below, is less than half a percent (0.5%).

         The relevant criteria for examining the classification of a certain transaction with a controlling shareholder in an insignificant transactions is:

         - During the sale of insurance or acquisition of reinsurance – premium ratio.
         - During the acquisition of an asset – asset ratio. During the sale of an asset – profit ratio, asset ratio.
         - During the acquisition/sale of products or other services – income or expense ratio in respect of services, as applicable.
         - Receipt of monetary liability – liability ratio.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. The Company's policy regarding negligible transactions (Cont.)

2. (Cont.)

Regarding this matter:

Premium ratio means: the premiums of the event divided by the amount of the annual premiums in the relevant activity segment (life assurance and long term savings, health insurance, general insurance), calculated on the basis of the last 4 quarters for which audited or reviewed financial statements were published.

Asset ratio means: the volume of assets in the event (acquired or sold assets), divided by the amount of assets; the ratio will be measured separately in relation to members monies under group management and in relation to the Nostro monies.
In the event of a joint transaction of the members and Nostro monies, the relevant ratio will be examined separately regarding each type of asset in accordance with the total amount of the Nostro/members' share, whichever relevant to the transaction, versus the total assets, Nostro/members monies, whichever relevant, according to the last audited/reviewed financial statement.

Profit ratio means: the profits or losses attributed to the event divided by the annual comprehensive profit or loss for the period (including changes in capital funds) the average in the last three calendar years.

Liabilities ratio means: the liability in relation to the event divided by the amount of liabilities according to the last known audited/reviewed financial statements.

Shareholders' equity ratio means: the increase or decrease in the shareholders' equity divided by the shareholders' equity according to the last known audited/reviewed financial statements.

The income ratio from various services means: the scope of income relating to the event divided by the annual average annual income during the last three years which are not from premiums, are calculated on the basis of the last four quarters for which audited or reviewed financial statements were published.

The expenses ration in respect of various services means: the volume of expenses in relation to the event divided by the annual administrative and general expenses, calculated on the basis of the last four quarters for which audited or reviewed financial statements were published.

In relation to perennial transactions, the volume of the transaction for the purpose of examining the insignificance, will be calculated on an annual basis, for example, in an insurance transaction for several years, the annual insurance premiums paid or collected will be considered as as the transaction's volume.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. The Company's policy regarding negligible transactions (Cont.)

2. (Cont.)

Regarding this matter: (Cont.)

In cases where, at the Company's discretion, all quantitative criteria mentioned above are not relevant for the examination of the insignificance of the controlling shareholder's transaction, the transaction will be considered insignificant in accordance with another criteria that will be determined by the Company, provided that the relevant criteria calculated for the transaction will be less than 0.5% and the scope of the transaction will not exceed NIS 8 million, and this amount will be linked to the CPI as mentioned above.

The examination of the qualitative considerations of the controlling shareholder's transaction may lead to the classification of the transaction as not insignificant despite the above mentioned. So for instance, and only for example, a controlling shareholder's transaction will not generally be considered as insignificant if it is regarded as a significant event by the Company's management and serves as the basis for making management decisions or if in the framework of a controlling shareholder's transaction the controlling shareholders are expected to receive benefits which are important to report about them to the public.

A transaction that was classified by an investee of the Company will be considered as insignificant also on the Company's level. Such a transaction which was classified by the investee as not insignificant will be examined versus the relevant criteria at the Company's level.

The Company's Board of Directors will examine the need to update the provisions of this procedure from time to time, taking into account transactions with controlling shareholders in which the Company is engaged and changes in the relevant provisions of the law.

j. Benefits to key management personnel

	Year ended December 31,					
	2012		2011		2010	
	Number of people	Amount	Number of people	Amount	Number of people	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Short-term benefits	12	21,057	11	22,808	11	26,647
Post transaction benefits	12	3,241	10	335	11	2,649
Other long term benefits	10	408	7	454	8	468
Share based Payment (see Note 33)	12	2,950	11	4,002	10	4,642
		27,656		27,599		34,406

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

k. Benefits to Directors not employed by the Company

	Year ended December 31,					
	2012		2011		2010	
	Number of people	Amount	Number of people	Amount	Number of people	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Management fees for those not employed in the Company on its behalf	16	6,838	14	6,558	14	6,227
Share based payment (see Note 33)	1	488	1	750	1	1,033
		7,326		7,308		7,260

Officeholders of the Company might purchase, from time to time, insurance contracts, investment contracts or other financial products issued by the Group under market conditions, during the ordinary course of business.

Remuneration and benefits to key management personnel and interested parties (including Directors)

Some of the Directors and key management personnel of the Company are entitled to a bonus, salary, non-cash benefits (such as a vehicle, medical insurance, etc.).

Key management personnel also participate in the program of options into shares of the Company. For more information, see Note 33 regarding share-based payment arrangements.

Full details regarding remuneration and benefits to key management personnel:

For details about waivers and indemnity letters to Directors and other officeholders of the Company, which were granted by Migdal Holdings and by interested parties of the Company (Generali, Bank Leumi, Leumi Real Estate Holdings Ltd.) (formerly - Sal Holdings Ltd.) owned by the Bank Leumi), see Note 39. b.2. d.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities

a) Preface

Hereunder, in paragraphs b' to d' (inclusive) there are details regarding legal and other material proceedings against the Company and/or subsidiaries which are not in the ordinary course of their business (hereunder - "the proceedings"). In the framework of the proceedings, in paragraph b' below, there is a description of outstanding requests to approve claims as class actions, including claims that were approved to be filed as class actions. Paragraph c' below includes class actions that have ended during the reporting period and paragraph d' below includes legal and other proceedings.

In proceedings which Management believes, based, among others, on the legal opinion it received, it is more likely than not that the defense arguments of the Company and/or the subsidiaries will be accepted and the proceeding will be rejected (the case itself will be rejected, or if a there is a request for a class action, the court will reject the approval as a class action), no provision was included in the financial statements. In proceedings in which it is more likely than not that the defense arguments of the Company and/or the subsidiaries, as a whole or in part will be rejected, provisions for covering the exposure estimated by the Company and/or the subsidiaries were included in the financial statements. With respect to proceedings that are in the preliminary stage and it is not possible to estimate the chances of the proceedings, no provision was included in the financial statements. If the Company and/or the subsidiaries are willing to come to a compromise in any of the proceedings, a provision in the amount of the compromise to be reached is included in the financial statements, even if it is more likely than not that the defense arguments of the Company and/or the subsidiaries will be approved or the proceedings are at a preliminary stage in which it is not possible to estimate the chances of the proceedings.

In respect of requests to approve claims as class actions as described in paragraph b' below, which were approved as class actions by the District Court, the financial statements include provisions for covering the exposure estimated by the Company and/or the subsidiaries, unless the Management believes, based among others, on the opinion of their legal advisors, it is more likely than not that the defense arguments of the Company and/or the subsidiaries regarding the claim itself will be approved and the claim, even if it will be deliberated as a class action, will be rejected.

The Management believes, based, among others, on the legal opinion it received, adequate provisions were included in the financial statements, where the provisions were necessary to cover the exposure estimated by the Company or the subsidiaries, or a provision in the amount the Company and/or the subsidiaries will be willing to come to a compromise, whichever is relevant.

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions

During the last few years there was a considerable increase in the requests to approve claims as class actions that were filed against subsidiaries of the Company, as well as in the number of claims against subsidiaries that were approved as class actions. This is part of the general increase in requests to approve claims as class actions as a whole, and it also applies to companies that are engaged in the same activities as the subsidiaries, mainly due to the legislation of the Class Actions Law, 2006. This trend significantly increases the potential exposure of the Company and/or the subsidiaries to losses in the event of the approval of class actions against the Company and/or the subsidiaries.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Requests to approve claims as class actions are filed through a procedural apparatus pursuant to the Class Actions Law, 2006 (hereunder - the Class Actions Law). The procedural proceedings in respect of the requests to approve claims as class actions is divided into two main stages: first, the stage of deliberating the request to approve the claim as a class action (hereunder - "the request for approval" 1 - "the approval stage", respectively). If the request for approval is absolutely denied - the deliberation stage is ended regarding the class action level. A request for permission to appeal can be filed to the appellate levels in respect of a decision that was made at the approval stage. At the second stage, if the request for approval is approved, the class action will be deliberated (hereunder - "the stage of the claim as a class action"). An appeal against a verdict at the stage of the claim as a class action can be filed to the appellate levels. Pursuant to the Class Actions Law, the apparatus consists of, among others, specific arrangements regarding compromise agreements, in the approval stage as well as in the stage of the claim as a class action. It also contains arrangements in respect of the plaintiff's resignation from the request for approval or from the class action.

The requests to approve claims as class actions detailed below are in various stages of the deliberation process and some are in the process of appeal. Regarding the requests to approve claims as class actions detailed in paragraphs 28 - 29 below, at this preliminary stage it is not possible to estimate the chances of the requests to approve claims as class actions and hence no provision for these requests were included in the financial statements.

The amounts of the following claims are reported at the amounts valid at the date they were filed, unless stated otherwise.

Hereunder are details of applications to approve claims as class actions

1. In September 1999, a claim against Migdal Insurance was filed with the Tel Aviv Jaffa District Court, together with a request to approve the claim as a class action, regarding the use of mortality tables A49-52. The claim was filed by a life insurance policyholder of Migdal Insurance, under the allegation that old mortality tables were used in computing the premiums of its life assurance policies. The claim was filed in connection with contractual allegations, unlawful enrichment, violation of the Consumer Protection Law, and pursuant to the Financial Services Supervision Law (Insurance), 1981. The Court was requested to declare that the plaintiff is entitled to cancel the insurance agreements with Migdal Insurance and/or is entitled to take all remedies that follow from breach of contract. In his claim or in the request for approval, the claimant did not include an estimate of the remedies demanded for the group he wishes to represent.

   The District Court rejected in limine the claim and the request for approval. The plaintiff appealed against this decision to the Supreme Court. The Supreme Court accepted the appeal and ruled that there had been no justification to dismiss the claim in limine. Therefore, the case was remanded in order to consider the request for approval.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

1. (Cont.)

According to the court's decision it was determined that the deliberations with respect of this claim will be in the Central District Court, together with another class action that was filed against Migdal Insurance (No. 2 below).

In the consolidated case, a request to reject both claims in limine due to limitations, was filed with the District Court. The District Court approved part of the request and determined that the causes for the claims should be limited and restricted to Sections 55 and 58 of the Law for Supervision of Insurance Businesses (Amendment No. 7), 1997 only, as well as to limit the members of the group (class) accordingly to only a party that acquired life assurance policies commencing from the start of the Law, namely, from August 5, 1997.

The plaintiff filed an appeal against on the District Court's above decision, and the case is set for deliberation before the Supreme Court on July 15, 2013. The deliberation of the case in the District Court was postponed until there will be a decision regarding the appeal.

2. In December 2003, a claim against Migdal Insurance was filed with the Tel Aviv-Jaffa District Court together with a request to approve the claim as a class action. This claim, like the preceding one, deals with the issue of mortality tables (as detailed in paragraph (1) above).

The claim is in respect of Migdal Insurance's non disclosure its use of out of date mortality tables (A-49-52), in determining premiums in life assurance and the use of updated mortality tables for the payment of annuities, and in respect of non-disclosure of the commission amounts included in the payments collected from policyholders. the Plaintiff estimated the amount of the claim at about NIS 900 million.

The deliberations of this claim were together with the deliberations of the claim in paragraph 1 above, at the Central District Court.

The District court rejected in limine the request to approve the claim as a class action due to limitations. The plaintiff filed an appeal against the verdict to the Supreme Court and it is scheduled to be deliberated on May 29, 2013.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

3. In April 2006 a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance together with a request to approve the claim as a class action with respect to the illegal charging of a premium for the risk component and expenses of managers insurance policies in the period between filling out the insurance proposal and the date Migdal Insurance actually approves the proposal. The group the plaintiff wishes to represent is all the holders of risk (managers or pure) life assurance policies of Migdal Insurance who entered into an insurance contract with Migdal Insurance and paid Migdal Insurance risk fees in the premium for the interim period before the insurance contract entered into effect, during the last seven years prior to filing the claim. The plaintiff claims the amount of NIS 234 and estimates the damages to the group to amount to half of the amount of the risk component and expenses in the policy which the group members had to pay during the said period. However, the request for approval does not include an estimate of the total damage that according to the plaintiff was caused to the group. The deliberation of this claim was held together with claim No. 4 below.

   The parties to this claim and to claim No. 4 below, filed a request to the court to approve a compromise arrangement in which the representing group and the benefits to be granted to its members were defined. The amount of the refund in the compromise arrangement is based on the opinion of an expert who was appointed by the court. The parties are waiting for the court's decision regarding the request to approve the compromise arrangement.

4. In May 2007, a claim was filed with the Tel Aviv-Jaffa District Court against Migdal Insurance, together with a request to approve the claim as a class action which are similar to the claim and request to approve the claims as a class action detailed in (3) above. The claim is with respect to the illegal charging of a premium for the risk component of managers insurance policy, for the period commencing from the first day of a certain month (the month in which the policyholder signs the insurance proposal) and up to the date the policyholder actually paid the premium for the first time, and at least up to the date of the policy’s inception by Migdal Insurance.

   The group that the plaintiff wishes to represent includes all the life insurance policyholders who paid premiums from the 1st of the month in which the fist engagement was created, instead of starting to collect the premium from the date the insurance contract reached the stage of a binding contract and the insurance coverage had begun, during the last seven years prior to filing the claim. The plaintiff also contends that if it turns out that Migdal Insurance collects premiums as mentioned above also in other types of insurance, the court is requested to include these policyholders with the group members.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

4. (Cont.)

The remedy sought is: to instruct Migdal Insurance to refund to all the group members for the excess premium that was collected from them, as mentioned and to determine that the date from which Migdal Insurance is allowed to collect insurance premiums from its policyholders is the date the insurance premiums are actually paid for the first time by the policyholder; or alternatively, to determine that the date from which Migdal Insurance is allowed to collect insurance premiums from its policyholders is the date on which Migdal Insurance receives the policyholder's insurance offer and agrees to be engaged with an insurance policy agreement with him. The court is also requested to determine that the refund will also apply to sums that were collected, as mentioned, by Migdal Insurance upon changes and/or upgrades of the policy in which a retroactive charge was made during the month in which the change or upgrade were performed, and to order a special compensation, expenses and legal fees.

The plaintiff contends that the personal damage amounts to NIS 272 and according to his calculations, the overall damage that was caused to the requested group for representation amounts to NIS 40.5 million.

The deliberation of this claim was together with claim No. 3 above. The parties filed a request to the court to approve the compromise arrangement in this claim and in claim No. 3 above. The compromise arrangement defined the represented group and the benefit to be granted to its members. The parties are waiting for the court's decision regarding the request to approve the compromise arrangement.

5. In April 2006 a claim was filed against Migdal Insurance with the Tel Aviv District Court together with a request to approve the claim as a class action. The plaintiffs contend that Migdal Insurance had collected insurance premiums in respect of a disability insurance policy until the end of the insurance period, including the last three months of the insurance period according to the policy, even though the policyholders could not have received any insurance benefits during that period according to the policy terms, even if an insurance event had occurred. The Court was requested to order Migdal Insurance to cease collecting insurance premiums in respect of the said period and to order it to refund the insurance premiums it had collected from the group members in respect of the aforementioned period with the addition of linkage differences and interest as stated in Section 28(c) of the Insurance Contract Law from the date of the claim until the actual date of refund. The plaintiffs contend that according to an expert opinion they received, the initial estimate of the damage for 1998-2004, which includes the damage, they contend, was caused by Migdal Insurance and the other insurance companies amounts to NIS 47.61 million, out of which the amount that is demanded from Migdal Insurance is NIS 19.2 million.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

5. (Cont.)

The District Court approved the claim as a class action and in its decision it determined that the remedy will be the refund of the insurance premium Migdal Insurance actually collected from its policyholders in the policy for the last three months of the policy, with the addition of linkage differences and interest from the date of collection and up to the actual refund. Migdal Insurance filed a request for permission to appeal against the decision to the Supreme Court. On January 21, 2013, the request for permission to appeal was deliberated in the Supreme Court and the parties are waiting for the court's decision regarding the request. The proceedings in the District Court were stayed until a decision is made regarding the request for permission to appeal.

6. In May 2006 a claim was filed against Migdal Insurance with the Tel Aviv Jaffa District Court, together with a request to approve the claim as a class action. The main allegation in the claim is that in matters relating to the insurance coverage for accident disability that is included in the life assurance policy of Migdal Insurance, Migdal Insurance customarily lowers its liability by using a formula that significantly reduces the rate of compensation, which results in the compensation not being paid according to the rate of disability that was determined but a much lower compensation, and thus the defendant limits its liability according to the policy. The group for which the class action is filed includes any person who is insured or is a beneficiary or who was insured or was a beneficiary during the seven years prior to filing the claim, with a policy that provides coverage for accident disability, which states that the compensation is the amount of insurance as stated in the policy according to the appropriate percentage of disability that was or will be determined, but notwithstanding the compensation was paid to him according to a lower rate of disability that was determined. The remedy requested for the entire group members is the payment of the difference between the amount of compensation the plaintiff contends is due according to the policy and the amount of compensation that was actually paid. The claimant contends that his personal damages amount to about NIS 11 thousand. The request for approval does not include an estimate of the damage caused to the group and the plaintiff alleges that this is due to the lack of information required in order to estimate the overall damages.

The court approved the claim as a class action and it determined that Migdal Insurance reduced its liability by utilizing a certain formula whereby it reduces the rate of compensation that is due to the policyholder according to the accident disability appendix. The court determined that the remedy in this case will be the supplementation of the compensation that is due to each of the plaintiffs to the full amount of insurance, multiplied by the disability percent that was determined and this will apply to all those who purchased an accident disability policy of Migdal Insurance and received during the relevant years (which were not specified in the decision) insurance benefits that are not equal to the multiplication of the partial and permanent disability that was determined by the Company's doctor at the maximum amount of insurance (hereinafter – "the approval decision").

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

6. (Cont.)

Migdal filed a request for permission to appeal against the District Court's decision. The Supreme Court approved the claim as a class action including all the causes for the claim in the request for approval, except for the cause of misleading, as well as pursuant to Section 55 to the Financial Services Supervision Law (Insurance), 1981, and in the only remedy of supplementing the insurance benefits to the amount of insurance benefits that should have been paid according to the interpretation that was adopted by the court. The case was returned to the District Court to deliberate the claim. The District Court transferred the case for medication proceedings.

7. In April 2007 a claim was filed with the Tel Aviv Jaffa District Court, together with a request to approve the claim as a class action, against Migdal Stock Exchange Services (Securities) Ltd. (hereunder – Stock Exchange Services") and against a number of banks and other stock exchange members (hereunder – the defendants). Stock Exchange Services is a company held, indirectly, and wholly owned by the Company. The claimants contend that they own participation units in various mutual funds that were managed by subsidiaries of the defendants, including participation units in mutual funds managed by subsidiaries of the banks and that were sold, among others, to stock exchange members.

The grounds for the claim is, among others, collection of commission in respect of the acquisition and sale of securities (brokerage commission) and/or foreign exchange rate differences in respect of the acquisition/sale of foreign currency, from the mutual funds managed by the subsidiaries of the aforementioned entities, at rates that are considerably higher than the rates that were collected from their other clients.

In addition, it was also alleged that in the framework of the transactions for the acquisition of the mutual funds from the banks, subsidiaries of the stock exchange members agreed that the banks will continue to serve as the securities agents of the mutual funds that were sold, hence enabling the banks to continue collecting excessive commissions, unlawfully. In doing so, the claimants' claim that the defendants allegedly acted, among others, against the provisions of Section 69 to the Law for Joint Investments in Trust. The group that the claimants wish to represent consist of all those who acquired, hold and/or held during the periods relevant to the claim, participation units in mutual funds managed by the managers of mutual funds that were and/or are controlled by any of the defendants. The personal damage that was caused to the claimants, as they allege, amounts to the total sum of about NIS 1.7 thousand. The alleged damages estimated by the plaintiffs for the relevant period (from January 1, 2004) in respect of all the defendants at NIS 386 million.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

7. (Cont.)

The plaintiffs allege that from the above amount Stock Exchange Services is responsible for the sum of NIS 48.5 million. Stock Exchange Services is sued alone for part of the amount and in respect of the other part it is sued together and separately with the Israel First International Bank Ltd., from which the claimants allege that a subsidiary of Stock Exchange Services acquired the mutual funds of Dikla. The remedy that is demanded in this claim is that the defendants be ordered to pay back the sums that the claimants contend were collected unlawfully, as well as a mandatory injunction ordering the defendants to change the manner of their operations and to refrain from collecting the sums that are illegally collected by them.

On July 8, 2012, the Securities Authority's position was filed, noting that it is not necessary for it to express an opinion regarding the case and it leaves the decision to the court's discretion since the case is based on a legal situation that no longer

8. In August 2007 a claim and request to approve the claim as a class action were filed against Migdal Insurance with the Tel Aviv Jaffa District Court. The claimant contends that contrary to the directives of the Regulator of Insurance, Migdal Insurance did not inform the claimant in the insurance proposal, before signing the insurance contract, the rules that will apply to calculation of the insurance benefits when an insurance event occurs (total loss, constructive total loss and theft of a vehicle). The claimant contends that Migdal Insurance unlawfully reduced the amount of the insurance benefits paid to him following an accident that the motor vehicle underwent, as a result of which the motor vehicle was declared a total loss, in contradiction to the circular of the Regulator of Insurance which orders to pay the full amount of the insurance benefits without taking into consideration any reducing variables.

The Group the claimant wishes to represent consists of any person or other legal entity that purchased from Migdal a vehicle insurance from January 1, 2001 and the date of filing the request for approval and during that period an insurance event occurred following which the insured vehicle was declared a “constructive total loss” and/or the insured vehicle was caused damage defined as a “total loss”, including a stolen motor vehicle, and Migdal Insurance did not pay the full amount of the insurance benefits and/or the full value of the vehicle on the date of the insurance event and/or did not replace the vehicle with a vehicle of the same type and quality. The remedies requested by the claimant are as follows: orders instructing Migdal Insurance to act precisely according to the directives of the Regulator of Insurance and to repay its policyholders for the entire amounts that were deducted unlawfully from the insurance benefits; and the awarding of special compensation to the claimant. The personal damage that was caused to the claimant, as she contends, amounts to NIS 509. The amount of the alleged general damage that was caused to the group members is NIS 122 million.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

8. (Cont.)

The parties submitted to the court for its approval, a compromise agreement based on the opinion of an expert who was appointed by the court. Concurrently, the deliberation of this issue was transferred to another entity with whom requests for approval on the same subject, that were filed against other insurance companies are deliberated, and requests for approving a compromise agreement were also filed in those cases. On may 9, 2012, submitted a notice on his behalf to the court, in which he informed that on April 30, 2012 he published a draft decision in principle regarding the request for approval, which determines the refund of monies to the policyholders in cases where the provisions of the circular were violated with respect to the deducting variables. In addition, in the framework of the aforementioned notice, the Regulator requested that the settlement of the compromise arrangement will be delayed up to the end of the administrative proceedings. On December 3, 2012, the Attorney General announced that the Regulator of insurance decided not to order a whole scale refund in the framework of the administrative proceedings and he thinks that there is no need for his future involvement in the claim by giving instructions to the insurance companies. The parties should relate to the court's remarks regarding the compromise arrangement they had submitted.

9. In January 2008 a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance and other insurance companies, together with a request to approve the claim as a class action. The claimants allege, that the “sub-annual factor” payment is a payment the insurance company is entitled to collect from its policyholders when the insurance rate is fixed at an annual sum and is actually paid in a number of installments. The claimants allege, that the defendants were not entitled to collect sub-annual payments in relation to the “policy factor” which, they allege, is a component that is collected due to the necessity to collect the premium from the policyholder and to distribute it between the various policy components.
The claimants also allege that the defendants collected sub-annual payments at a rate higher than that permitted with respect to policies other than life assurance policies and with respect to the savings component of the policy, contrary to the Circulars of the Regulator of Insurance on the matter.

The group the claimants wish to represent consists of: Anyone who engaged with the defendant and the other companies who were sued together with the defendant, in an insurance contract and payment with respect to the “sub-annual” component was collected from him in unlawful circumstances or amounts.

The remedies demanded by the claimants are as follows: refund of the sub-annual amount unlawfully collected from the Group members as defined above, and an injunction instructing the defendants to change their mode of operation.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

9. (Cont.)

The claimants contend they were caused personal damages with respect to one insurance year in the amount of about NIS 1,600. The claimants contend the overall damage to the group defined above is approximately NIS 2.3 billion, out of which the amount attributed to Migdal Insurance, is approximately NIS 827 million. The court instructed to transfer the claim to the Regulator of Insurance for him to express his opinion. The claim is scheduled for a preliminary deliberation of the request to approve the claim as a class action on March 11, 2013.

10. In January 2008, a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance, together with a request to approve the claim as a class action. The claim and the request for approval filed by 4 claimants were also filed against 4 other insurance companies.

The claimants allege that the defendants collected from their policyholders management fees in “profit-participating” type life assurance policies, contrary to the Regulations for the Supervision of Insurance Business (Conditions in Insurance Contracts), 1981 and contrary to the Circular of the Regulator of Insurance. The claimants allege that the defendants collected fixed management fees at a rate higher than the permissible rate, as well as variable management fees on a monthly basis rather than at year end, thereby depriving the policyholders of the return on those variable management fees collected during the year.

The Group the claimants wish to represent consists of anyone who was or is a policyholder of the Company or the other companies that were sued together with the Company, in a “profit-participating” type life assurance blended with savings policy issued from 1992 through 2003, inclusive.

The remedies that are demanded are as follows: a refund of the excess management fees unlawfully collected or the payment of the deprived return, as well as an injunction instructing them to change their mode of operation.

The claimants contend the personal damages caused to each of the claimants who was a Migdal Insurance policyholder with respect to one year is about NIS 7. The claimants contend the overall damage to the group defined above is the nominal amount of approximately NIS 244 million, out of which the amount attributed to Migdal Insurance, the claimants contend, is approximately NIS 101 million.

The Court approved the agreements reached between the parties that the arguments in the request for approval relating to the fixed management fees will be stricken from the claim and the request for approval.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

11. In April 2008, a claim was filed with the Jerusalem Labor Court against Migdal Insurance, together with a request to approve the claim as a class action. The plaintiff contends that Migdal Insurance pays to its insured women who reach the age of retirement a monthly pension that is lower than the pension it pays to an insured man under the same circumstances, on the basis of the higher life expectancy of women. Conversely, as alleged by the plaintiff, Migdal Insurance charges its women policyholders the same “risk” premium that it charges its men policyholders even though the mortality rates of women are much lower. According to the plaintiff, sometime after 2000, Migdal Insurance and the other insurance companies amended the policies by removing the said discrimination, and established different “risk” premiums for women that are lower than the accepted rates for men. Nevertheless, according to the plaintiff, Migdal Insurance did not amend the discrimination in the old policies that were issued before the date of the change, and the plaintiff alleges that it continues such discrimination through the present. The plaintiff also alleges that Migdal Insurance tried to conceal the said discrimination, by specifying in the policy the different pension coefficients for men and women, but that it did not state anything regarding the rate of the risk premium.

    The group the plaintiff seeks to represent is all women who purchased from Migdal Insurance “Executive Pension Plan” insurance policies in which distinctions were made between men and women in respect of pension payments but no distinctions were made between them in respect of the risk premium, including – but not only – policies called “Yoter”, “Atid”, “Adif”, etc.

    The remedies sought from the court are to order that: (a) Migdal Insurance practices discrimination against the law, and any provision and/or action based on this discrimination is null and void; (b) Accordingly, all the group members will be entitled to select between the following alternatives: (1) To make the pension coefficients equal to the insured men of the same age and to order that in the event of a one-time payment instead of a pension, the one-time payment shall be increased to the insured woman, in the ratio of the pension coefficient of an insured man to the pension coefficient of an insured woman at the relevant age; (2) To reduce the amounts for risk that was collected and to set them at appropriate risk amounts for an insured woman, whereby the reduced amounts shall be added to the accumulated amount of savings; (c) To issue appropriate orders regarding the other members of the group who have not been located and/or have not exercised their right to choose between these alternatives.

    The plaintiff does not stipulate the amount of damage allegedly caused her. She estimates that in light of the size of the group (estimated at tens of thousands of women), the overall amount of damage to the members of the group is hundreds of millions of shekels.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

12. In December 2009 a claim and request for approval of the claim as a class action were filed with the Petach Tikva District Court against Migdal Platinum by a member of Maoz Educational Fund (hereinafter – “the fund”) which is managed by Migdal Platinum (Migdal Platinum is a company that was merged on January 1, 2011 into Migdal Makefet Pension and Provident Funds). According to the plaintiff, the fund was publicized and marketed by Migdal Platinum as a “conservative” educational fund. Nevertheless, in 2007 and 2008 the fund held unrated debentures in the amount of 50% of its assets, which reflects a high level of risk that is inappropriate for a “conservative” fund. According to the plaintiff, in 2008 the fund lost about 35% of the assets of the fund’s members, a rate indicating that the fund was managed carelessly and unprofessionally. The group the plaintiff requests to represent consists of any person who was a member of the fund at any time from August 8, 2006 until the date of submitting the request for approval.

The plaintiff alleges to have incurred pecuniary (the loss of a reasonable return according to the plaintiff) and non-pecuniary damages in the amount of NIS 33,916 as the result of the actions of the defendant. Alternatively, the personal damage that was caused amounts to NIS 13,415 according to the plaintiff for the refund of management fees Migdal Platinum charged the plaintiff and non-pecuniary damages.

The alleged damage which he contends was caused to the entire group members is estimated at NIS 62,898,000. Alternatively, the alleged damage for all the group members is estimated at NIS 49,977,118 for the refund of management fees and compensation to the group members for non-pecuniary damages.

The parties filed an agreed upon request to approve a compromise agreement whereby Migdal Makefet Pension and Provident Funds (hereunder - "Makefet") will, among others, take various actions in the area of disclosure and financial education of the fund members and the members of the educational funds it manages, including, among others, the issue of an information booklet to assist in learning the information regarding the investment segment; presentation of courseware on the website regarding members' reports; producing a film-strip on the issue of investments in the capital market; and to set up a course for the fund members in the area of investments. In addition, according to the agreement with Makefet, among others, to bear the expenses and a special remuneration for the plaintiff, as well as legal fees for his legal advisors. The amount of money Makefet will bear according to the compromise agreement is immaterial. The Attorney General was against the approval of the compromise agreement. According to the court's remarks, the Company agreed to make various amendments to the compromise agreement and the main amendments were to increase the group of people who are entitled to the course in the area of investments and a donation of a certain amount (an immaterial amount) in the event that this benefit is not fully utilized. The parties are waiting for the court's decision regarding the request to approve the compromise arrangement.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

13. In February 2010 a claim and request for approval of the claim as a class action were filed with the Tel Aviv Jaffa District Court against Migdal Insurance by a policyholder of motor vehicle insurance (property damage and third party property damage). According to the plaintiff, Migdal Insurance does not pay and/or compensate its policyholders in respect of the damage caused to the protection measures installed in their motor vehicles at its request and demands from the policyholders to illegally sign settlement letters which is also contrary to the directives of the Regulator of Insurance.

The group the plaintiff requests to represent is any person who as from April 1, 2004 received insurance benefits from Migdal Insurance in respect of damages to a private car or a commercial motor vehicle of up to 4 tons, including for total loss, constructive loss or theft, and did not receive all and/or part of the insurance benefits in respect of the loss or damage that was caused to the protection measures that were installed in the motor vehicle at the request of Migdal Insurance.

The plaintiff alleges to have incurred personal damages in the amount of NIS 6,000. According to the plaintiff, he does not have the information required for accurately assessing the size of the group and the compensation to the public. Nevertheless, the plaintiff estimates that all the group members were caused damages in the amount of NIS 81.9 million.

The remedies requested in the framework of the claim consists of monetary compensation in the amount of NIS 81.9 million to the group members, either directly or by means of compensating the public, compensation to the plaintiff and fees to the attorneys representing the plaintiff, as a percentage from the overall compensation awarded to the group members.

On July 2, 2012, the parties submitted a compromise arrangement for the court's approval, wherein Migdal Insurance undertook, without admitting any argument and/or liability, the following: (1) to pay the group members, as defined in the compromise arrangement, part of the cost of the protective measures that were installed in their vehicles and were demanded by Migdal Insurance under a policy that was in force at the time of the insurance event, net of depreciation, as detailed in the compromise arrangement (2) a compromise according to a minimum determined level (3) to pay the plaintiff's representative legal fees and remuneration to the legal advisor who represents its case. The amount of the compromise is immaterial.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

   b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

   Hereunder are details of applications to approve claims as class actions

   13. (Cont.)

   On July 19, the Attorney General submitted his opinion regarding the compromise arrangement. According to the opinion, if the protective measures are installed in the vehicle at the insurer's request or they match the insurer's demand (even if they were installed before the beginning of the insurance contract), the insurer should indemnify the policyholder for the entire loss (total loss, constructive loss or theft) of the protective means. Nevertheless, in the event that the policyholder installed a more expensive and elaborate protective means the insurance company is required to pay only the cost of the protective means it demanded. The opinion states that it does not take a stand regarding the claim or the request for approval in this case. The court appointed Mr. Ehud Ratsabi, CPA, as the inspector on its behalf before the compromise agreement will be approved. The parties are waiting for the court's approval of the compromise arrangement.

   14. In April 2010, a claim and request for approval of the claim as a class action were filed with the Petach Tikva District Court against Migdal Insurance and 3 other insurance companies by the Israel Consumer Council. According to the plaintiff, the defendants breach their duties to locate persons who have rights to moneys that were deposited in insurance policies, of any kind whatsoever or in relation to them, in deposits and in other rights that the holders of the rights are or were entitled to receive, which are held with the defendants and have not been claimed; to manage the moneys separately from other amounts; and to transfer any unclaimed moneys to the Administrator General when their transfer is required. According to the plaintiffs, as a result of the defendants' omissions the rights' holders do not receive the moneys, and excessive amounts of management fees are charged in respect of the moneys. In addition, the plaintiff alleges that the defendants become unlawfully enriched from the revenues generated by the unclaimed moneys.

   The group the plaintiff requests to represent consists of all the holders of rights in moneys held by the Company and other insurance companies that are sued together with the Company, under their responsibility or control, who according to the plaintiff the defendants did not notify that they have rights to moneys held by the defendant, as their duties require them to do. The plaintiff did not estimate the number of the group members and the amount of the claim.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

14. (Cont.)

The remedies requested by the plaintiff in the claim include, inter alia, ordering the defendants to transfer the moneys to the rights' holders and in order to do so ordering the defendants to carry out all actions necessary, as provided in directives of the Regulator of Insurance; ordering the defendants to transfer unclaimed moneys to the Administrator General as required in the Administrator General Law and in directives of the Regulator of Insurance; to return to the group members amounts they were unlawfully charged, by means of commissions and management fees, contrary to directives of the Regulator of Insurance; to return the revenues generated as a result of unlawfully holding the moneys of the group members and to order the defendants to pay the trial expenses.

Following the court's recommendations, among others, in view of the settlement of the issue by the Regulator of Insurance, the petitioner intends to file a request to amend the motion to approve the claim as a class action, in March 2013.

15. In April 2010 a claim and request for approval of the claim as a class action were filed with the Petach Tikva Central District Court against Migdal Insurance and other insurance companies. The plaintiffs allege that when the insurance stops, for any reason whatsoever, this usually occurs after the premium was already paid for the month in which the insurance stopped, since the premium for that month is paid in advance at the beginning of the month. According to the plaintiffs, even though the policyholder is entitled to a refund in respect of a proportionate part of the month, the defendants do not return to the policyholders a proportionate part of the premium or the amount is returned in nominal values.

The group the plaintiffs request to represent in the claim consists of all those who hold or held any kind of insurance policy of the Company or any of the insurance companies that are sued together with the Company, by any insurance policy, other than property insurance, and the insurance policy was stopped for any reason whatsoever, either following its cancellation by the policyholder or following occurrence of the insurance event. According to the plaintiffs the group consists of about 2 million policyholders.

One plaintiff claims that he was caused personal damages by Migdal Insurance in the amount of NIS 23.27 and another plaintiff claims that she was caused personal damages by Migdal Insurance in the amount of NIS 56.29. The plaintiffs estimate that the group members were caused damages in the nominal amount of about NIS 225 million over a period of 10 years.

The remedies sought are: a monetary remedy returning the excess premiums that the group members were unlawfully charged and/or were unlawfully not returned to them and/or the revaluation differences that were not paid; a mandatory injunction ordering the defendants to change their method of operation and return the insurance fees from the date the right arose for their return with the addition of linkage differences and interest; compensation to the plaintiffs and the fees of the attorneys representing the plaintiffs. The case is scheduled for hearing additional evidence.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

16. In January 2011, a claim and request for approval of the claim as a class action were filed with the Regional Labor Court in Tel-Aviv Jaffa against Migdal Insurance and Makefet by a party insured in the Migdal Insurance life insurance and a member in Makefet pension fund. The plaintiffs contend that their employers were systematically late in depositing monies in the Managers Insurance and the pension fund. The plaintiffs contend that it was Migdal Insurance and Makefet's duty to see to it that the employers will make the deposits on time and since they did not do so, it was the defendants' duty to allocate the money, plus arrears interest, in favour of the plaintiffs and to credit them for the yield on these amounts. The group the plaintiffs wish to represent in this claim is the group members of the pension funds, educational funds, managers insurance and provident fund managed by the defendants and/or by anyone on their behalf, whose employers were late in making the deposits by more than 15 days from the end of the month for which the employee is entitled to a salary and they were not credited by arrears interest and/or they did not receive any yield in respect of the arrears interest and the amounts of the principal. The main remedies sought are:

A declarative remedy and a monetary remedy whereby the defendants should "credit each of the group members for the arrears interest in respect of the delay in the employers' deposits and to give them the yield as determined in the pension/provident fund, for the arrears interest as well as the amounts of the principal during the period of the delay. Alternatively, to make a statement and to order the defendants to credit each of the group members only for the arrears interest due to the delay, or as another alternative, to declare and order the defendants to credit each of the group members for the arrears interest up to the yield amount in the pension/provident fund. The personal damage that was caused to Migdal's plaintiff over three years, as she contends, was estimated at NIS 258.38 and her average annual damage is, as she contend, NIS 86.12.

The personal damage that was caused to Makefet's plaintiff over three years, as he contends, is estimated at NIS 47.61 and his average annual damage is, as he contends, NIS 15.87.

The plaintiffs estimate that the average annual damage that was estimated for each of the group members amounts to NIS 51 and the accumulated damage for all the group members over 7 years amounts to NIS 35.7 million. The court rejected the request to approve the claim as a class action. The petitioners filed an appeal against this request to the National Labour Court and thereafter they filed a request to resign from the appeal. The parties are waiting for a decision regarding this request.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

17. In April 2011, a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance, together with a request to approve the claim as a class action, by a policyholder of managers insurance and by a plaintiff who filed a claim in respect of bodily injuries as a result of a car accident that were caused, as he alleges, by another policyholder of Migdal Insurance.

The plaintiffs contend that Migdal Insurance makes unlawful use of foreclosure orders that did not confiscate any assets at the time they were sent to it, but they were still registered in Migdal Insurance's registries, but they have no legal effect. As a result, they contend that Migdal Insurance prevents and/or delays monies that are due to to policyholders and/or beneficiaries and/or to third parties under liability insurance and by doing so it is unlawfully enriched on their expense.

The group the plaintiffs wish to represent in this claim is anyone who was entitled, during the 7 years prior to the date the claim was filed, to receive from Migdal insurance benefits and/or monies that were provided under any type of insurance policy whatsoever and were unlawfully delayed by Migdal Insurance under the contention that there are foreclosure orders registered with it. The plaintiffs estimate that 15% of the monies that are managed by Migdal Insurance (which are estimated by the plaintiffs at about NIS 109 billion), are foreclosed at third party foreclosures and at least half of these foreclosure orders are expired and/or they did not take any asset and/or existing or future rights whose materialization is certain. Hence, the plaintiffs estimate that the monies that are held-back with Migdal Insurance amounts to NIS 8,175 billion. The plaintiffs contend that to the amount of the claim they should add interest and linkage differences for an average period of delay, which the plaintiffs estimate is about three years; a special interest pursuant to Section 28a' to the Insurance Contract Law; an additional amount in respect of the collection of management fees on the held-back amounts, as well as another sum of money in respect of unlawful enrichment. The plaintiffs estimated the total sum of the claim at NIS 13,427 billion. The personal damage that was caused to the plaintiffs, as they contend, due to the contentions under this claim, amounts to NIS 40,564.

The remedies sought are, among others, a declarative remedy that Migdal Insurance breached the duties imposed on it by preventing and/or delaying the transfer of money to the group members, in respect of unlawful foreclosures; a mandatory injunction in order to prevent future delay in transferring monies to the group members due to legally ineffective foreclosures; to cancel all the foreclosure orders that are no longer in force and/or they have no legal force and to report to the Execution if and which asset of the debtor is in the possession of Migdal Insurance; to inform those who are going to make an insurance agreement with Migdal Insurance and/or its policyholders and/or third parties who are filing claims by virtue of the liability insurance, that foreclosure orders were sent to Migdal Insurance and due to this when the time comes Migdal Insurance will not be able to pay the money; a decree ordering Migdal Insurance to compensate the group members and to repay the held-back monies, as contended by the plaintiffs, illegally, with the addition of interest and linkage differences by law, as well as a special interest pursuant to Section 28a' to the Insurance Contract Law, and the repayment of the profit and/or the commissions and management fees that were collected by Migdal Insurance in respect of these monies. At the court's recommendation, the parties agreed to take the case to a mediation procedure. In this respect, also see claim No. 19 below.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

18. In April 2011, a claim was filed with the Petach Tikva Central District Court against Migdal Insurance, together with a request to approve the claim as a class action, by a life assurance policyholder.

The plaintiff contends that Migdal collects monies that are named "the policy factor" and/or "other management fees" but the right to collect these monies is not anchored and no proper disclosure was provided. The Plaintiffs contend that on April 12, 2011 the Petach Tikva Central District Court received a request to approve a claim as a class action which was filed against another insurance company and which is the same as the claim filed by them against the defendants in this claim.

The group the plaintiffs wish to represent is anyone who is and/or was insured by the Company and/or other companies that are sued under this claim and he was charged by any amount of money as “other management fees” and/or “the policy factor”. In the framework of this claim the plaintiffs filed a plea for the remedy of the payment of compensation/refund equal to the amount of the policy factor that was actually collected from the group members, plus the yield that was deprived from them in relation to this sum of money due to the fact that the amount that was deducted from the premium for the policy factor was not invested in their favor, after the multiplication of the yield amount by the coefficient of 85% in view of the insurance company’s entitlement to 15% of the yield. Another remedy that is requested is to issue a mandatory order to instruct the defendants to change their actions in respect of the collection of a commission that is called “other management fees” and/or “the policy factor”.

The plaintiffs contend that the personal damage that was caused to all the plaintiffs during one year is estimated at NIS 1,522 in nominal values, which was calculated for convenience purposes, as contended by the plaintiffs, in respect of one specific year only. According to various estimates and assumptions in relation to the collection of the policy factor during the last seven years by the defendants and the relevant annual yields, the group members’ claim was estimated at the amount of NIS 2,325,335,040 nominal values.

In the framework of approving the claim as a class action, substantiation proceedings were performed and the Regulator of Insurance's stand was provided. The parties were requested to provide the Regulator with information regarding this issue, the dates for submitting written summations were scheduled and the summations of the petitioners were submitted.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

19. In June 2011, a claim was filed with the Central District Court against Migdal Insurance, Hamagen Insurance Company Ltd. (hereunder - Hamagen), and against other insurance companies, together with a request to approve the claim as a class action, by a motor act insurance policyholder and by a third party who has a motor act insurance.

The plaintiffs contend that insurance benefits or money they were entitled to from the company or from other defendants were delayed by the defendants due to foreclosures or or receivership decrees or any rights whatsoever of third parties and who finally received the insurance benefits or other monies from the defendants, at nominal value only or only with the addition of linkage differences not including interest.

The personal damage that was caused to one plaintiff against Hamagen (which was merged with Migdal and eliminated), as he contends, due to the causes for the claim, amounts to NIS 193.24, whereas the personal damage that was caused to another plaintiff against Migdal Insurance and another insurance company that was included in another claim, amounts to, as he contends, NIS 11,236.25 (as at November 10, 2005). All the plaintiffs estimate that the total damage caused to the entire group members who are policyholders of the Company and other insurance companies that were included in the claim, is above NIS 350,000,000.

On December 12, 2012, the court made its decision to accept the request to approve the claim as a class action (hereunder - "the decision of approval").

In the decision of approval the represented group was defined as all those beneficiaries (namely, policyholders and those who suffered damages) who received insurance benefits after June 1, 2008 and their right for receiving payment was delayed because of a foreclosure on the asset, or receivership decrees or any rights whatsoever of third parties, provided that the yields from the monies during the period of delay were not transferred to the beneficiary in full.

The grounds for the claim in respect of which the class action was approved in the group members' right to receive linkage differences and interest that represent the benefit that the respondent insurance companies gained during the period of the delay, either by virtue of Section 1 to the Unlawful Enrichment Law or by virtue of Section 28(a) to the Insurance Contract Law, 1981.

The remedies sought are the payment of linkage differences and interest to the group members, at the rate that reflects the benefits that the respondent insurance companies gained during the period of the delay.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

19. (Cont.)

In view of the merger of Hamagen into Migdal Insurance and in view of the fact that the grounds for the personal claim against Hamagen arose before June 1, 2008, the court determined that the plaintiffs' attorney should notify the court whether it is necessary to take further proceedings against Hamagen, and if it will be necessary to continue with the proceedings against Hamagen, it will be necessary to find a petitioner who is a member of the group so that he will serve as a representative plaintiff.

Following the parties' consent the case was passed on to mediation proceedings and meanwhile the date for filing requests for permission to appeal against the decision of approval was extended with the consent of the parties (in this respect, see the claim described in paragraph 17 above).

20. In June 2011, a claim was filed with the District Court against Migdal Platinum (Migdal Platinum is a company that was merged into Makefet on January 1, 2011), together with a request to approve the claim as a class action, by two members of the educational fund "Migdal Kahal Educational Fund" and a member in the educational fund "Migdal Platinum Educational Fund General Track". The plaintiffs contend that the Company and the other insurance companies that are sued together with it, who are managing companies of provident funds, chose to favour some of the members and to grant them better conditions with the management fees that are collected from them for managing their provident fund. The plaintiffs contend that by granting a privilege to one member or to part of the members implies a discrimination against the rest of the members and it deprives the other part of the members from a financial right.

The group the plaintiffs wish to represent in this case is the members of the provident funds that are managed by the Company and other management companies who were sued together with the Company, who collected from them management fees that are higher than the minimum management fees of the fund.

The personal pecuniary damage that was caused as contended by the plaintiffs of Makefet in the year 2009 is: overcharging of management fees compared to the average management fees that were collected from members of the same fund. The overcharged rate is 0.46% regarding each of Makefet's plaintiffs who are members of the Kahal fund, and 0.82% relating to the plaintiff of Makefet who is a member of the educational fund Platinum. The plaintiffs estimate that the group members pecuniary damage from Makefet in respect of the last five years at alternate amounts of NIS 106 million (reduction of the management fees to the average management fees that were collected in respect of the fund) and NIS 246 million (a reduction of the management fees to the minimum management fees that were collected from any member of the fund).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

20. (Cont.)

The remedies demanded by the plaintiffs in this claim are, inter alia, a declarative remedy that the collection of the management fees in the manner that discriminates a certain group of members of the provident funds with the defendants is illegitimate and unlawful and therefore it is discontinued. Accordingly, the plaintiffs request not to allow the defendants to grant priorities, privileges, benefits, etc. to some of the members without granting them to all the members. The plaintiffs also request to order the defendants to collect uniform and identical management fees from all the fund members, in the manner that there will be no discrimination between the members. The plaintiffs also request the court to order the funds to apply the same management fees for all the fund members, which will match the discounts that were granted up to now to part of the members. In addition, the members request to order the defendants to set the same management fees for all the members, in each fund, retroactively from the year 2006, so that the management fees will be determined and reduced according to the minimum management fees that the managing company collected from any member, and alternatively only, that the management fees will be reduced to the average management fees that were actually collected.

The petitioner filed a plea to the High Court of Justice against the Commissioner of the Capital Market, Insurance and Savings, demanding that he will compel the provident funds to uphold the duty of equality regarding the collection of management fees. The State's response which was filed under the plea, essentially rejects the arguments included in the request to approve the claim as a class action. Makefet is not a party to the aforementioned plea proceedings. The District Court postponed the deliberation regarding the request for approval until the proceedings will be concluded in the High Court of Justice.

21. In July 2011, a claim was filed with the Petach Tikva Central District Court against Migdal Insurance, together with a request to approve the claim as a class action, by a policyholder of comprehensive motor vehicle insurance of Migdal Insurance. The claim is in respect of the alleged collection of credit fees from the general insurance policyholders of Migdal Insurance at the rate which is higher than the maximum annual interest that Migdal Insurance is permitted to collect or at an interest rate which is higher than the rate it presents to its policyholders.

The group members the plaintiff wishes to represent are all the policyholders and/or the beneficiaries who were insured by Migdal Insurance with insurance policies in the general insurance branches, and who paid Migdal Insurance excess credit fees and/or collection fees and/or payment arrangement fees, while deviating from the provisions of the law and/or while deviating from the interest rates that were presented to the policyholders in the policies, beginning from May 1, 1984.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

21. (Cont.)

The plaintiff's personal damage, as revaluated as of the date of filing the request for approval, was set at NIS 15.93, whereas the estimate of the damage caused to the entire group members beginning from May 1984, as revaluated as of the date of filing the request for approval, is between the alternate amounts of NIS 252,974,106 and NIS 868,658,649.

The remedies sought by the plaintiff are (1) to instruct Migdal Insurance to refund the group members the money that was allegedly overcharged unlawfully, with the addition of linkage differences to the consumer price index and with the addition of interest by law, and a special interest as implied by the Insurance Contract Law, from the date of each payment up to the date of the actual repayment of the sums of money (2) to order a compensation to the group members or to the public, in respect of the yields that were accumulated from the monies that were allegedly excessively collected (3) to order Migdal Insurance to stop overcharging its policyholders for credit fees and/or payment arrangement fees and/or collection fees for each policy and/or an addition to a policy that will be issued by it from the date of filing the request and onwards and to stop collecting credit fees and/or payment arrangement fees and/or collection fees for each existing policy and/or any addition to existing policies for which the credit fees were collected in excess. Migdal submitted its response to the request for approval on October 11, 2012. A preliminary hearing was held on November 13, 2012; a preliminary hearing was held on February 26, 2013 and the parties were referred to a mediation procedure which will take place during the period of 60 days.

22. In February 2012, an action and motion for approval of the action as a class action were filed in Tel Aviv Jaffa District Court against Bourse Services, by a company with a securities deposit account in the matter of the commissions paid for transactions in securities and options overseas.

The plaintiff contends that Stock Exchange Servicescollections a commission from its customers for correspondent services overseas, which is actually paid by Stock Exchange Services and/or is due to the foreign correspondent banks. The plaintiff has no data on the actual payments made by Stock Exchange Services to the foreign correspondents or whether it receives refunds for this commission.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

22. (Cont.)

The class that the plaintiff wishes to represent is all of the customers of Stock Exchange Services who bought and/or sold securities and/or options, etc., through it during the last 7 years, and from whom Stock Exchange Services collected commissions for a foreign correspondent beyond the commissions stated on the correspondent's website and/or collected foreign correspondent commissions from them that actually exceed that paid eventually by Stock Exchange Services to the foreign correspondents. Likewise, the plaintiff wishes to represent all the mutual funds managed by "Migdal" and/or its representative offices that engage in the purchase and sale of securities, including options, overseas, including the overseas buy-side funds managed by the Migdal Group ("Mutual Funds"), and anyone for whom Stock Exchange Services executes transactions on a foreign stock exchange and collects correspondent fees from him overseas. The personal damage that the plaintiff contends it has sustained totals NIS 24,217. The damage sustained by the class members was estimated by the plaintiff at NIS 43,344,000.

The remedies claimed by action are, inter alia, to order Stock Exchange Services to compensate and/or indemnify the class members for the excessive commissions and/or for the overcharged amounts related to the correspondent commissions in the U.S. The case is under preliminary deliberation proceedings in the framework of the motion to approve the claim as a class action. The first hearing was already held on February 11, 2013 and in this hearing the court decided that Mutual Funds are not included in the group of plaintiffs.

23. In April 2012, a claim was filed with the Haifa District Court against Migdal Insurance, together with a request to approve the claim as a class action, by a third party which sued a policyholder who was insured by Migdal's comprehensive motor insurance. The plaintiff alleges that Migdal Insurance compensates third parties for the damage of impairment in value, based on the date the claim was received and not according to the date of the accident, despite the Regulator's decision from 2011, whereby in the case of a third party claim the damage of impairment in value can be calculated according to the date the claim was submitted.

The group the plaintiff wishes to represent are any person who, during the 7 years prior to the date of filing this claim, received from Migdal Insurance, insurance benefits for the damage to his vehicle due to impairment in value that was not calculated according to the value of the vehicle on the date of the accident, either if he was insured with Migdal Insurance by a comprehensive insurance or if he received insurance benefits as a third party.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

23. (Cont.)

The plaintiff estimated her personal damage at NIS 707, not including interest and linkage differences up to the date of the actual payment. The plaintiff estimates that the group members have 67,200 vehicles who had suffered an impairment in value during the 7 years prior to filing the claim and the average damage is NIS 500. Accordingly, the plaintiff estimates the damage caused to the entire group members at NIS 33,600,000.

The remedies sought in the context of this claim are, among others, to repay monies and/or to provide a personal compensation to the group members or alternatively, if it is not possible to refund the group members, to determine alternative systems to compensate the group members due to the reduction in the insurance benefits unlawfully as the plaintiff alleges; to order a declarative remedy whereby Migdal Insurance violated the law when it did not calculate the impairment in value according to the value of the vehicle on the date of the accident; to issue a mandatory injunction that from now on the impairment in value will be calculated according to the date of the accident.

Hearing proceedings are held in this case regarding the motion to approve the claim as a class action.

24. In May 2012 a claim was filed with the Jerusalem District Court against Migdal Insurance, together with a motion to approve the claim as a class action. The claim and the motion for approval were also filed against other insurance companies.

The plaintiffs contend that in contrary to the Law of Equal Rights for People with Disabilities, the defendants refuse to insure them or alternatively they set implausible conditions for them, which are not based on the relevant information for each candidate for insurance and they do not examine each request as an individual request. The plaintiffs also contend that the defendants did not give the plaintiffs any substantial reasons for refusing to insure them and they only gave a laconic reason which does not relate to the relevant data and medical information of each of the plaintiffs, but they based their reasoning on a very general reason - the illness each of the plaintiffs suffers from. The group the plaintiffs wish to represent in this case are all those who wish to insure themselves with the company and other companies who are sued in this case, during the effective period in which the defendants refused to insure them under any of the individual insurances, such as: health insurances, travelling, pension, personal accidents, long term care, disability income insurance; due to an illness or disability they endure (the first group), as well as people with disabilities who did not turn to or will not turn to the defendants to be insured by them in the future, since they know that the defendants will not agree to insure them due to their disabilities (the second group). The plaintiffs specified that their personal damage is hearting their feelings and dignity, in equality and autonomy, as well as a financial damage without proving any damage. The plaintiffs did not quantify their personal damage.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

24. (Cont.)

The plaintiffs estimate, among others, on the basis of a social survey from 2010 of the Central Bureau of Statistics and from the Ministry of Finance's reports, the group consists of 700,000 members with severe disabilities, of which 538,100 are members of the first group and 161,900 are members of the second group. The plaintiffs estimate that the compensation requested for the first group for the damage of hearting their feelings and their respect is NIS 225,300,000; for the damage for violating the equality and autonomy - the sum of NIS 269,050,000; for the financial damage without proving any damage the sum of NIS 439,820,000. Accordingly, the plaintiffs estimate the damage caused to the entire first group at NIS 934,170,000.

The declarative remedies sought regarding the total group members (first and second) are, among others, that the defendants had violated the provisions of the law stated above, as well as the mandatory injunction which obligates the defendants to perform a fair underwriting procedure, by examining each insurance application individually and based on the personal information of each insurance applicant; a mandatory injunction which obligates the defendants, in the event that they decide not to insure the applicant, after a fair procedure of examining the application, to provide the reasons for their refusal, while relating to the information that made them refuse, and to inform the applicant about his right to appeal against the decision before the Regulator of Insurance or before the complaints committee, or to submit its claim against the decision to the court; to determine proceedings regarding the refusal to provide insurance and to agree to insure a person with disabilities; to grant a retroactive coverage to the group members who will be eligible to be insured after an equalitarian underwriting procedure; as well as a compensation to the plaintiffs and legal fees for the attorneys who represent the plaintiffs. Another preliminary hearing is scheduled to be held on May 21, 2013.

25. In May 2012 a claim was filed with the Tel Aviv District Court against Migdal Insurance and a sub-subsidiary of Migdal Insurance - Ichud Insurance Agencies Ltd. together with a motion to approve the claim as a class action, by two plaintiffs who applied for an offer from the defendants, for a comprehensive motor insurance for a vehicle of a disabled.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

25. (Cont.)

The plaintiffs argue that they were discriminated when they received from the defendants offers for a comprehensive motor insurance for a disabled vehicle, which also includes a coverage for accessorizing a the vehicle for the disabled, under conditions that are worse han the conditions that people who do not have disabilities get and substantially higher than the market price. The group the plaintiffs wish to represent in this claim are all the people with mobility disability, who have a vehicle that includes a special accessory for the disabled whose value (the value of the accessory) is higher than NIS 30,000 and who entered into a comprehensive motor insurance contract with the defendants and/or applied to any of the defendants to obtain an offer for a comprehensive motor insurance and/or who applied to any of the defendants to receive an offer for a comprehensive motor insurance, beginning from October 7, 2005. The plaintiffs quantified their personal damages to the sum of NIS 60,000 for compensation without proving any damage. The plaintiffs estimate, based on the data of the National Insurance, as at November 1, 2011, the group consists of 2,000 people. Accordingly, the plaintiffs contend that the total group members are entitled to the sum of NIS 120 million for compensation without having to prove any damage.

The remedies sought in this claim are, among others, a compensation without having to prove any damage to the group members; issuing a decree to the defendants ordering them to stop the discrimination of people with disabilities regarding comprehensive motor insurance; a decree instructing the defendants to insure any vehicle of a disabled, including its special accessories at a real value and at reasonable prices which reflect a reasonable estimate of the insurance risk; to instruct the defendants to repay the excessive insurance fees they received from the group members in accordance with Section 19(35)(b) to the Equality Law, as well as a compensation to the plaintiffs and legal fees to the attorneys who represent the plaintiffs.

26. In June 2012 a claim was filed with the Tel Aviv District Court against Migdal Insurance, together with a motion to approve the claim as a class action, by a plaintiff who is insured by a comprehensive motor insurance.

The plaintiff contends that Migdal Insurance unlawfully deducts from the insurance benefits it pays to the policyholders in the event of a total loss or a constructive total loss, the amount of the licensing fees which are due to the policyholders from the licensing office by virtue of the Transportation Regulations, 1961. Alternatively, the plaintiff contends that the offsetting that Migdal performs is incorrect and the amount that is deducted is higher than the amount that is actually paid back to the policyholder by the licensing office.

The group the plaintiff wishes to represent in this claim is all the policyholders for whom Migdal Insurance made a proportional offset of the licensing fees from the insurance benefits in respect of the remaining period.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

26. (Cont.)

The plaintiff quantified her personal damage at the amount of NIS 1,106. The plaintiff estimates that the group consists of about 1,500 policyholders and under the assumption that the average damage amounts to NIS 1,000, the damage to the total group members was estimated by the plaintiff at about NIS 4.5 million.

The remedies sought in the framework of the claim are, among others, to order Migdal to immediately stop the proportional offsetting of the licensing fees for its policyholders. Alternatively, to order Migdal Insurance to immediately stop the erroneous offset for its policyholders. In addition, to order Migdal Insurance to pay the group members the amounts that were excessively deducted unlawfully, with the addition of linkage differences and interest by law, up to the actual date of payment, as well as a compensation to the plaintiff and legal fees to the attorneys who represent the plaintiff. The preliminary hearing was scheduled to be held on May 13, 2013.

27. In August 2012 a claim was filed with the Central District Court against Migdal Insurance, together with a motion to approve the claim as a class action, by a plaintiff who has a life insurance policy. The claim was filed by other plaintiffs against four other insurers. The grounds for the claim are management fees that are collected from the premium in life insurance policies that are combined with savings which were issued from the year 2004. The plaintiffs contend that the collection of management fees in the aforementioned policies does not meet the provisions of the Supervision of Financial Services Regulation (Insurance) (Conditions of Insurance Contracts), 1981 (hereunder - "the Supervision Regulations"). The plaintiffs claim that the said manner of collection does appear on the website of the Regulator of Insurance's office, in the context of the description of management fees regarding new policies from the year 2004, however, no Regulator's circular that grants a permission to collect management fees from the said premium was found, and even if there was such a circular, the plaintiffs contend, it would not have been valid in view of the Supervision' regulations and the Regulator of Insurance had exceeded his authority, insofar as he gave the insurance companies a permit to operate in contrary to what was determined in the Supervision Regulations.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

27. (Cont.)

Therefore, the plaintiffs allege that the collection of management fees for life insurance policies that are combined with savings, insofar as it is collected from the premium, is not valid and these management fees should be returned to the policyholders. Alternatively, the maximum allowable management fees are 2% of the value of the investment portfolio and any management fees that exceed this rate should be returned to the policyholders. Furthermore, and in any case, even if it is allowed to collect management fees from the premium and even if it is sweepingly allowed to collect the full 2% from the value of the investment portfolio, the policyholders should be refunded for the premium that was collected from them due to its calculation based on the "total charges" (collection of management fees from the premium in relation to the total amount paid by the policyholder, including the management fees themselves) and/or due to the collection in relation to the various risk components in the policy, which are not intended for savings.

The group the plaintiffs wish to represent is anyone who was or is insured by one or more of the defendants by a life insurance policy which is combined with savings and issued from the beginning of the year 2004, including a risk policy that was presented as a policy combined with savings and this relates to active policies as well as settled or redeemed policies.

The plaintiff quantified his personal damage at NIS 224.9 per year of insurance. The plaintiff's damage regarding the alternative allegations amounts to, as he contends, NIS 32.7 (the calculation of the premium) and NIS 9.3 (in relation to the risk components), for one *year of insurance.*

The plaintiffs estimate that the damage to the group members during the last 7 years, from all the defendants, is estimated at the nominal minimum amount of about NIS 569 million (under the assumption of the payment of maximum management fees). Alternatively, the amount of about NIS 65 million (in relation to the calculation of the premium) and alternatively the sum of about NIS 132 million (in relation to the risk components). The remedies sought in this claim are, the refund of the excess management fees that were collected unlawfully, as well as a mandatory conjunction ordering the defendants to change the manner of their actions accordingly.

28. In January 2013 a claim was filed with the Central District Court against Migdal Insurance, together with a motion to approve the claim as a class action, by a health insurance policyholder with Migdal. The plaintiff alleges that when a multifocal lens is transplanted during a cataract operation, Migdal pays only partial insurance benefits, at the value of "ordinary" lenses and refuses to pay the difference between the cost of "ordinary" lenses and the cost of multifocal lenses, although the policy does not state any restriction in this respect.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

28. (Cont.)

The group the plaintiffs wish to represent in this case is all Migdal's policyholders during the three years prior to filing the claim and the motion for approval and from the date of the motion for approval and thereafter, who were insured by Migdal with health insurance policies that include a coverage for "transplants" and/or "prosthetics" as defined in the "worldwide surgery insurance" and/or "the new international surgery insurance" and who received from Migdal during the period of entitlement and thereafter, only partial insurance benefits and/or on dates that are later than those prescribed pursuant to the Insurance Contract Law, in respect of transplants and/or prosthetics and/or lenses that were transplanted in their eyes, after they received Migdal's approval to undergo the surgery and also they did not receive from Migdal, apart from the benefits it paid, and/or on the dates set forth by law, any "linkage differences" and/or "linked interest" and/or "special interest" at percentages and outs they were entitled to receive from Migdal, pursuant to Sections 27 - 28a to the Insurance Contract Law.

The personal damage caused to the plaintiff as she claims, following the alleged actions of Migdal, amount to NIS 8,712. The plaintiff estimated the alleged amount for the entire group members at NIS 10 million.

The main remedies that are sought in this case are, to approve the plaintiff's claim and to order Migdal to pay the plaintiff and the group members the total insurance benefits due to them in accordance with the policies, also to pay them linkage differences and interest, to submit a declaratory judgment whereby the defendant acted unlawfully when it did not pay the full insurance benefits and did not pay the linkage differences and interest and to issue mandatory injunctions ordering Migdal to provide all the information and relevant data regarding the dispute in this case, which instruct Migdal to pay the group members insurance benefits which cover all the expenses they had for the cost of the transplants and/or the prosthetics that were transplanted in their eyes during the cataract surgery, which were approved by Migdal. The case is scheduled for a preliminary hearing regarding the motion to approve the claim as a class action.

29. In January 2013 a claim was filed with the Central District Court against Migdal Insurance, together with a motion to approve the claim as a class action, by a plaintiff who is insured by a motor act insurance policy with the Israeli Motor Vehicle Insurance Pool (the Pool). The grounds for the claim is the collection of insurance premium for motor act insurance for the whole year even if the insurance is paid by the policyholder after the date stated in the insurance certificate. The plaintiff alleges that although the policy enters into force only on the date of the actual payment, the payment is for the insurance year that begins on the date stated on the insurance certificate. The group the plaintiff wishes to represent in this case is those insured by the Pool and all the other insurance companies that are sued under this claim, for motor act insurance, and who have paid the premium later, namely, after the date stated in the insurance certificate that was issued for them, during the period of 7 years prior to filing the claim. Alternatively, the group the plaintiff wishes to represent is the aforementioned group of policyholders who are insured with Israeli Motor Vehicle Insurance Pool (the Pool) only.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

b) Class actions - requests to approve claims as class actions and claims that were approved as class actions (Cont.)

Hereunder are details of applications to approve claims as class actions

29. (Cont.)

The plaintiff quantified her personal damage from the Israeli Motor Vehicle Insurance Pool at NIS 46. The plaintiff estimates that the damage to the group members during the last 7 years at NIS 45,162,000.

The remedies sought in the context of this claim are, the refund of the excessive premium fees that were collected unlawfully, with the addition of linkage differences and interest, and to order to pay the defendant and her attorney an appropriate remuneration and legal fees. The case is scheduled for preliminary hearing of the motion to approve the claim as a class action.

c) Class actions that have ended

30. In September 2009, a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance another insurance company and the Member Servers Pensioners Ltd., together with a motion to approve the claim as a class action, by a career soldier in the IDF who is insured by group life assurance for professional soldiers and retirees of the Israel Defense Forces (IDF).

The plaintiff alleges that there was a compulsory collection of premiums from the professional soldiers and retirees of the IDF in respect of the policy with no possibility to cancel the policy, in contrary to the provisions of the law. The plaintiff also alleges that over the years the defendants increased the premium payments in contradiction to the terms of the policy and in violation of the terms of the policy and in contrary to the provisions of the law. Furthermore, the plaintiff alleges that the defendants violate their duty pursuant to the provisions of the law and they do not provide the group members with the complete and updated terms of the policy as required by law.

On June 10, 2012 the court approved the parties' request that the plaintiff will resign from the motion for approval. In its verdict the court stated that in view of the State's announcement that it ceases to renew the policy in its present version, and commencing from April 2012 the life assurance for the career soldiers is voluntary, this is an arrangement on the lines of the court's recommendation and the court ordered compensation for the representative plaintiff and legal fees for his attorneys at immaterial amounts.

31. In February 2011, a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance and five other insurance companies, by a comprehensive motor insurance policyholder, at least one day during the last seven years.

The plaintiffs contend that when an insurance event occurs, the defendants do not compensate the policyholders for the impairment in value that reflects the damage that was caused to the vehicle, in market terms. The compensation they receive is significantly lower than the decrease in value that there is in the market, which appraisers call "a technical and not a commercial decrease in value" or "a decrease in value according to the "Sasson Committee".

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

c) Class actions that have ended

31. (Cont.)

On June 10, 2012 the court approved the representative plaintiffs' request to willingly withdraw from the personal demands and from the claim. Consequently, the court ordered to reject the motion for approval and to reject the claim and the court ruled that each of the defendants will pay the legal advisor of the representative plaintiff, legal fees in the amount of NIS 10,000. An appeal was filed against the legal fees that were ruled.

32. In December 2006, a claim was filed with the Tel Aviv Jaffa District Court, against Migdal Insurance, together with a request to approve the claim as a class action, with respect to group life assurance policies to insure persons who have taken mortgage loans from Leumi Mortgage Bank. The claim and request for approval were also filed against Leumi Mortgage Bank.

The grounds of the claim and the request for approval is the alleged payment of partial insurance benefits, in group life assurance policies of Migdal Insurance, written on mortgage loans marketed by Leumi Mortgage Bank, where the amount of the insured loan is lower than the amount of the loan taken by the policyholder from Leumi Mortgage Bank.

On September 7, 2010, the approved the compromise agreement that was signed between the parties on December 2, 2008 and granted it the validity of a judgment, wherein it was determined that the compromise agreement will serve as a court action towards any group of policyholders insured by this policy. The compromise agreement sets a mechanism for determining the amount of compensation according to various parameters with respect to the group members who underwent an insurance event. In addition, the compromise agreement determines that group members who did not have an insurance event will receive an offer to acquire a supplementary insurance at a lower premium and hence if an insurance event occurs, insurance benefits will be paid to Bank Leumi based on the balance of the loan it granted. The amount of provision in favour of the compromise agreement is immaterial.

33. In March 2007 a claim was filed with the Tel Aviv Jaffa District Court, against Migdal Insurance and against two other insurance companies together with a request to approve the claim as a class.

The main allegation in this claim is that Migdal Insurance continues to collect from its policyholders, under managers insurance policies, after they had passed the retirement age (65), premium in respect of the risk component under this policy. The claimants allege that by doing so, Migdal Insurance is acting in contrary to the agreement under the policy, and thus it has breached the agreement with its policyholders.

On October 31, 2012, the District Court approved the request for withdrawal which was filed by the parties, and it gave the validity of a judgment to the parties consents whereby the motion for approval will be eliminated and the plaintiff's personal claim will be rejected. Furthermore, the court approved the refund of expenses to the plaintiffs and their legal advisers at an immaterial amount.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

c) Class actions that have ended

34. In February 2012 a claim was filed with the Tel Aviv Jaffa District Court against Migdal Insurance, together with a motion to approve the claim as a class action. The claim was filed by a householders insurance policyholder. Claims regarding the same issue were filed at the same time against 7 other insurance companies.

The plaintiff alleged that Migdal Insurance provided her with a householders structure insurance policy without informing her that in the event of an extensive destruction/damage to the building that consequently it will not be possible to rebuild the building that was destroyed, the policy does not cover the full value of the building (including the value of the land), since the building cannot be rebuilt, unless all the tenants in this building agree to do so and hence all the tenants of the condominium are dependent on each other. Furthermore, the plaintiff alleges that Migdal Insurance issued for her an expanded benefits insurance policy at the construction value, according to the provisions of the standard policy as determined pursuant to the Supervision of Insurance Business Regulations (Contract Terms for Household and Contents Insurance), 1986, although the chance to construct the condominium or the apartment, at the time of an insurance event, is very low and "almost zero", due to the dependency, as mentioned above, on the other owners of apartments in the condominium. Furthermore, the plaintiff alleges that despite the expansion of the policy for payment of insurance benefits at construction value, at the time of an insurance event the insurance benefits will be calculated according to the compensation value which is lower and forms only part of the value of the value of the construction of the apartment, as determined in this policy, due to the low chances to construct the building.

According to the court's recommendation the plaintiff filed a request to withdraw from the motion to approve the claim as a class action. On December 31, 2012, the request for withdrawal was approved and the plaintiff's claim was rejected.

35. In April 2010, a claim was filed with the Nazereth District Court, against Migdal Insurance, the Phoenix Insurance Company Ltd., "Tzevet" the I.D.F. Pensioners Association, "Medi Gep Ltd." the Health Division - Madanes Group and the I.D.F., together with a request to approve the claim as a class action, by three members of the collective health insurance policyholders team.

The plaintiff allege that the defendants insured them by the policy without obtaining their approval and without notifying them about the fact that they are going to join the policy, they renewed the policy without notifying them and they collected from the policyholders insurance fees for the policy without their approval.

On October 15, 2012, the court gave its judgment whereby it rejects the request for approval and he ordered the petitioners to pay the expenses and legal fees in the amount of NIS 50,000.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

c) Class actions that have ended

36. In August 2008, a claim was filed with the Tel Aviv District Court against Migdal Insurance, together with a request to approve the claim as a class action. The plaintiff contends that in the vehicle insurance plan, Migdal Insurance refrains from paying and/or refunding a third party, extensively and in violation of the provisions of the law and the Regulator of Insurance, the total appraiser's fees which the third party paid for the preparation of the appraiser's opinion,
and it pays only part of the sum the third party paid for the appraiser's fees, and it signs the third parties on bills of discharge, illegally and against the Regulator of Insurance's directives.

The group the plaintiff wishes to represent is: any person and/or any other legal entity who was entitled to receive from Migdal Insurance, as a third party, monies and/or insurance benefits due to damage to the vehicle, including sums of money in respect of an appraiser's fees, which he had paid to an appraiser, in order to prepare the assessment of the damage to the vehicle, during the seven years prior to the date the claim was filed, and Migdal Insurance did not reply and/or pay him the full amount he paid for the appraiser's fees and/or part of it.

On February 21, 2013, the court approved the plaintiffs' request to withdraw from the request.

37. In December 2011, a claim was filed with the Tel Aviv District Court against Makefet, together with a motion to approve the claim as a class action, by two members of the pension fund "Migdal Makefet Ishit".

The plaintiffs allege that they were added by Makefet to a "basic" track as a default option track, wherein they pay for insurance coverage for "disability and death risks" which is an insurance for survivors and since they are unmarried this insurance coverage is insignificant and/or redundant, and they were not given any explanation regarding this issue and they did not give their approval for this.

On February 21, 2013, the court approved the plaintiffs' request to withdraw from the request and ruled that legal fees should be paid to the plaintiff's legal advisor and to the representative plaintiffs.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

d) Legal and other proceedings

Below is a description of additional material legal and other proceedings against the Company and/or the subsidiaries.

38. The Company and/or the subsidiaries are parties to additional legal claims, which are not claims for insurance coverage as per the policy, filed by customers, former customers and various third parties in insignificant amounts, for a total amount of approximately NIS 92 million. The grounds for the claims against the Company and/or its subsidiaries under these proceedings, are varied.

39. From time to time complaints are filed against the Group, including complaints to the Commissioner of Capital Market, Insurance and Savings Division of the Ministry of Finance (hereunder – “the Commissioner”) with respect to rights of policyholders according to insurance policies and/or the law. These complaints are handled regularly by the Group’s Public Complaints Departments. The Commissioner’s decisions on these complaints, if and insofar as a decision has been made, are sometimes, and in the recent years even more, across the board decisions relating to a group of policyholders. Usually the Commissioner publishes a draft decision before he issues a final version of the decisions.

Furthermore, from time to time, and also following policyholders' complaints, the Commissioner conducts inspections on his behalf at the Group's institutional entities and/or requests to receive information wherein, among others, there are requests to make changes in various products, and/or guidance regarding the Group's treatment of various products in the past, including guidelines for making refunds and/or guidelines and/or instructions regarding the operations carried out by the institutional entities, including guidelines for the amendment and/or performance of various actions. On the basis of the findings of the inspections and/or the information that was provided, the Commissioner imposes financial sanctions pursuant to the Enforcement Authority Law, following a notice about the intention to impose a financial sanction, and hence there is a chance to argue against the intention to impose the financial sanction.

a. A draft decision is pending against a subsidiary regarding the increase of management fees without any early notice (a second draft was published in January 2013). According to the decision, management companies did not give their members any notice about the intention to increase the management fees as required by the legislative order. In the draft decision the Commissioner wishes to instruct the provident funds management companies to refund the members that the notice regarding the increase in management fees was not sent to them, in accordance with the legislative order, for the excessive management fees that were collected regarding the period beginning on January 1, 2006 and ending on December 31, 2009 ("the refund period"). The draft decision includes individual instructions in respect of the manner of behavior and management of the managing company with respect to the application of this decision, including the dates the refunds should be made and the manner of performing the refund.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

d) Legal and other proceedings

Below is a description of additional material legal and other proceedings against the Company and/or the subsidiaries.

39. (Cont.)

a. (Cont.)

In addition, there is a pending draft decision against a subsidiary regarding one time deposits in yield guaranteeing policies (whose draft was published in December 2012). According to the draft decision, the Supervision is of the opinion that the insurance companies should have informed and/or obtain the consent to allocate the yields of the profit participating portfolio regarding the one-time deposits that were performed with yield guaranteed policies. In the draft decision the Commissioner wishes to instruct to perform certain actions while dividing the policyholder to two groups - one group consists of policyholders whose one-time deposits bore equal or higher yield than the guaranteed yield, and the other group consists of policyholders whose one-time deposits bore yields that were lower than the guaranteed yield.

b. On July 29, 2012, a subsidiary received an audit report regarding the members' rights in a pension fund it manages and which was prepared by the Commissioner of the Capital Market, Insurance and Savings with the Ministry of Treasury ("the Commissioner") at the subsidiary during the year 2011 ("the audit report"). The audit report relates to various issues including findings regarding the management of the members' rights in the pension fund, as well as settlement of claims, risk arrangement, mobility, reports to members, redemptions, management fees, as well as the manner of management of the member's entire rights in the fund, in cases where the members of the pension fund have more than one pension plan (account) (management at the level of policyholder). During the audit the subsidiary rendered its opinion regarding the findings of the audit which were furnished to it, including the actions that it took or is taking in respect of various issues that were included in the audit report and it continues to make the amendments and take the actions that are required according to the audit report. The Commissioner took administrative enforcement actions in connection with the various findings of the report and announced his intention to impose a financial sanction regarding the findings of the report. As at the date of the financial statements a financial sanction of NIS 150 thousand was imposed on the company in respect of four violations (for not providing a data file for a receiving fund at the time of transferring the funds for mobilization, delay in providing a certification about the transfer of money to a member who transfers from the fund, not sending quarterly and annual reports to the members and sending these reports late).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

d) Legal and other proceedings

Below is a description of additional material legal and other proceedings against the Company and/or the subsidiaries.

40. In addition to the requests for approval of claims as class actions that were filed against the Group and the legal and other proceedings, there is a general exposure which cannot be estimated and/or quantified, due to, among others, the complexity of the services granted by the Group to its policyholders. The complexity of these arrangements entails, among others, a potential for interpretation and other arguments resulting from differences in information between the Group and the third parties to the insurance contracts that relate to a long list of commercial and regulatory conditions.

This exposure is expressed mainly in the areas of pension and long term insurance savings, including health insurance, in which the Group operates. In these areas the policies are managed over the years in which there are changes in policies, regulations and legal trends, including court rulings.

These changes are made by EDP systems that undergo frequent changes and adaptations. The complexity of these changes and application of change with respect to many years, creates increased operating exposure. Receipt of a new interpretation to insurance policies and long term pension products may, at times, affect the Group's future profitability with respect to the existing portfolio, in addition to the exposure involved in the demands to compensate customers for past activities. It is not possible to anticipate the kind of arguments that will be raised in this area and the exposure resulting from any arguments that are raised in respect of the insurance contract, among others, the procedural apparatus pursuant to the Class Actions Law.

Furthermore, long-term savings products are characterized by a prolonged lifespan and are extremely complex, particularly in view of the various regulations relating both to management of the products and to taxation, attribution of the deposits, investment management, the insured's employment status, his deposit payments, etc. As part of the changes in regulations and legal trends, in December 2011, Circular no. 2011-9-10 was published for institutional entities - "Improvement of data on the rights of members in the institutional entities", this circular was replaced by circular No. 2012-9-16. The circular prescribes the operations that an institutional entity must perform in relation to the data specified in the holdings interface, with the context of the circular on a uniform structure for the transfer of information in the pension savings market, and it obligates the institutional entity to improve the holdings interface data so that the data in the holdings interface are complete and continuous insofar as such data are available for the duration of the savings period. With respect to members who joined before 1997, the data must be improved at least from 1997, and for provident funds that are not insurance funds or provident funds that pay an annuity, the information on deposits, transfers and withdrawals will be improved at the very least as of January 1, 2005 and thereafter. The circular contains instructions for the gradual implementation of the provisions during the period from December 31, 2012 through June 30, 2016.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

d) Legal and other proceedings

Below is a description of additional material legal and other proceedings against the Company and/or the subsidiaries.

40. (Cont.)

The Group's institutional entities are studying and continuously dealing with improvement of policyholders' rights, in connection with management of the products by the institutional entities, based on the gaps that emerge from time to time. Following the entering into effect of the improvement circular, the Company is also preparing to carry out the operations required from the implementation of the circular. At this stage, the Company is unable to estimate and quantify the scope and costs of the aforementioned improvement processes, and their repercussions also with respect to its past activity. At this stage, it is impossible to estimate whether a provision must be made in connection with the process of improving data on members rights as required in the circular, and the financial statements therefore contain no provision in respect of this circular.

41. Hereunder is a summary table of the amounts that are demanded under pending requests to approve claims as class actions, claims that were approved as a class action and other material claims against the subsidiaries, as stated by the plaintiffs in the statements of claims that were filed on their behalf. It should be noted that the claimed amount does not necessarily comprise a quantification of the amount of exposure that is estimated by the Company and/or the subsidiaries, since these estimates were made by the plaintiffs and they will be deliberated under legal proceedings. It should also be noted that the table below does not include proceedings that have ended, including proceedings that were concluded after a compromise agreement in their respect was approved (in this respect see paragraphs 31-39 above).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

d) Legal and other proceedings

41. (Cont.)

Type	Number of claims	Claimed amount NIS in thousands
Claims approved as class actions **)	3	369,691
Amount related to the Group was stated	1	19,200
The claims relates to a number of companies and no specific amount was attributed to the Group	1	350,491
The claim amount was not stated	1	
Pending requests to approve claims as class actions *) ****)**	26	21,061,342
Amount related to the Group was stated	16	16,962,475
The claims relates to a number of companies and no specific amount was attributed to the Group	5	4,098,867
The claim amount was not stated *****)	5	-
Other material claims	0	-

*) All the amounts are in NIS thousands and close to the date of filing the requests or the claims, as the case may be.

**) Including a claim that was approved as a class action and is in the process of an appeal (see paragraph 5 above).

***) Including claims that an appeal was filed in their respect as a result of the decision not to approve them as class actions, all or some of them (see paragraphs 1, 2, 16 above).

****) Whenever various alternative amounts of claims were stated in the requests to approve claims as class actions, the highest amount from among the amounts that were stated was taken into account (see paragraphs 20, 21 and 27 above).

*****) Including requests to approve claims as class actions wherein the exact claimed amount was not stated. (see details regarding a request to approve a claim as a class action in paragraph 11 above, where the claimed amount was estimated at millions of NIS without stating the precise amount of the claim).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent liabilities (Cont.)

d) Legal and other proceedings

41. (Cont.)

The total amount of the provision in respect of the class actions and other material claims, that were filed against the Group, as detailed in the summary table above, is about NIS 63 million (as at December 31, 2011 - NIS 52 million).

42. The total provisions in respect of all the proceedings against the Group, including class actions and other material claims is NIS 78 million (as at December 31, 2011 - NIS 59 million).

2. Commitments

a. For details regarding the commitment for the absorption the new business of Eliahu Insurance in the general insurance, see Note 38 d'1/

b. Commitments for investments and granting of credit

1. With respect to other financial investments, Migdal Insurance has commitments for future investments in investment funds as at December 31, 2012, in the total sum of about NIS 661 million, of which the sum of NIS 460 million is in respect of yield dependent contracts (in 2011 the sum of about NIS 638 million, out of which the sum of NIS 481 million is in respect of yield dependent contracts).

2. The balance of commitments for additional investments of Migdal Insurance in acquired corporations amounts to about NIS 100 million and is in respect of yield dependent contracts (in 2011 NIS 51 million in respect of yield dependent contracts). In addition, Migdal insurance undertook to provide credit, upon request, in the amount of about NIS 948 million, of which about NIS 805 million is in respect of yield dependent contracts (in 2011 about NIS 1,165 million, of which about NIS 979 million is in respect of yield dependent contracts).

c. Commitments for acquisition of real estate assets

In respect of real estate investments, the Group has a commitment for future investments totaling, as at December 31, 2012, about NIS 916 million, of which the sum of about NIS 828 million is in respect of yield dependent contracts (in 2011 – NIS 1,115 million and NIS 884 million, respectively). Part of the above amounts are based on a calculation mechanism determined in the agreement.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

2. Commitments (Cont.)

d. Indemnity and waiver letters to officeholders

1) Indemnity letters given up to 2006

a) The Company rendered indemnity letters to officeholders in investees and other corporations in which they serve by virtue of their capacity as officeholders in a subsidiary as well as to a number of the Group employees, whereby Migdal Insurance will indemnify them under the circumstances and reservations as detailed in the indemnity letter in respect of a monetary liability that will be imposed on them as a result of actions they will carry out by virtue of their post as officeholders in the aforementioned corporations, or in respect of activities as detailed in the indemnity letter.

b) The Company rendered waiver letters to officeholders in investees and other corporations in which they serve by virtue of their capacity as officeholders in Migdal Insurance and subsidiaries of Migdal Insurance, whereby the Company, under the circumstances and reservations as detailed in the waiver letter, had waived any claims against officeholders with respect to any action and/or omission that they will perform as officeholders in the aforementioned corporations.

c) The Company rendered indemnity letters to officeholders of the Migdal Insurance, of subsidiaries of Migdal Insurance and investees, , whereby they will be indemnified, in the amount, circumstances and reservations as detailed in the indemnity letters, in respect of any monetary liability that will be imposed on them with respect to the following issues:

(1) Prospectus of the Company from the year 1996.

(2) Liabilities that will be applicable to the Company and/or the Migdal Group companies due to the fact that the Company is a company whose shares are held by the public and are listed for trade on the stock exchange, providing that the liability for indemnification will be applicable only to liabilities deriving from operations that were performed during the period of up to one year from the date of the prospectus.

d) The Company rendered waiver letters and an undertaking to dismiss claims regarding officeholders in corporations that belong to the Migdal Group, whereby under the circumstances and reservations as detailed in the waiver letters and the undertaking, it waived the claims against the officeholders with respect to any action and/or omission that will be performed by them in their capacity as officeholders in each of the corporations, including actions with respect to the areas detailed below:

(1) Prospectus of the Company from the year 1996.

(2) Liabilities that will be applicable to the corporation due to the fact that the Company is a company whose shares are held by the public and are listed for trade on the stock exchange.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

2. Commitments (Cont.)

d. Indemnity and waiver letters to officeholders (Cont.)

1) Indemnity letters given up to 2006

d. (Cont.)

The Company also undertook, under the circumstances and reservations as detailed in the waiver letters and the undertaking, to dismiss any claim that will be filed against the corporations or any one of them, if as a result of the claim, as mentioned, the officeholders will be sued by any of the corporations by a claim that will not be dismissed in limine.

2) Letters of release and indemnity that were rendered in 2006

In November 2006, a special general meeting of the Company's shareholders approved the granting of a commitment to exempt and indemnify officeholders of the Company.

Accordingly, the Company informed its officeholders as follows:

Commitment for release - the Company releases its officeholders from any responsibility towards it, to the extent that this is permitted by law, for any damage that is and/or may be caused to it and/or may be caused due to a breach of the duty of caution that applies to the officeholders in their bona fide activity by virtue of their capacity as the Company's officeholders and/or at its request as officeholders of another company in the Migdal Group and/or as a representative of the Company and at the request of another corporation in which the Company holds rights, directly or indirectly, or in which it is an interested party (hereunder - "the Other Company"), as specified in the letter of release and indemnity given to the officeholder.

Undertaking for indemnity - the Company undertakes in advance to indemnify the Company's officeholders, including officeholders of the Other Company based on the text of the waiver and indemnity letter given to the senior officeholders. Based on the letter of indemnity and subject to the provisions of the law, the Company undertook to indemnify the officeholders for any liability or expense specified in the letter of indemnity that is imposed on them or any expense they may incur due to activity they undertook (including activity before the date of the letter of indemnity) and/or that they may undertake in their capacity as officeholders of the Company and/or of the Other Company, provided that the activity relates, directly or indirectly, to one or more of the categories of event listed in the addendum to the letter of indemnity, and provided that the maximum amount of indemnity in respect of Section 2.1.1 of the letter of indemnity, inclusive and in aggregate, payable by the Company to each officeholder does not exceed 25% of an aggregate amount equal to the Company's (consolidated) equity according to the last consolidated annual financial statements before actually giving the indemnity, and this for each of the officeholders, severally and together, for a single event and in aggregate, and in addition to amounts that may be received from an insurance company, if they are received, as part of the insurance purchased by the Company.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

2. Commitments (Cont.)

d. Indemnity and waiver letters to officeholders (Cont.)

3) Disclaimer earmarks and commitments to indemnify in 2011

In November 2011 the Company's Audit Committee decided to earmark up to November 30, 2020, the period of events during which the exempt and indemnification arrangements of the Company will apply, as long as they will not be replaced by other arrangements, as well as the exempt or indemnification certificates which will be granted from time to time by the Company according to the Company's exempt and indemnification arrangements, regarding the officeholders of a company whose controlling shareholder might be considered to have a personal interest to grant these officeholders who are serving or will serve the company from time to time, an exempt and indemnification certificates.

4) Updated indemnity certificates granted in 2012

Regarding the letters of indemnity also see the immediate report dated November 28, 2011, Reference no. 2011-01-378141 and on February 7, 2012, Reference no. 2012-01-036555.

On April 24, 2012, a special general meeting of the Company approved a commitment to a directors and officers (D&O) liability insurance policy for all the officeholders of the Company, its subsidiaries and affiliates, as they may be from time to time, for the period from April 1, 2012 up to March 31, 2013, with a limit of liability of USD 100 million per event and for the period. The total group premium is USD 447,225.

5) Within the framework of an agreement dated December 1, 2004 that was signed in respect of the acquisition of Makefet shares, the purchasers undertook that the letters of indemnity given by Makefet to its officeholders, will not be cancelled or changed to the extent they relate to events that have occurred up to the acquisition date.

In addition, the purchasers have given an undertaking within the acquisition agreement, that if any claim or allegation whatsoever will be filed in connection with Makefet, against the seller or a party acting on its behalf or for it, whether it relates to the period before the acquisition date or to the period after the acquisition date, they will compensate the seller or the party acting on its behalf or for it for the said claim.

6) Migdal Insurance granted Old Yozma a letter of indemnity unlimited by time, whereby a subsidiary will indemnify Old Yozma under the circumstances as determined in the letter of indemnity, in respect of any monetary liability that Old Yozma will be charged for, with respect to the transfer of shares of Migdal Pension Funds Management Ltd. (hereinafter – “Migdal Pension”) to the direct ownership of Migdal (Migdal Pension was merged within Makefet and the determining date for the merger was December 31, 2005). The undertaking to indemnify includes an undertaking to indemnify in connection with any debt or expense that Old Yozma will be charged for by virtue of the letter of indemnity that will be issued by Old Yozma to its officeholders.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

2. Commitments (Cont.)

e. Other commitments

1) Migdal Insurance undertook to purchase from Femi Premiums Ltd. ("Femi"), beginning from March 2007, all the assistance services that are provided to the policyholders, according to the service riders that are sold in the framework of the motor casco insurance area (towing, windowpanes, replacement vehicles, etc.) and most of the related services under the comprehensive residential and health insurance policy, including the operation of a national center that is manned 24 hours a day. Migdal Insurance undertook to purchase these services from Femi, exclusively, for the period of five years commencing from March 2007 and under the conditions as determined in the agreement.

In March 2012, Migdal Insurance's Migdal Insurance's commitment to purchase the services exclusively from Femi was cancelled. An amendment to the agreement settled the extension of the agreement for another two years, and Migdal Insurance has the right to terminate the agreement before the end of the aforesaid period by giving advance notice.

The amendment to the agreement in 2013, included additional amendments to the agreement whereby, among others, the prices of services that relate to the service certificates in the fields of general insurance and health insurance were updated and the validity of the agreement was extended by three years beginning from April 2013.

The acquisitions from Femi in 2012 for all the services that were acquired from Femi amounted to about NIS 47 million, compared to about NIS 50 million in 2011. The cost of the services acquired from Femi are allocated to the insurance claims costs.

2) Computer and software suppliers

a) Software companies from whom the Group purchases licenses for utilizing products and infrastructures (mainly Microsoft, Oracle and SAP). The annual payments for the purchase of these licenses to each of the suppliers are immaterial.

b) Commitments relating to the storage of the Group's central computer room and establishment of a back-up site in the framework of the BCP project:

- In October 2006, an agreement was signed with MD-1 E.C.I. 1 (1999) Ltd. ("MD-1"), which has an underground secured site in Petach Tikva, and it provides hosting and communication services to store the Group's central computer room in this site. This engagement is for the period of 15 years, with the right to extend the engagement for another period of one year, under the conditions that are determined in the agreement. The engagement can be terminated by the Group at its discretion, before the end of the first period, subject to the payment of a certain amount of money as determined in the engagement agreement. The current payments that are paid under this engagement are immaterial.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

2. Commitments (Cont.)

e. Other commitments (Cont.)

2) Computer and software suppliers (Cont.)

b) (Cont.)

- In the year 2011 the Company began a project whose purpose was to upgrade and develop issues related to technological business continuity of data systems, as part of an overall project of BCP & DRP.

  In September 2012 and agreement was signed with MD-1regarding the establishment of a back-up site in Tirat Hacarmel. The engagement is for the period of 10 years beginning from the date the back-up site is furnished to the Group, with an entitlement to extend the engagement for another period of one year, at the same terms as determined in the agreement (as at the date of publication of these financial statements, the site was not yet furnished). The engagement can be ended by the Group, at its discretion, before the ten years end, providing that if a notice regarding the termination of the agreement, was before the end of five years from the date of furnishing the back-up site, subject to the payment of an amount of money that was determined in the commitment agreement.

3) Distribution and operation agreements

For details regarding the distribution and operation agreements, see Note 38g.

4) With respect to investment in the Group companies, see Note 7.

f. Guarantees

1) Within the context of its membership of the TASE Clearing House (hereunder - "the Clearing House"), a subsidiary of Migdal Capital Markets ("the subsidiary") is responsible, together with the other members of the Clearing House, for any loss caused to the Clearing House due to the non-payment of any amount whatsoever that a TASE member is obliged but failed to pay, or securities that a Clearing House member should have transferred and failed to do so. To guarantee the liabilities of the Clearing House members, as mentioned above, the by-laws of the Clearing House set forth a risk-fund mechanism in which each Clearing House member deposits an amount derived from its relative share of trade on the Stock Exchange. During the reporting period there was a change in the method of calculating the risk fund. Before the change, the liability of each Clearing House member was calculated according to the rate of the financial turnover of the activities of that Clearing House member, compared to the financial turnover of the activities of all the Clearing House members in the TASE during the 12 months prior to the month the event had occurred. Beginning from April 2012, each Clearing House member's share is calculated according to his average balance versus the Clearing House, compared to the average balance of all the Clearing House members during the six months prior to the calculation.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

2. Commitments (Cont.)

f. Guarantees (Cont.)

1) (Cont.)

Accordingly, the subsidiary deposited its share in the amount of NIS 29,630 in the risk fund at December 31, 2012, in a shekel deposit which is pledged in favor of the TASE Clearing House (last year, the amount of the deposit was NIS 16,783 thousand).

2) The subsidiary makes shekel deposits in a bank which renders Maof clearing services, that are pledged to the bank and serve as collateral for the liabilities of the subsidiaries and its customers in respect of derivatives trading. The amount of the deposits varies from time to time, in line with the TASE requirements, which are based, inter alia, on the volume of transactions performed by the subsidiary and its customers, and on TASE scenarios with respect to the Maof index and foreign currency exchange rates. At the reporting date, these deposits amounted to NIS 42,577 thousand (in 2011 - NIS 32,407 thousand).

3) In respect of the commitments for equity supplementation in the Group companies, see Note 7.e.

g. Holdings in trust

A subsidiary of Migdal Capital Markets holds in trust, for its customers (which include, inter alia, mutual funds managed by another subsidiary of Migdal Capital Markets (Migdal Funds)), securities investment portfolios and cash in the value of about NIS 17.2 billion as at December 31, 2012 (December 31, 2011 – about NIS 15.8 billion).

Furthermore, the Capital Markets group manages investment portfolios, mutual funds and provident funds for customers who are not related parties in the total amount of about NIS 34 billion as at December 31, 2012 (December 31, 2011 – about NIS 31 billion).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

2. Commitments (Cont.)

h. Leases

1) Leases under which the Group has operating leases

The Group has entered operating lease agreements with respect to vehicles. The average leasing term is three years and the contract does not include an option to extend the lease.

The minimum leasing fees that will be paid for the irrevocable operating lease contracts as at December 31, are:

	December 31	
	2012	**2011**
First year	27,582	25,951
Second year up to five years	21,944	25,852
	49,526	51,803

For details about land that is leased, see Notes 6 and 8.

2) Leases in which the Group is the operating Lessor

The Group leases out real estate assets for investment to external entities. The lease agreements are for an average period of 3 to 7 years. Usually the leasers have an option to extend the period of lease according to the conditions that were set in the agreement.

Hereunder are the minimum leasing fees that will be received for irrevocable lease contracts (not including the option period):

	December 31	
	2012	**2011**
First year	260,667	270,359
Second year up to five years	641,897	530,087
More than five years	583,650	503,926
	1,486,214	1,404,372
Of which the minimum future leasing fees receivable that relate to assets in which the Group is a financing lessee	582,460	819,386

During the year ended as at December 31, 2012 the Group recognized the sum of NIS 3,035 thousand as an income in the statement of profit and loss in respect of contingent leasing fees (in 2011 and 2010 – NIS 4,273 thousand and NIS 2,035 thousand, respectively).

For additional information regarding income recognized in respect of investment property, see Notes 8 and 26.

a. Quoted debt assets

Composition:

	December 31			
	Carrying amount		Amortized cost	
	2012	2011	2012	2011
	NIS in thousands			
Government bonds – available-for-sale	3,252,562	2,274,952	3,128,831	2,238,804
Other debt assets				
Non-convertible – avalable-for-sale	1,949,048	2,321,743	1,839,420	2,363,980
Convertible designated on initial investment as fair value through profit or loss	-	1,983	-	2,224
Total quoted debt assets	5,201,610	4,598,678	4,968,251	4,605,008
Impairment recognized in profit or loss (on a cumulative basis)	7,669	2,002		

b. Shares

	December 31			
	Carrying amount		Cost *)	
	2012	2011	2012	2011
	NIS in thousands			
Quoted – available-for-sale	601,084	752,586	513,420	693,826
Unquoted – available-for-sale	30,631	29,168	23,736	25,867
Total shares	631,715	781,754	537,156	719,693
Impairment recognized in profit or loss (on a cumulative basis)	95,791	142,700		

c. Other financial investments

Other financial investments include mainly investments in basket certificates, participation certificates in mutual funds, hedge funds, investment funds, financial derivates, future contracts, options and structured products.

	December 31			
	Carrying amount		Cost *)	
	2012	2011	2012	2011
	NIS in thousands			
Quoted				
Available-for-sale	931,808	545,767	875,172	479,306
Derivative instruments	10,574	14,614	15,117	18,873
	942,382	560,381	890,289	498,179
Unquoted				
Reported at fair value through profit or loss	54,505	71,139	63,676	61,957
Available-for-sale	309,138	316,059	301,369	307,015
Derivative instruments	6,231	22,558	-	1
	369,874	409,756	365,045	368,973
Total other financial investments	1,312,256	970,137	1,255,334	867,152
Impairment carried to profit and loss (on a cumulative basis)	125,758	74,698		

*) Net of provisions for impairment