

State Of Israel

Ministry Of Finance

Capital Markets, Insurance And Savings Division

15 Cheshvan 5761
November 13, 2000

Document of Understanding

Arrangement Starting from January 1, 2003

1. The insurers will bear the entire insurable risk in the line without co-insurance with Avner.
2. Differential tariffs will be set in motion according to the principles that will be consolidated following consultation with the insurance companies in professional panels that will be conducted by the Data Bank operator subject to the laws of business restrictions; the pure risk benchmark tariffs that will be issued by the Data Bank operator will be based upon all of the line's results including the results of the Pool, providing a complete itemization of the tariff's components and the professional methodology used to establish it. The benchmark tariffs will be established based upon accepted actuarial principles. The inception of the supervisory regulations of differential tariffs will be for the tariffs starting from January 1, 2003.
3. The Data Bank regulations, including the fixed time for the commencement of the payments to the Data Bank operator will come into effect immediately (commencing from 1.1.2001), with a postponement of the insurance companies' obligation to begin reporting data to the Data Bank until no later than July 1, 2001. The cost of the Data Bank will be included within the framework of the loadings permitted to the insurers and the permitted loading ceiling will be raised from 16% to 16.55% for the year 2003 and will be calculated anew according to the actual costs from the year 2004 onwards (according to estimate 16.25%).
4. The Data Bank operator's financial statements will also be passed on to the insurers. A decision on the effectuation of the optional period or going out to a new tender for the Data Bank operator, as the case may be, will be made following consultation with the insurers. If it is decided to go out to a new tender, the insurers will be given the opportunity to present their position regarding improvements to the previous tender.
5. A professional team of the insurance commissioner will be set up immediately with the participation of insurer and Data Bank representatives that will recommend to the insurance commissioner on the method for updating the Pool tariff according to the results of the line and the Pool, with the aim, among other things, to limit the growth of Pool losses or the increase in the size of the Pool, and in order to wrestle with unexpected deviations from the estimated Pool results, and everything while preserving the essential role of the Pool to provide the availability of insurance to the public. Concerning this, the team will weigh the use of various supplemental arrangements and their combinations including the updating of the Pool tariff, improving the suitability of the tariff to the voluntary market risk and improving the tariff's structure; if the team's work above is not completed by April 1, 2001 then the regulations will be established without the updated method which will be regulated in the continuance.

Avner

6. In the additional interim period Avner will act as a co-insurer and will be permitted to provide all of the services that it provides today. In parallel, the insurers will prepare for the cessation of Avner's activities starting from 1.1.2003 in all of the applicable areas.
7. Commencing from 1.1.2003, all other activity will be removed from Avner that is not tied to managing the run-off portfolio. The claims within the run-off period will be handled according to existing agreements between Avner and the companies.
8. The manner in which Avner will manage the run-off under the State's supervision will be anchored in law with the provision that the company will manage the run-off procedure for the purpose of achieving the law's objectives and with the aim that the company's assets will suffice to cover its liabilities.
9. Avner will be granted an exemption from the capital requirements according to the directives of the insurance commissioner and the insurers will not be required to supplement a deficiency in Avner's insurance reserves, if and inasmuch as will be created. In parallel, the insurers (the shareholders in Avner) will waive rights to Avner's assets and all of the surplus or rights in its liquidation that remain. In the event of surplus or deficiency as noted, the balance will be handled accordingly via Karnit. Likewise, directive paragraph 5 to the controlled competition law regarding the division of liability between the insurers and Avner in the co-insurance, will apply, as needed, also to the payments during the run-off period. Inasmuch as the shareholders in Avner relinquished their assets in Avner as noted, Avner will have no claims or rights whatever against its shareholders relating to their being members in Avner.
10. In order to put into effect that which is noted in this document -
 - a. Commencing on April 1, 2001 Avner's Board of Directors will be reduced and will contain 10 directors only, out of which 6 including the chairman, will be appointed or replaced by the insurance commissioner with the approval of the Minister of Finance (below – public directors). The commissioner will appoint directors possessing appropriate qualifications and background. The directors will assure proper current management and orderly transition of the company to run-off.
 - b. Commencing on January 1, 2001 there will be appointed in Avner (on its account) an accompanying accountant on behalf of the State who will be authorized to supervise the corporation's income and expense arrangements and for this purpose will be authorized to receive all relevant information and documents, and thus to demand deliberation by the Board of Directors of issues that he feels are proper and to participate in the Board of Directors' and committees deliberations as an observer. The corporation will not commit itself to any financial obligation that is not payment for the settlement of a claim according to the co-insurance agreement that exceeds 40,000 NIS without his approval.
 - c. Commencing on April 1, 2001 every agreement, arrangement or obligation or revision to them that has an essential influence on the business results of Avner will be brought for the prior approval of the Board of Directors. For the approval of essential issues as noted, including the effectuation of assets, establishing the terms for the workers' employment or retirement or revising their employment conditions, shall demand a special majority of 60% of the Board members and

from among them at least 4 public directors. A revision to the company's articles of association or a revision to agreements as significant in the controlled competition law also requires the approval of the insurance commissioner. In any case, no dividend will be distributed in any manner. Without diminishing from that which is stated in this small paragraph, from the day the insurers approve this document of understanding and until the appointment of the public directors as noted in small paragraph a., all issues as noted will be brought for the prior approval of the insurance commissioner.

- d. Commencing on January 1, 2003 there will be appointed to the company a special manager on behalf of the insurance commissioner who will be authorized to operate similar to a manager authorized according to the supervisory law.
11. Avner will not be involved with the operation of the Data Bank that was established by law.

The Interim Period

12. In the period between January 1, 2001 and December 31, 2001 (underwriting year) the insurers will carry 70% of the insurable risk in the compulsory insurance line and Avner 30%.
13. In the period between January 1, 2002 and December 31, 2002 (underwriting year) the insurers will carry 80% of the insurable risk in the compulsory insurance line and Avner 20%.
14. Commencing on April 1, 2001, "Ehrlich's Letter" and Paragraph 17 regarding the insurers' part in the co-insurance is no longer in force. An insurer will be entitled to set the tariffs in a band of 10% above and 10% below the average tariff that will be set as noted in paragraph 15.
15. At the time that "Ehrlich's Letter" is no longer in force as noted, the tariff will be updated (-0.5% relative to the tariffs preceding September 1, 2000) from this time on according to the recommendations of the Data Bank operator, without a component for absorbing prior profit or adding prior losses. In parallel and from that time onwards, the correction that was made to the tariffs from September 1, 2000 relative to the insurers' part will be cancelled. Until the end of the interim period, the tariff will be updated in a manner that will reflect the average risk in the line according to the Data Bank operator's recommendations, in a structure similar to the structure of the existing tariff.

Additional Activities

16. The insurance commissioner will act along with the insurers to advance the following topics:
 - a. Giving access to relevant central data bases such as: traffic violations data base, driving licenses data base, etc., in order to assist them with the underwriting procedure.
 - b. Contesting with insurance fraud including by means of the Data Bank by expanding its authority to receive relevant private information.
 - c. Efficient bookkeeping with medical service providers and efficient examination of them, including by means of hiring outside examiners that will operate for the insurers that want this.

- d. That which is noted above, subject to every law and in coordination with the relevant elements.
17. Avner will pass on to the Data Bank operator all of the historical data in its possession.

General

18. A joint team will be established including representatives of the insurers and representatives of the insurance commissioner to follow-up on the reform's implementation; topics and recommendations will be brought to the commissioner.
19. After receiving approval from all relevant elements the agreements will be anchored in statutory arrangements. The insurers as shareholders in Avner commit themselves to act such that the directives in this document will be implemented by the Avner corporation.

Note: In any case of discrepancy between this translation and the original document in Hebrew, the original will govern.