

**BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA**

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Clal Insurance Enterprises : Companies Act, Article XIV of the
Holdings Ltd. in Support of the Request : Insurance Company Law of 1921, Act
for Approval to Acquire Control of : of May 17, 1921, P. L. 682, as
AmGUARD Insurance Company, : amended, 40 P.S. §§991.1401,
NorGUARD Insurance Company, : 991.1402 and 991.1403; Chapter
EastGUARD Insurance Company, and : 25 of Title 31 of the Pennsylvania
WestGUARD Insurance Company : Code, 31 Pa. Code §§25.1-.23.
:
: Order No. ID-RC-07-08

DECISION AND ORDER

AND NOW, on this 2nd day of May, 2007, Randolph L. Rohrbaugh, Acting Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Involved Persons

Domestic Insurers

1. WestGUARD Insurance Company (“WestGUARD”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania.
2. AmGUARD Insurance Company (“AmGUARD”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania.

3. NorGUARD Insurance Company (“NorGUARD”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania.
4. EastGUARD Insurance Company (“EastGUARD”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania.
5. AmGUARD, NorGUARD and EastGUARD collectively own 100% of the outstanding stock of WestGUARD.
6. AmGUARD, NorGUARD, EastGUARD and WestGUARD are collectively hereinafter referenced as “PA Domestic Insurers.”
7. GUARD Insurance Group, Inc. (“GIG”) is an insurance holding company organized under the laws of Commonwealth of Pennsylvania with its principal place of business in Wilkes-Barre, Pennsylvania. AmGUARD, NorGUARD and EastGUARD are direct wholly-owned subsidiaries of GIG.
8. GUARD Financial Group, Inc. (“GUARD Financial”) is a holding company organized under the laws of Delaware with its principal place of business in Wilkes-Barre, Pennsylvania. GIG is a direct wholly-owned subsidiary of GUARD Financial.
9. Susan W. Shoal is an individual whose principal place of business is located in Wilkes-Barre, Pennsylvania. Shoal controls 55.52% of the voting securities of GUARD Financial.
10. Susan Shoal is the sole ultimate controlling person of the PA Domestic Insurers.

Acquiring Persons

11. Clal Acquisition Corporation (“Merger Sub”) is a newly-formed business corporation organized under the laws of the State of Delaware with its principal place of business in Pittsburgh, Pennsylvania.
12. Clal U.S. Financial Group, Inc. is a newly-formed business corporation organized under the laws of the State of Delaware with its principal place of business in Pittsburgh, Pennsylvania. Merger Sub is a wholly-owned subsidiary of Clal U.S. Financial Group, Inc.
13. Clal U.S. Holdings, Inc. is a newly-formed business corporation organized under the laws of the State of Delaware with its principal place of business in Pittsburgh,

Pennsylvania. Clal U.S. Financial Group, Inc. is a wholly-owned subsidiary of Clal U.S. Holdings, Inc.

14. Clal Insurance Enterprises Holdings Ltd. (“Clal Holdings”) is a business corporation organized under the laws of Israel with its principal place of business in Tel Aviv, Israel. Clal U.S. Holdings, Inc. is a wholly-owned subsidiary of Clal Holdings.
15. Isaac Manor (“Mr. Manor”) is an individual with his principal place of business in Bnei Brak, Israel.
16. Ruth Manor (“Mrs. Manor”) is an individual with her principal place of business in Bnei Brak, Israel.
17. Nochi Dankner (“Dankner”) is an individual with his principal place of business in Tel Aviv, Israel.
18. Avraham Livnat (“Livnat”) is an individual with his principal place of business in Ramla, Israel.
19. Mr. and Mrs. Manor, Dankner and Livnat are the ultimate controlling persons of Clal Holdings.

Acquisition Filing

20. On November 21, 2006, Clal Holdings, GUARD Financial, Susan Shoal and Y. Judd Shoal executed an Agreement and Plan of Merger (“Agreement”) under which Clal Holdings will acquire control of the PA Domestic Insurers by means of a merger at the holding company level between GUARD Financial and Merger Sub.
21. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
22. On January 24, 2007, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application”) from Clal Holdings for approval to acquire control of the PA Domestic Insurers.
23. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

24. On February 10, 2007, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by Clal Holdings and such notice invited interested persons to submit comments to the Department regarding the Application for 30 days following the date of the publication (“Comment Period”).
25. During the Comment Period, the Department received no comments regarding the proposed Application.

Description of the Proposed Acquisition

26. As described in the Application, prior to the proposed merger, GIG will merge into GUARD Financial and GUARD Financial will become the direct parent of AmGUARD, NorGUARD and EastGUARD.
27. As described in the Application:
 - a) Merger Sub will be merged with and into GUARD Financial with each share of Merger Sub issued and outstanding to Clal U.S. Financial Group, Inc. immediately prior to the effective date of the merger being converted into one share of GUARD Financial on the effective date,
 - b) all shareholders of GUARD Financial immediately prior to the effective date of the merger shall be converted into the right to receive cash, and
 - c) GUARD Financial will become a wholly-owned subsidiary of Clal U.S. Financial Group, Inc.
28. The instant Application requests approval for the change in control of the PA Domestic Insurers which would result from the effectuation of the Agreement.

Standards for Review

29. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.

Licensing Requirements

30. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
31. The lines of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
32. The minimum paid up capital stock and paid in surplus required of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
33. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), the PA Domestic Insurers are independently required to maintain a minimum paid up capital stock of \$2,350,000 and a minimum paid in surplus of \$1,175,000 to write the lines of insurance for which each is presently licensed.
34. As of December 31, 2006, the PA Domestic Insurers each maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.
35. Upon completion of the transaction, the PA Domestic Insurers will each have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.

Competitive Impact

36. The acquisition of control of the PA Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
37. The acquisition of control of the PA Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth.

Financial Condition of Applicant

38. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring person(s).
39. The Department has reviewed the annual financial statement submitted by Clal Holdings as of December 31, 2005, and interim financial statement as of September 30, 2006.
40. The Department has reviewed the financial statements submitted by Mr. and Mrs. Manor and Livnat as of December 31, 2005, and the financial statement submitted by Dankner as of December 31, 2006.
41. The financial condition of Clal Holdings, Mr. and Mrs. Manor, Livnat and Dankner will not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

Plans for the Acquired Insurer

42. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.
43. As provided in the Application, Clal Holdings has no future plans or proposals to liquidate the PA Domestic Insurers, to sell their assets to or merge them with any person or persons.
44. As provided in the Application, Clal Holdings has no plans of downsizing Pennsylvania personnel.

Management

45. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.
46. Biographical affidavits for all directors and executive officers of Clal Holdings were reviewed by the Department.

47. The Department is satisfied that the persons who would control the operations of the PA Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
48. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the change in control of the PA Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which they are presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control; or,
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.

3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of the PA Domestic Insurers.
4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

The acquisition of control by Clal Insurance Enterprises Holdings Ltd. (“Clal Holdings”) of AmGUARD Insurance Company, NorGUARD Insurance Company, EastGUARD Insurance Company, and WestGUARD Insurance Company (collectively referenced hereinafter as “PA Domestic Insurers”) as set forth in the Application, is hereby approved, subject to this Order and the following condition:

1. All necessary regulatory filings and approvals are obtained prior to consummation of the Agreement and Plan of Merger.
2. Clal Holdings shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation.

RANDOLPH L. ROHRBAUGH
Acting Insurance Commissioner
Commonwealth of Pennsylvania