MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.
PERIODIC REPORT FOR 2015

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

COMPANY NUMBER: 52-002998-4 **ADDRESS:** 4, EFAL STREET, KIRYAT ARYEH, PETACH TIKVA

TELEPHONE: 076-8868959, 076-8868962 **FACSIMILE:** 03-9238988

E-MAIL: migdalhold@migdal.co.il

WEBSITE: www.migdal.co.il

RAMON CRATER | **NEGEV DESERT**

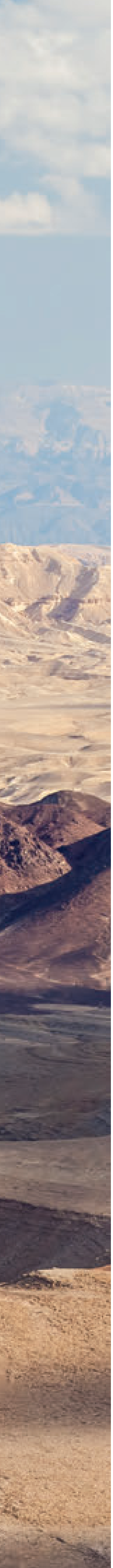


TABLE OF CONTENTS

SOLOMON'S PILLARS | **NORTH OF EILAT**

BOARD OF DIRECTORS

- **Yohanan Danino - Chairman** (appointed as a Director on November 24th, 2015 and as Chairman of the Board of Directors on December 16th, 2015)
- **Prof. Oded Sarig** (appointed as a Director on January 27th, 2015 and as Chairman of the Board of Directors on February 18th, 2015)
- **Shlomo Eliahu** (resigned from the position of CoB on February 18th, 2015, serves as a Director)
- **Ronit Abramson**
- **Israel Eliahu**
- **Eyal Ben Chlouche** External Director
- **Yigal Bar-Yossef** External Director
- **Jacob Danon** External Director
- **Amos Sapir** (appointed on November 24th, 2015)
- **Dr. Gavriel Picker**


MIGDAL
SOCIAL RESPONSIBILITY

Migdal, as a leading company in the Israeli economy, would like to help improve the social condition in Israel and accelerate significant social changes, while integrating them in its business activity core and encouraging social commitment on behalf of its employees.

NEGEV DESERT

MIGDAL'S STRATEGY FOR SOCIAL INVESTMENT IN THE COMMUNITY

Since its establishment, Migdal attributed an importance to the social investment in the community in which it operates.

The strategy focuses on four channels

Improving the quality of life and economic, physical and mental-social wellbeing of people in the Third Age (60+) and the Fourth age (80+).

Improving managerial infrastructures of social organizations by supporting infrastructure associations.

Strengthening the social solidity of communities adjacent to the Company's offices.

Donating to various associations that act in the community.

The donations and social investments are managed in a professional manner and are accompanied by a Committee next to the BoD, according to policy, professional criteria, objectives and indices of success. In 2015 Migdal donated approx. NIS 7 million.

Presented below are some projects from the activity for the community in 2015

1. Improving the wellbeing and the quality of life of people in the Third and Fourth Age.

Economic wellbeing

VEHADARTA Promoting and encouraging the employment of older people in Israel; ITWORKS A training program for women and men aged 60+ for the operation of 3D printers, and hands-on placement; TELEM Promoting the employment of older people in the North; KEN LAZAKEN Helping older people exhaust their rights.

Physical wellbeing

THE ASSOCIATION FOR THE TREATMENT OF THE MOUTH Dental care for older people in need, who are confined to bed; HAVERIM LIRFOUA Thermal carriages for the transportation of second hand medicines for old people in need who live in the periphery; MILBAT A plan for the prevention of falls among old people, and improving safety in their homes; NASHIM LEGUFAN Workshops for older women.

Mental-social wellbeing

ESHEL JOINT Maintaining older people's health and quality of life by local and national walks; YADID LEHINUCH Pensioners who volunteer in the educational system; ESHEL JOINT a social communal plan aimed at making older people confined to bed feel less lonely.

2. Improving managerial infrastructures of social organizations by supporting infrastructure associations.

THE HOUSE OF ASSOCIATIONS Establishing a joint working space for seven fixed associations and guest associations; MIDOT Promoting effective behavior of social organizations, a website aimed at mapping social organizations; NOVA Strategic accompaniment of social organizations; CIVIL LEADERSHIP The parent organization of non-profit associations and organizations.

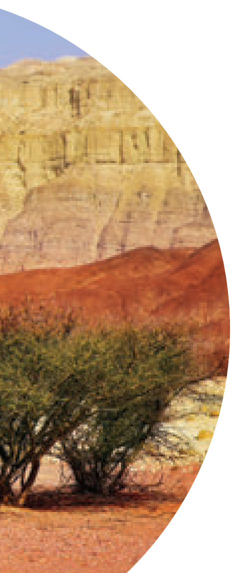
3. Strengthening the social solidity of communities adjacent to the Company's offices

Migdal has offices in Petach Tikva, Tel Aviv, Haifa and Jerusalem. Since it is part of the social-economic fabric of these cities, Migdal supports community projects for the residents.

JERUSALEM Improving the residents' quality of life in Gilo neighborhood, with an emphasis on Third and Fourth Age population, together with "Lev Ohev" organization; HAIFA A social-economic entrepreneurship center for people in the Third Age (60+), together with "Zionism 2000" organization; PETACH TIKVA Encouraging bicycle riding and teaching the right and safe way to ride a bicycle for elementary school children, together with "Instructors on the Road" organization; TEL AVIV Sapirim Lirvava program that provides financial education for youngsters, together with "Shiur Aher".

4. Donating to various associations that act in the community

In 2015 about 100 associations received donations from Migdal.



HULA LAKE

CORPORATION BUSINESSES DESCRIPTION

HULA LAKE

Note regarding the implementation of the Securities Regulations provisions (Periodic and Immediate Reports) – 1970 ("Securities Regulations") in this report

According to regulation 8c of the Securities Regulations, the provisions of regulations 8 (b), 8a and 8b to the Securities Regulations do not apply to information in a periodic report of a corporation that consolidated an insurer or to which the insurer is an affiliated company, as far as this information is in respect of the insurer.

Most of Migdal Insurance and Financial Holdings Ltd.'s holdings are Migdal Insurance Company Ltd., which is an insurer, as defined in the Supervision Law of Insurance Businesses – 1981, and the main material company in the Group. The Group also includes companies which are active in the pension and provident area: Migdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for the Self Employed Ltd., which also hold an insurer license, and Migdal Makefet that also holds a license of a provident funds' managing company.

This report is prepared in accordance with the circular of the Commissioner of the Capital Market, Insurance and Savings dated January 20th, 2014, regarding "Circular regarding the Update of Provisions in Insurance Companies' Periodic Report" ("**the Commissioner Circular**"), and also takes into account the Israel Securities Authority's position regarding abbreviating the reports, as published by it.

Forward-looking information contained in this report

In this report, the Company included forward-looking information regarding itself and other companies held by it, as defined in the Securities Law – 1968 ("**the Securities Law**"). This mentioned information includes, inter alia, forecasts, objectives, estimates and evaluations that relate to future events or matters, whose fulfillment is uncertain and outside the Group's control. Forward-looking information in this report will be usually identified by statements such as "the Group foresees", "the Group expects", "the Group estimates", "the Group believes", "the Group intends to", "the Group is examining", "the Group plans to" and similar expressions.

Forward-looking information is not an empirical fact and is only based on the Company management's subjective estimate, which, among other things, relies on assumptions based on an analysis of general information, which was available upon the preparation of this report, including public publications, studies and surveys, which did not provide any assurance as to the correctness or completeness of the information contained therein, and whose preciseness was not independently examined by the Company's management.

Also, the fulfillment and/or non-fulfillment of this forward-looking information is uncertain and may be affected by factors which cannot be estimated in advance and cannot be controlled by the Group, including risk factors that characterize the Group's activity as detailed in this report, as well as developments in the general environment and the external factors that may affect the Company's activity, as detailed in this report.

Therefore, although the Company management believes that its expectations, as described in this report, are reasonable, the readers of this report are hereby warned that the actual future results may be different than those displayed in the forward-looking information contained in this report.

The forward-looking information contained in this report refers only to the date in which it was written, and the Company does not undertake to update or change this information, as additional information is brought to its attention regarding this information.

The amounts specified in this Chapter and in the Board of Directors Report are, usually, (unless specified otherwise) stated in NIS million.
The amounts stated in the Financial Statements are usually (unless specified otherwise) stated in NIS thousands.

The Group's businesses are in areas that require extensive professional knowledge, in which many professional terms are used, that are essential to the understanding of the Group's businesses. In order to present the Corporation's businesses as clearly as possible, the Group's businesses description includes the usage of these terms, whenever necessary, and explanation and clarifications. The description of insurance products and insurance coverages described in this chapter is only for the sake of this report, and the full binding conditions are the ones described in the insurance plan or in the Articles of Association of the relevant funds, and it shall not constitute providing advice and shall not serve for interpreting insurance plans or Articles of Association as mentioned.

CHAPTER 1 - CORPORATION BUSINESSES DESCRIPTION

TABLE OF CONTENTS

Introduction to the Corporation Businesses Description chapter

1. Glossary - Definitions

This report will use the definitions detailed henceforth for the reader's convenience:

Capital Markets Group and/or Migdal Capital Markets Group	Capital Markets Group and all the companies controlled by Migdal Capital Markets.
Capital Regulations	Supervision of Financial Services Regulations (Insurance) (Minimum Equity Required from an Insurer) – 1998.
Commissioner of Insurance	The Commissioner of Capital Market, Insurance and Savings at the Ministry of Finance (who is also the Commissioner of Insurance as defined in the Law of Supervision).
The Company and/or the Corporation and/or Migdal Holdings	Migdal Insurance and Financial Holdings Ltd.
Companies Law	The Companies Law – 1999.
Contributions	The amounts deposited by members (or deposited for them) in a pension or provident fund.
Designated Bonds	CPI-linked government bonds which the State issues to insurance companies and pension funds, with a fixed interest rate and for a period set in advance. In life assurance – Hetz bonds and in pension – Meiron and Arad bonds are issued.
Educational Fund	They allow members to save money for training purposes and monies may be withdrawn after 6 years of membership. This product is considered as both a pension and a financial product.
Earned Premium	Premium with respect to the reported year.
Eliahu Insurance and/or Eliahu	Eliahu Insurance Company Ltd.
Fees	Amounts included in the insurance fees designated to cover the insurers' expenses (registration fees, policy fees, and levy fees).
Free Investments	The share of the assets which is not invested in designated bonds.
General Fund	A pension fund that may not invest in designated bonds.
Generali	Assicurazioni Generali S.p.A.
The Group and/or Migdal Group	Migdal Holdings and the companies held by it, owned fully or partially, whose Financial Statements are consolidated with Migdal Holdings' Financial Statements.
Income Tax Regulations	Income Tax Regulations (Rules for the Approval and Management of Provident Funds) – 1964.

Institutional Entity	An insurer and a managing company, as defined in the Law of Supervision.
Insurance Contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.
Insurance Fund	An insurance fund which was approved as per the Provident Funds Law and its provisions, as a provident fund, a provident fund for severance pay or a pension fund.
Insureds and/or Members	A life assurance insured person and a pension or provident funds member.
Investment Contracts	As defined in Note 1 to the Financial Statements, in the Definitions clause.
Investment Regulations and/or Regulations regarding Ways of Investment	Supervision of Financial Services (Provident Funds) (Investments Regulations Applying to Institutional Entities) - 2012 and/or the Regulations of Supervision on Insurance Businesses (Ways of Investment of Capital and Reserves of an Insurer and Management of Its Liabilities) – 2001, as the case may be.
Law of Supervision	The Law of Supervision of Financial Services (Insurance) – 1981.
Long Term Savings Assets	As defined in Clause 31 a to the Supervision Law.
Managing Company	A company that manages a pension fund or a provident fund, and has a license from the Commissioner of Capital Market, Insurance and Savings at the Ministry of Finance, pursuant to Clause 4 to the Provident Funds Law.
Migdal Agencies	Migdal Holdings and Management of Insurance Agencies Ltd.
Capital Markets Group and/or Migdal Capital Markets Group	Migdal Capital Markets and all the companies controlled by it.
Migdal Health	Migdal Health and Quality of Life Ltd.
Migdal Insurance and/or Migdal	Migdal Insurance Company Ltd.
Migdal Capital Raising	Migdal Insurance Capital Raising Ltd.
Migdal Makefet and/or Makefet	Migdal Makefet Pension and Provident Funds Ltd.
New Plans	Life assurance policies that are marketed as from 1.1.2004.
New Pension Fund	A pension fund established after 1.1.1995.
Old Pension Fund	A pension fund established prior to 1.1.1995.
Pension Fund	A paying fund to annuity as defined in the Provident Fund Law, that is not an insurance fund.

Premium	The insurance premiums, including fees.
Provident Fund	As defined in the Law of Supervision of Provident Funds (provident funds include educational funds and exclude "pension funds" and "insurance funds").
Provident Fund Law	The Law of Supervision of Financial Services (Provident) – 2005.
Securities Law	The Securities Law - 1968.
Yozma for Self-Employed	Yozma Pension Fund for Self-Employed Ltd.

Part A – Group Activity and the Description of its Business Development

2. Group activity and the description of its business development

Migdal Insurance and Financial Holdings Ltd., along with its subsidiaries, held partially or in full, whose Financial Statements are consolidated with the Company's Financial Statements, shall be referred to together as "**the Group**" and/or "**Migdal Group**" in this Periodic Report.

2.1 Company description

Migdal Holdings was incorporated in Israel on August 13th, 1974. The Company shares are traded in the Tel Aviv Stock Exchange ("TASE") since 1997.

The Group operates in the areas of insurance, pension and provident funds and in the area of capital market and financial services.

The Group's insurance activity is carried out via Migdal Insurance Company Ltd. and its subsidiaries. The Group's pension and provident fund activity is carried out via Migdal Insurance's subsidiaries: Migdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for Self-Employeds Ltd.

The Group also has holdings in insurance agencies, and the main holdings are through Migdal Agencies.

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

For related / interfacing activities to the Group's activity, mainly through Migdal Health, see Clause 3.5 below.

2.2 Description of the Company's control structure

As of the date of the Report, Eliahu Insurance Company Ltd. holds approx. 69.19% of the Company's issued and paid-up capital [1].

Mr. Shlomo Eliahu and Ms. Haya Eliahu are the ultimate holders of the Company. To the Company's best knowledge, their holding is as follows:

Eliahu Insurance's shareholders are: Mr. Shlomo Eliahu, who holds 25.14% of the capital and 98% of the management shares, Ms. Haya Eliahu, who holds 0.02% of the capital and 2% of the management shares, Shlomo Eliahu Holdings Ltd. holds 61.7% of the capital, and Eliahu Brothers Trusteeship and Investments Company Ltd. holds 13.14% of the capital. Shlomo Eliahu Holdings' shareholders are: Mr. Shlomo Eliahu, who holds 83.31% and Ms. Haya Eliahu, who holds 16.69%. The only shareholder of Eliahu Brothers Trusteeship and Investments Company Ltd. is Shlomo Eliahu Holdings Ltd., held by Mr. Shlomo Eliahu and Ms. Haya Eliahu, as detailed above.

2.3 The Group's holdings structure diagram

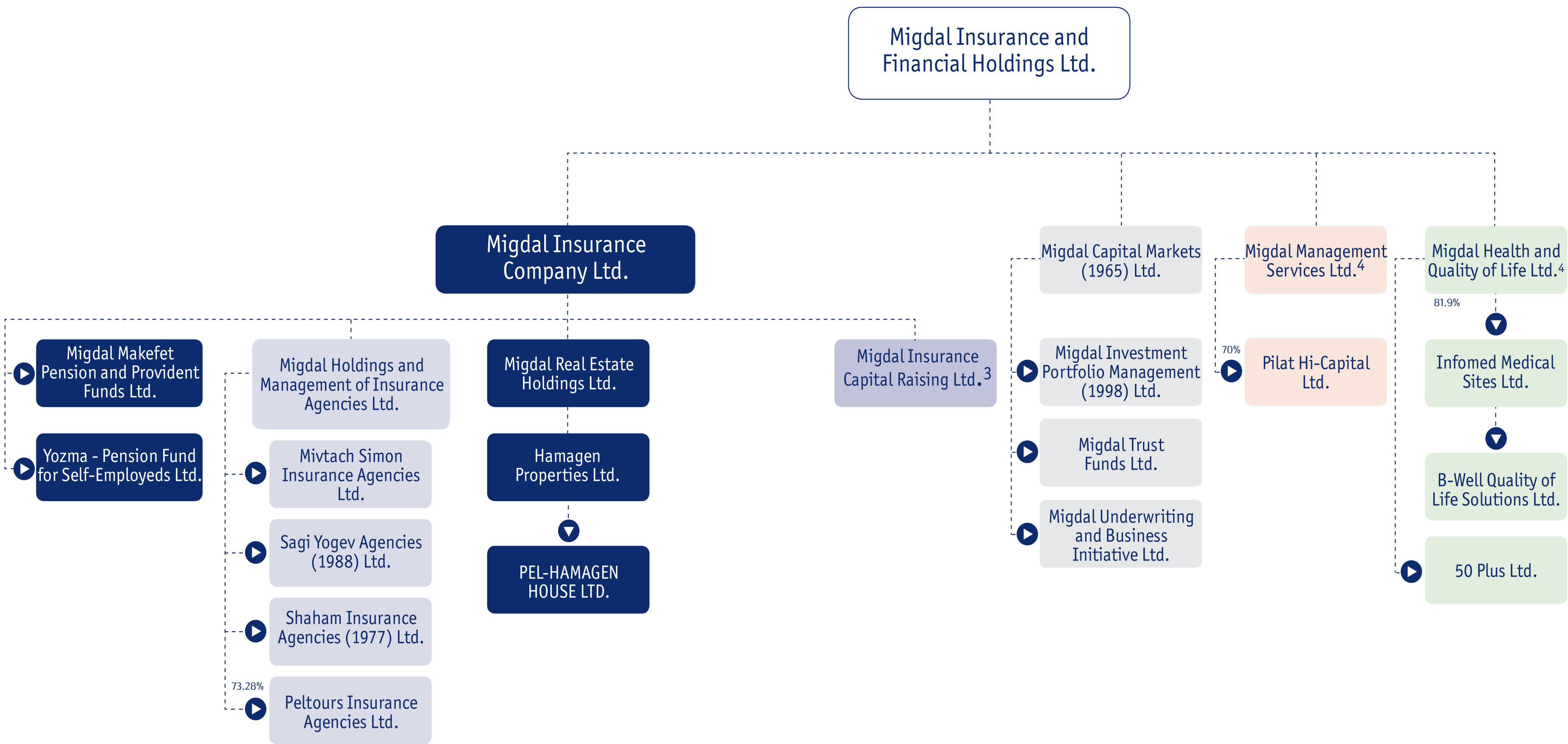
A schematic diagram of the Company's main holdings, just before the Report's publication[2] is presented below.

[1] As the Company was informed by Eliahu Insurance, Eliahu Insurance put a lien on about 30% of the Company's share capital in favor of Bank Leumi le-Israel Ltd. ("**Bank Leumi**"), see Note 1b to the Financial Statements, as well as details in Regulation 21a to the Additional Data on the Corporation chapter.

[2] The full list of the Company's subsidiaries and affiliates that are active as of the date of the Report, see Regulation 11 to the Additional Data on the Corporation chapter.

Group Holdings Structure

As of March 29th, 2016



Notes:
1. The holdings structure includes the main active companies in the Group. For additional details regarding holdings in subsidiaries and affiliated companies, see also Regulation 11 to the Additional Data on the Corporation.
2. The companies described herewith are held at 100%, unless specified otherwise.
3. Most of the Company's activity is raising second-tier capital for Migdal Insurance.
4. The activity of these companies, as well as that of the companies held by them, is related/interfaces with the Group's activities.

2.4 Key material developments during the reported period and until the Report's publication

2.4.1 The impact of the economic environment and fluctuations in risk-free interest curve

The Group operates in an economic environment that is affected, in recent years, *inter alia*, by a significant decline in the risk-free interest curve. The low interest rates have a material impact both on the yield achieved for the Group's customers and the Group's profits.

The year 2015 was characterized with significant fluctuations in the risk-free interest curve, and by the end of the year there was a certain decrease compared with the end of 2014. These fluctuations affected the Company's provisions for SAR.

Furthermore, there were also fluctuations in the prices of bonds and shares in the capital market, which affected the Company's investment income, such that by the end of 2015 there was a decrease in investment income achieved by the Group compared with 2014.

For additional details, see Clauses 1.2.1 and 3.1 in the Board of Directors' Report attached as Chapter 2 to this Periodic Report.

2.4.2 Other developments

(a) The area of life assurance and LTS

The legislative arrangements that were carried out in recent years in general and last year in particular, brought about material changes in the area of pensionary insurance, reflected mainly in an increase in the sales of the pension product, along with a decline in average management fees in pensionary transactions in the market, encouraging the accrued savings for annuity after retirement purposes, and an increase in direct distribution.

Among these in March 2016 a Circular with Provisions regarding the Selection of Provident Funds was published, determining a mechanism for the selection of a provident fund for employees who did not choose another provident fund, although given the chance to do so. The implementation of the Circular provisions, especially in light of regulatory regularization regarding the unification of existing accounts in pension funds (see Clause 6.3.10 below) might have material implications on the market, including on the Company, as detailed in Clauses 6.3.8 and 6.4 in Part B below.

In addition, in December 2015 a Circular regarding the marketing of life assurance policies that include annuity coefficients that embed life expectancy guarantee, allowing insurance companies to market life assurance plans that combine yield-dependent savings with guaranteed annuity coefficient against changes in life expectancy to insureds with policies with guaranteed annuity coefficient as set forth above, in another insurance company, who want to be transferred to a different company. For additional details, including the Circular's implications on the Company, see Clause 6.3.3(a) in Part B and Clause 26.5.18 in Part D below.

Furthermore, in January 2016 the Team for the Increase of Certainty in Pensionary Savings' Report was published, recommending to continue allocating designated funds in respect of 30% of new comprehensive funds' assets and of old funds' assets, along with an increase, throughout a defined period, of the scope of allocation of designated bonds to pensioners and savers about to retire, at the expense of allocating designated bonds to young savers. For additional details, including the expected effect of changes in the allocation of designated bonds, see Clauses 6.3.11 in Part B and 26.5.23 in Part D below.

(b) The area of life assurance and LTS
On March 2016, an **Amendment to the Provisions of the Consolidated Circular** came into effect, updating, *inter alia*, insurance fees for private vehicles in residual insurance ("**the Pool**"), pursuant to additional parameters, and stating that beginning from January 1st, 2017, net insurance fees for the insurance of vehicles that are not motorcycles shall not exceed 90% of net insurance fees for insurance with identical characteristics within the arrangement for residual insurance. For additional details regarding this Amendment, including regarding the appeal to the High Court of Justice filed by the Israel Insurance Association and the managing corporation of the Pool's reservoir, *inter alia*, claiming that the Commissioner may not take measures aimed by themselves at turning the Pool into a competitive player in the area of CMBI, see Clause 26.7.1 in Part D below. For the implications of the above on the Company, see Clause 12.2.2 in Part B below.

2.4.3 **Preparation towards the implementation of the Solvency II Directive**
Equity requirements that apply to insurers are expected to be affected by the Solvency II Directive ("**the Directive**"), which constitutes a fundamental and comprehensive change in the regulation regarding Insurers' guarantee of solvency and capital adequacy. Migdal Insurance strives towards complying with the equity objectives pursuant to the new equity governance by expanding its equity basis. Furthermore, Migdal Insurance has possibilities for decreasing the equity requirements by several measures, such as adjusting the investment mix and carrying out hedging actions in the Nostro portfolio, acquiring reinsurance, etc. Taking these measures may have a material effect on Migdal insurance's future profitability, and it will be considered taking into account the alternative cost at the time, their economic advantage vis-à-vis the existing alternatives, and if necessary.

Pursuant to IQIS4 conducted by Migdal Insurance, based on the mix of investments and insurance liabilities as of December 31st, 2014, the lack of proper preparation might cause a shortage in equity in the amount of approx. NIS 4.5 billion. However, the shortage in equity as of December 31st, 2014, taking into account second and third tier equity performed in 2015 in the total amount of approx. NIS 2 billion as detailed in Note 24e to the Financial Statements, totals approx. NIS 2.5 billion[3].

This indication takes into account the Commissioner's transitory provisions regarding certain types of investments held by Migdal Insurance, that the additional equity requirement in their respect is another approx. NIS 1.5 billion.

In March 2016 the Commissioner of insurance sent a draft guidance regarding IQIS5 in respect of data as to the end of 2015 to the companies for comments, including, *inter alia*, changes in adjustments required for the Israeli market. For additional details, see Note 7c6 to the Financial Statements, as well as Clause 43 in Part E below.

2.4.4 **Recognized equity of insurers – Migdal Insurance**
In 2015 Migdal Insurance expanded its equity basis via second and third tier capital, and performed several bond issuances via Migdal Insurance Capital Raising as detailed in Clause 4.2 below.

[3] This amount does not include the impact of Company actions (including current activity for 2015) and their results on the mix of investments and insurance liabilities as of December 31st, 2015.

2.4.5 **Changes regarding Senior Officers and Directors in the Company and in Migdal Insurance**

In the reported period and until the publication of this Report, the main changes regarding Senior Officers in the Group are as follows:

(a) **Company CEO**

On March 24th, 2015, the appointment of the CFO, Mr. Eran Czerninski, as the Company CEO, was approved. On June 7th, 2015 the Company's General Meeting approved the terms of employment of the Company CEO.

Mr. Czerninski continues to serve, along with this position, in his other positions in the Group as the Company's CFO, the Head of the Finances and Actuarial Division in Migdal Insurance and CFO and Director in the Group's companies. For additional details, see the Company's Immediate Reports dated March 24th, 2015, Reference No. 2015-01-060133, April 30th, 2015, Reference No. 2015-01-009801 and June 7th, 2015, Reference No. 2015-01-041994.

(b) **Changes in the slate of the Company's Board of Directors and in the Board of Directors of Migdal Insurance**

Mr. Oded Sarig, who served as the Chairman of the Board of Directors of the Company since February 18th, 2015, ended his office on December 16th, 2015. For additional details see the Company's Immediate Report dated December 16th, 2015, Reference No. 2015-01-181752.

On November 2nd, 2015 entered office as the Chairman of the Board of Directors of Migdal Insurance (substituting Mr. Amos Sapir who ceased serving as the Chairman of the Board of Directors of Migdal Insurance on that date, and continues to serve as a Director in the Company and in Migdal Insurance). For additional details see the Company's Immediate Reports dated November 3rd, 2015, Reference Nos. 2015-01-147222 and 2015-01-147189.

On December 16th, 2015 the Company's General Meeting approved the appointment of Mr. Yohanan Danino as the Company's Chairman of the Board of Directors.

Furthermore, on the same day the General Meeting also approved the co-option of the following Directors: Shlomo Eliahu, Israel Eliahu, Ronit Abramson and Dr. Gavriel Picker, and approved the appointment of Mr. Amos Sapir and Yohanan Danino as Directors.

In addition, on January 21st, 2016 the Company's General Meeting approved the terms of employment of Mr. Yohanan Danino, for details see Note 38j4 to the Financial Statements.

See also the Immediate Reports dated November 24th, 2015, Reference Nos. 2015-01-162180, 2015-01-162432, 2015-01-162180, December 16th, 2015, Reference No. 2015-01-181722, January 21st, 2016, Reference No. 2016-01-015373.

For additional changes regarding Senior Officers in the Group, see Clause 31.7 in Part D below.

2.4.6 **Signing a collective agreement**

A collective agreement was signed on February 17th, 2015 between Migdal Insurance and Migdal Makefet and the New General Federation of Labor ("**the Foundation**"), for the period of January 1st, 2015 until December 31st, 2017. For details regarding the main provisions of the collective agreement and its impact on the Company's expenses in the reported period, see Clause 31.4.1 in Part D below, as well as Note 32 to the Financial Statements.

2.4.7 **Change in the LTS operation array structure**

As part of the Group's coping with competition and with the changing reality in the market, in February 2015 there was a change in the structure of the LTS operation array, aimed at improving the efficiency of operation and service to agents and customers. Within the change, a separation was made between the operation arrays, which were concentrated in a main back office that operates by specializations, and the activity of marketing and extending service to distribution channels and customers.

2.4.8 **Agreement for the acquisition of Eliahu Insurance claims portfolio included in general insurance in Migdal Insurance**

Migdal Insurance engaged with Eliahu Insurance in an agreement for the absorption the general insurance portfolio that includes claims (outstanding and future) of Eliahu Insurance, originating from general insurance policies sold by Eliahu Insurance until December 31st, 2012, which is in run-off, and most outstanding claims are in CMBI. Within the engagement, the insurance portfolio will be transferred from Eliahu Insurance to Migdal Insurance's exclusive responsibility. The engagement was approved by the Company's General Meeting on February 3rd, 2016, and its completion is subject to the Court approval. For additional details see the Company's corrective Immediate Report dated December 29th, 2015, Reference No. 2015-01-081583, as well as Note 38e2 to the Financial Statements.

2.4.9 **Merger agreement of Migdal Capital Markets' subsidiary**

On October 28th, 2015 the merger agreement signed between a subsidiary of Migdal Capital Markets, Migdal Stock Exchange Services (N.E) Ltd. ("**Migdal Stock Exchange Services**") and Israel Brokerage & Investments Ltd. ("**IBI**" or "**the merged company**") was finalized, such as from that date, Migdal Stock Exchange Services was merged into IBI, and from that date, Migdal Capital Markets holds 19.9% of the merged company's shares, and IBI Holdings (1997) Ltd. holds the balance of shares – 80.1%. Furthermore, on the date in which the merger agreement came into effect, the shareholders agreement in the merged company also came into effect.

For additional details, see Clause 16.2.4 below, as well as Note 39.2e3) to the Financial Statements, as well as the Company's Immediate Reports dated July 19th, 2015, Reference No. 2015-01-075543, September 10th, 2015, Reference No. 2015-01-118068, September 29th, 2015, Reference No. 2015-01-125514, October 18th, 2015, Reference No. 2015-01-136188 and dated October 28th, 2015, Reference No. 2015-01-144144.

3. The Group's areas of activity

The Group's key areas of activity, reported as business segments in the Company's consolidated Financial Statements, are detailed below (see also Note 3a to the Financial Statements):

3.1 **The area of life assurance and long term savings (area A)**

The area of life assurance and long term savings includes the Group's insurance activity in the lines of life assurance, as well as the Group's activity in the management of pension and provident funds. Activity in this area mainly focuses on savings for retirement (under various types of insurance policies, pension funds and provident funds including educational funds) ("**savings**"), as well as on insurance coverages for various risks, such as: death, disability and PHI ("**risk**").

This area is the main area of activity in which the Group is engaged.

3.2 **The area of health insurance (area B)**

This area includes the Group's insurance activity in the following sub-lines: medical insurances (such as surgery, medications and transplants), dread diseases insurance, long term care (LTC), dental insurance, travel insurance, etc., personal accidents insurance mean insurance policies in which the insurance period exceeds one year.

3.3 **The area of general insurance (area C)**
The area of general insurance includes all the other insurance lines in which the Group engages, other than insurance lines included under the area of life assurance and long term savings, and health insurances. This area includes the following sub-lines: CMBI, casco insurance, and other general insurance lines.

3.4 **The area of financial services (area D)**
An area that mainly includes financial asset management services (mutual funds management, portfolio management and hedge funds management) and investment marketing, as well as other activity that includes the sub-lines: investment banking, distribution and Nostro activity.

3.5 **Other activities which do not constitute an area of activity**
It should be noted that in addition, the Company has other activities, included in the Company's consolidated Financial Statements under "other areas of activity" or "not attributed to areas of activity", in which the Group engages. These activities include mainly the holding of insurance agencies, investment activity performed not against various insurance reserves, but against equity required for insurance businesses and the capital surplus of companies in the Group, as well as related / interfacing activities to the Group's activity[4] (mainly in the area of quality of life and Third Age and providing services in the area of human resources and the implementation of software systems and Internet solutions for human resources). The activity of companies engaging in the above is non-material.

4. Investments in the Company's capital and transactions in its shares

4.1 **Investments in the Company's capital in the last two years until the publication date of this Report**
In the last two years there were no investments in the Company's capital.

For additional details regarding the Company's options plan and movement therein during the year, including options forfeitures, see Notes 33 and 38j to the Financial Statements.

4.2 **Raising of second and third tier capital**
In 2015, Migdal Insurance Capital Raising Ltd. issued the following bonds:

4.2.1 In June 2015 approx. NIS 1,191 million par value bonds (Series C), and the consideration of the bond issuance (Series C) was recognized by the Commissioner as hybrid second tier capital of Migdal Insurance and was deposited in Migdal Insurance, to be used as per its discretion and it is own responsibility. Migdal Insurance undertook to bear all the amounts that will be needed in order to redeem the bonds (Series C) to their holders.

4.2.2 In December 2015 approx. NIS 711 million par value bonds (Series D), and the consideration of the bond issuance (Series D) was recognized by the Commissioner as hybrid third tier capital of Migdal Insurance and was deposited in Migdal Insurance, to be used as per its discretion and it is own responsibility. Migdal Insurance undertook to bear all the amounts that will be needed in order to redeem the bonds (Series D) to their holders

[4] These activities are carried out mainly by Migdal Health and Quality of Life Ltd. and companies held by it, as well as by Migdal Management Services Ltd. and companies held by it. Their activities are non-material, and their results are not attributed to activity lines. For the changes in the Group's holdings in the two companies included in this activity, see Regulation 12 in the Additional Data on the Corporation chapter.

For additional details regarding this issue, including the terms of the bonds and trust deeds, see Notes 7c7 and 24e to the Financial Statements, as well as the Company's Immediate Reports dated June 14th, 2015, Reference No. 2015-01046788, June 28th, 2015, Reference No. 2015-01-058455, November 25th, 2015, Reference No. 2015-01-163974, December 8th, 2015, reference No. 2015-01-175605, and December 10th, 2015, reference No. 2015-01-177069.

Equity in Migdal Insurance as of December 31st, 2015, pursuant to the Commissioner's Regulations and instructions, calculated as per the capital requirements is approx. NIS 7,395 million, including hybrid second and third tier capital of approx. NIS 2,716 million. Migdal Insurance has an equity surplus of about NIS 3,078 million over the required minimal equity as per the current capital requirements.

For additional details regarding equity requirements, see Note 7c to the Financial Statements.

For details regarding the preparation towards the implementation of Solvency II governance, see Note 7c6 to the Financial Statements.

4.3 **Details of significant transactions in the Company's shares conducted by interested parties of the Company**

Details regarding significant transactions in the Company's shares by interested parties in 2014 and 2015 until the publication of this Report are presented below:

Date of change	Security	Amount	Transaction description	Transac-tion price	Immediate Report Reference	Share of capital and in voting rights, in %
22.1.2014	Shares	315,496,828 (1)	Share transfer from the trustee to Eliahu Insurance	-	2014-01-021985 2014-01-022003	30

(1) The Company was informed by Eliahu Insurance that Eliahu Insurance and Bank Leumi agreed to end the trusteeship, but the lien on shares remains, see Note 1b to the Financial Statements.

5. Dividend distribution

For details regarding dividends paid / declared by the Company to its shareholders in the last two years, including dividends distributed by Migdal Insurance and Migdal Capital Markets to the Company, as well as legal restrictions that might affect dividend distribution in the Company and in the Group's institutional entities, see Clause 27.1.2 in Part D below.

In November 2015 a letter from the Commissioner was received, pursuant to which the distribution of a dividend in the amount of NIS 185 million by Migdal Insurance might undermine the proper management of Migdal Insurance's businesses and its preparation towards the implementation of the new solvency governance, due to the significant deficiency of capital in Migdal Insurance pursuant to the IQIS4 drills. We would like to note that the Board of Directors of Migdal Insurance is of the opinion that Migdal Insurance deployed and is deploying in an appropriate and sufficient manner towards Solvency II governance.

Accordingly, the Company's General Meeting, which was convened for the approval of a dividend in the amount of NIS 200 million (that was approved by the Company's Board of Directors on October 27th, 2015), was adjourned until an unknown date. For details see Note 7c10 to the Financial Statements.

Part B – Description and Information Regarding the Company's Areas of Activity

Area A – Life Assurance and Long Term Savings

6. Products and services

6.1 General

The area of life assurance and long term savings focuses mainly on savings for retirement ("**savings**") as well as on insurance coverages for various risks such as death, disability and PHI ("**risk**").

The Group markets products in all the lines of the area of life assurance and LTS – life assurance, various types of pension and provident funds, including educational funds[5]. The Group's activity this area is carried out via Migdal Insurance and its subsidiaries: Migdal Makefet, which manages the Group's new pension funds ("**Makefet Ishit**" and "**Makefet Supplementary**") and all the Group's non-insurance provident funds, and Yozma for Self-Employeds, which manages an old pension fund, Yozma Pension Fund for Self-Employeds.

The mix of products in the area of life assurance and LTS is affected by regulatory regularizations I n the sector within laws, regulations and Commissioner provisions aimed at encouraging long term savings of the savers' public, by granting intensives such as tax benefits to pensionary savings and terms of withdrawal, setting provisions in Labor Laws that compel employers to provide pensionary insurance to their employees, issuing designated bonds etc., which constitute a key consideration for the customers in choosing the area's products. Therefore, the wide regulatory regularization that characterizes this area of activity has a material impact on the mix of products included in it. For the trends and material changes in the area of activity in the reported period and their impact on the Company, see Clauses 6.3 and 6.4 below. For additional details regarding key regulatory arrangements in the area, see Clause 26.5 in Part D below.

As of September 30th, 2015, and on the basis of insurance liabilities in life assurance and assets managed in new pension funds and provident funds, the Group is the leading Group in this area[6].

The savings activity within life assurance, pension and provident funds is promoted by State authorities, mainly through tax incentives, various provisions in Labor Laws (including the requirement of employers to make contributions for mandatory pension), issuance of designated bonds to pension funds etc., which constitute an important consideration when customers choose this area’s products.

The regulatory arrangements that were implemented in recent years, including the regularization of annuity coefficients and the reform in management fees, and the drafts of pending arrangements as of the publication date of the Report, whose summary is described below, brought and are expected to bring about material changes in the area of life assurance and LTS, for additional details and the implications on the Company see Clauses 6.3 and 6.4 below.

[5] Educational funds should be considered as medium-term savings before the age of retirement.
[6] Based on the processing of the Ministry of Finance's reports, as of September 30th, 2015, published in the Ministry of Finance's website (Managerial Reports, pensyanet.mof.gov.il, gemelnet.mof.gov.il).

6.2 The products in the area, their key characteristics and the main differences between them

Life assurance: the product includes risk coverage or pure savings and/or a combination of savings and risk depending on the contract between the insurer and the insured (insurance policies).

The insurance companies take upon themselves to pay insurance benefits when the risk event occurs, even if there were exogenous changes, good or bad, for parameters that laid down in the terms of the policy, including risk of increased life expectancy, if this risk is included in the annuity conversion coefficient set forth in the relevant annuity track.

Pension plans: the product includes a combination of coverage for risk and savings, and they are laid down in Articles of Association. As from 2005 pension funds are yield pension funds, i.e., pension funds in which the component of old age pension is accrued from the contributions deposited in the fund, from which management fees, the cost of risk and the cost of reinsurance (if included in the fund) are deducted, plus yield.

Provident funds: the product includes savings, both for the long term and the medium term (educational funds), pursuant to Articles of Association.

Key differentiating characteristics – the key differentiating characteristics between the various products are presented below:

	Life assurance	Pension funds	Provident funds[7]
Type of engagement	Contract (insurance policy)	Articles of Association	Articles of Association
Changing the terms of engagement	May be changed only pursuant to the contract's conditions and subject to the Law.	May be changed from time to time, with the Commissioner's approval.	
Insurance cove rage for risk	Within life assurance, risk for the event of death, disability/PHI and life expectancy insurance may be purchased, according to the conditions of the policy, and in accordance with the insureds' needs.	Within pension funds, there is coverage for survivors in the event of death, and a coverage for PHI, and the coverages may be adjusted to the insureds' needs pursuant to the Articles of Association	Beginning from January 2013, in addition to the coverages set forth in the funds' Articles of Association, managing companies of provident funds may market insurance coverages to their members via individual policies for death risks, for disability risks and for release from payment. As of this date, the Group does not market such coverages. In addition, managing companies of provident funds may buy collective insurance policies against the event of death and PHI, as well as collective policies against the event of death to members of educational funds managed by them. As of the date of the Report, the Group does not market such coverages
Mutual insurance	There is no mutual insurance. The engagement between the insurer and the insured is in a contract.	A kind of mutual insurance between members / pensioners in the fund. Actuarial assumptions, which are the basis for the members' / pensioners' rights, are examined from time to time as per the actual situation. If there was a change in them, good or bad, the members' / pensioners' rights are affected by these changes, and they bear, jointly, all the fund's actuarial surplus or deficit.	None

[7] It should be clarified that the term "provident fund" does not include insurance plans that are recognized as provident funds (insurance funds) or pension funds that are annuity provident funds.

	Life assurance	Pension funds	Provident funds[7]
Annuity coefficient	In policies marketed until the end of 2012, insureds in annuity plans benefit, in some annuity tracks, from an annuity coefficient that is guaranteed against changes in life expectancy, pursuant to the policy's conditions. Beginning from January 2013, the marketed policies include guaranteed annuity coefficients only for insureds in annuity plans who completed 60 years of age upon the sale.		
Identity of the beneficiary	Full flexibility in choosing the beneficiaries.	The identity of dependents is set forth in the Articles of Association, and in the absence of beneficiaries, there is flexibility in choosing the beneficiaries.	Full flexibility in choosing the beneficiaries.

	Life assurance	Pension funds	Provident funds
Issuing designated bonds	**For policies sold until 1990** – State designated bonds ("**Hetz bonds**") aimed at guaranteeing CPI-linkage plus interest were issued for insurance companies. Accordingly, most life assurance plans sold until then were guaranteed-yield plans (CPI-linked plus interest), and insurance companies invested most of the reserves in Hetz bonds and the balance in free investments as per the restrictions set forth in the legislative arrangements. These plans are called "**guaranteed-yield**" or "**non-profit participating**"[8]. In these policies, management fees from accrual were not determined, and insurance companies benefit from the difference between the obligations towards the insureds as set forth in its insurance policies and investment gains (both from free investments and in Hetz bonds) ("**the spread**" and/or "**financial spread**"). **For policies sold during 1991 and on** – the insurance plans that are offered do not guarantee yields to insureds, and the issuance of Hetz funds in their respect was reduced, and in 1992 it was completely discontinued. [9]. The savings monies are invested in free investments except monies invested in Hetz funds in policies marketed during 1991), and the balance of accrued savings depends on the results recorded by the insurer's investments **("profit participating plan" or "yield dependent plans" or "yield-dependent insurance")**.	Beginning from 2004, new pension funds that are not general comprehensive pension funds and old pension funds (closed to new members)[10]. – are entitled to invest 30% of all their funds in designated bonds[11].	As of that date, no designated bonds are issued to provident funds in the Group[12].

[8] Throughout the years, the Group redeemed, as per the Ministry of Finance's approval, some of the designated bonds in order to increase yield, and the reserves were invested in free investments. The Group may not acquire again designated bonds in respect of some of the assets that were redeemed by it as set forth above, and as a result, the Group's exposure in its free investments increased. For the impact of the cut in interest rate on reserves, see also Note 37b3b)(5) to the Financial Statements.

[9] In respect of the plans that were sold until then, the State of Israel continues to issue designated bonds also in respect monies, that pursuant to conditions of the insurance plans, may be deposited in these policies after the change.

[10] Old pension funds received another subsidy from the State in respect of the reduction of the rate of designated bonds and their conditions.

[11] The effective interest rate guaranteed in designated bonds for new pension funds is currently 4.86% (in addition to linkage differences) (it should be noted that there are series of designated bonds issued in the past, with an effective interest rate of 5.05%)

[12] Except special arrangements in several specific funds (not managed by the Group).

6.3 Key trends and changes in the area

In the last years, in general, and in the last year in particular, the pensionary insurance market is undergoing a material change in all its components – the pension products, distributors and distribution channels, and customers' preferences.

The change is mainly reflected in a strengthening of the pension product in new sales, along with a decrease in average management fees in pension transactions in the market, the encouragement of annuity savings for the age of retirement, an increase in direct distribution, a large number of regulatory regularizations (including provisions regarding the involvement of employers in choosing pensionary products as well as regarding distribution procedures in the area), increased involvement on behalf of end customers (insureds / members), as well as regularizations aimed at creating accessibility and transparency of business data.

In recent years the area has undergone the following significant changes:

6.3.1 Assignment of accrued savings (lump-sum/annuity)

In policies recognized as provident funds, the legislator implemented several law provisions, mostly aimed at encouraging leaving the monies accrued in the pensionary savings for old age retirement annuity, thus increasing the amount of annuity after retirement. These regularizations have not changed the rules regarding monies deposited to the policy before the regularization came into effect, however, they changed the rules applying to money depositing in these plans from then and on.

As from January 2008, pursuant to **Amendment No.3 to the Provident Funds Law**, the possibility of depositing monies in lump-sum savings was cancelled, and it was decided that all the monies that will be deposited to pensionary savings as from that date, are aimed for annuity only as of the age of retirement.

6.3.2 Mandatory pension insurance

As from January 2008, by virtue of an expansion order for comprehensive pension insurance in the market as per the Collective Agreements Law – 1957, it became mandatory to provide comprehensive pension insurance to all employees in the economy subject to the terms set in the Expansion Order[13].

In March 2016, the **Bill of the Supervision of Financial Services (Provident Funds) (Amendment No. 16) – 2016**, regarding the adjustment of various provisions in the Provident Funds Law to the collective agreement, and to the best knowledge of the Company was signed in February 2016 between employers' organizations and the Industrialists Association, pursuant to which employers' payments and employees' provisions to pension funds will increase, and which will come into effect subject to the publication of the Expansion Order by the Ministry of Finance (in this Clause – "**collective agreement**" and "**Law Memorandum**", respectively), was published. Pursuant to the Law Memorandum and as per the increased rates of payments set forth in the collective agreement, the payment rate to the component of employers' contributions will be standard in all pension products, and will be 6.5% of the employees' salary, and the employees will be entitled to a deposit rate that would not be inferior to what is set forth in the third addendum (6.25% beginning from July 2016 and 6.5% beginning from January 2017, according to the collective agreement). Even if the Law or the agreement include a stipulation pursuant to which the employers'

[13] As of January 2014, the provision rates to pension insurance as per the terms of the Expansion Order are: 5.5% of the salaried' wage for the provident component, another 6% at the employers' expense to the provident component, as well as 6% of the wage at the employers' expense for severance pay.

deposit rate in provident funds is a certain rate of employees' salary, that includes employers' payment for PHI insurance and the rate of deposit to another provident fund is lower, such Law provisions or agreement shall not be considered as a stipulation by employees regarding the deposit rate for employees (pursuant to the prohibition set forth within the previous Amendment to the Law, from 2015).

The Company estimates that the implementation of the provisions of the collective agreement and the Bill, if they come into effect, may increase provision rates to pension insurance and may bring about an increase in the scope of premiums and contributions in the Company.

6.3.3 **Annuity coefficients reform**

(a) **Restrictions regarding the marketing of policies with a guaranteed annuity coefficient**

In the beginning of 2013, and pursuant to the provisions set forth in a Circular issued by the Commissioner in November 2012, insurance companies ceased selling life assurance plans that combine savings, and allow withdrawing monies as a monthly annuity, with conversion coefficients that embed a guarantee for life expectancy ("**guaranteed annuity coefficient**") (except, under certain conditions, to people who completed 60 years of age at the time of sale), and began marketing life assurance plans that combine savings with no guaranteed annuity coefficients in these policies. The annuity conversion coefficient will be determined upon retirement, just before receiving the first annuity, as per the terms set forth in the plan. This reform contributed, *inter alia*, towards preferring the pension product over life assurance in the sale of new products.

"Old" policies with guaranteed coefficients (written until December 2012) were considered, until recently, as having a "natural protection" due to the mobility restriction that applies to guaranteed coefficients (it was impossible to transfer the policies with the guaranteed coefficients as set forth above). In December 2015 the **Circular regarding the Marketing of Life Assurance Policies that Include Annuity Coefficients Embedding Life Expectancy Guarantee** was published, allowing insurance companies to market life assurance plans with guaranteed-yield savings with an annuity coefficient that guarantees against changes in life expectancy ("**policies with guaranteed coefficient**"), to insureds with policies with guaranteed coefficient in another insurance company, who would like to transfer their monies. The Circular includes guidance regarding the marketing of a life expectancy appendix, which will be priced separately, and its cost will be dynamic pursuant to changes in the risk of longer life expectancy. For additional details regarding the Circular, see Clause 26.5.18 in Part D below.

The Company is of the opinion that the Circular may affect the persistency rate in these policies, that will be reflected also in decreased management fees, and as a result, in the Company's profitability.

Pursuant to the above, the marketing of insurance products with no guaranteed coefficient began lately. Management fees in these products are significantly lower than those collected in the past.

(b) **Update of demographic assumptions underlying the calculation of the reserves**

In recent years, there were phenomena that affected key actuarial assumptions that serve as the basis for the calculation of reserves. One, deriving from the continued cuts in interest rates, and the second is the demographic changes reflected by an increase in life expectancy. These phenomena, plus the changes in tax arrangements that are aimed at encouraging the withdrawal of pension savings by way of an annuity, brought about an increase in annuity take-up rates.

In August 2015 the **Circular regarding Liability Adequacy Test** (LAT) in insurance companies' Financial Statements, and as a result of its first implementation, the provision for LAT increased by approx. NIS 192 million (before tax) on June 30th, 2015.

Regarding the update of reserves (SAR and LAT) following changes in the risk-free interest rate curve and other parameters, see Clause 1.2.1 in the Board of Directors' Report and Note 37b3(b)(5) to the Financial Statements.

In pension funds, managing companies are required to update the demographic assumptions on the basis of which the funds' actuarial balance and the coefficients in the Articles of Association are calculated, pursuant to the Commissioner's guidance.

6.3.4 Regularization of management fees / additional management fee arrangements

In January 2013 the regularization in management fees came into effect, within the **Supervision of Financial Services (Provident Funds) (Management Fees) Regulations – 2012** together with other regularizations ("**regularization regarding management fees**").

The regularization set forth a model for the collection of management fees in pensionary savings products, pursuant to which management fees are collected both from current deposits and from accrual. Regarding insurance plans recognized as provident funds, the model applies to policies marketed since January 2013. Furthermore, the regularization includes various provisions aimed at increasing transparency regarding management fees vis-à-vis insureds and members. Within the above-mentioned regularization, the maximum annual management fees that may be collected on pensionary products are detailed, including a separation between those who receive annuities and those who do not. Management fees collected by the Group in pension savings products as detailed in Clause 6.6 below and in insurance plans recognized as provident funds as detailed in Clause 3.4 in the Board of Directors' Report are collected pursuant to the regularization of management fees, and its various provisions.

For details regarding additional regulatory regularizations that were published in the reported period and are related to management fees, see Clause 26.5.6 in Part D below.

It should be noted that within the Ministry of Finance's Work Plan, the intention of the Ministry of Finance of decreasing the costs of average management fees in pension savings, such as at the end of 2015, the costs of average management fees is 0.35% of assets and 3.3% of deposits, and as of the end of 2016 the average cost of management fees will be 0.3% of assets and 3.0% of deposits.

6.3.5 The separation between commission and management fees

Pursuant to the Commissioner's position regarding "the payment of institutional entities to license holders" from January 2015, and to the clarification of this position from March 2015, institutional entities should strive towards changing their commission model, such that commissions would not be derived from the management fees rate. Pursuant to the clarification, institutional entities and insurance agents should act immediately in order to amend the relevant contracts, and they should not sign new contracts that do not comply with the position. For additional details, including the originating motion filed by the Association of Life Assurance

Companies ("the Association") regarding the Commissioner's position, the ruling of the District Court from February 8th, 2016 for dismissing the originating motion in limine, the appeal notice filed by the Association on March 22nd, 2016 to the Supreme Court regarding the above-mentioned ruling of the District Court, see Clause 32.2.2(a) in Part D below.

6.3.6 **The pensionary clearing house and regularization regarding the transfer of data in a "unified structure"**

The pensionary clearing house which began operating in 2H13 in order to serve as a key data broker in the pension savings market for savers and employers, along with the regularization of work interfaces between pension producers, the pension license holders and the other players in the pension market (employers and employees). Beginning from November 2013, all license holders must address an institutional entity in order to receive a one-time data via the pensionary clearing house. Provisions regarding other types of actions that must be conducted via the clearing house were laid down in several regularizations published by the Commissioner regarding this matter, part of which have already come into effect, and part of which will come into effect gradually in the next two years. In May 2015 the Circular regarding the Duty to Use the Pensionary Clearing House System, regarding actions that institutional entities and license holders must conduct via the central pensionary clearing house, was published. *Inter alia*, it sets that any transfer of data between institutional entities and license holders, regarding advice or marketing pensionary products, shall be conducted via the clearing house, unless there is a computerized interface between the institutional entities and license holders, or if license holders have access to a unique system.

As per the Company's estimation, the expansion of the duty to use the pensionary clearing house, as detailed above, is expected to decrease the reception of data in other formats that are not via the clearing house.

For additional details regarding provisions referring to the clearing house and the unified structure, see Clause 26.5.20 in Part D below.

6.3.7 **Arrangements vis-à-vis employers**

(a) **Regulations regarding payments to provident funds**

In August 2014 the **Supervision of Financial Services (Provident Funds) (Payment to Provident Funds) Regulations – 2014** were published. The Regulations set forth instructions regarding the way and timing upon which employers make deposits to their employees' pensionary products managed by institutional entities, and the information that employers should disclose to institutional entities when performing a deposit. On the other hand, institutional entities must give a feedback to employers on the dates and regarding details set forth in the Regulations.

The Regulations came into effect in a gradual manner beginning from February 2016, and at the same time additional instructions regarding the above were published. For more details see Clause 26.5.19 in Part D below.

These Regulations require a complex operational preparation over time, both on behalf of employers and institutional entities, and the Company is of the opinion that they will increase the involvement of employers in the management of their employees' pensionary savings. The improvement expected in the quality of data that will be received from employers will allow the Company, after integrating the activity, to increase the efficiency of collection and the management of the relations vis-à-vis insureds / employers.

(b) **Amendment No. 12 to the Provident Fund Law**

Amendment No. 12 to the Provident Fund Law sets forth that **employers may not stipulate the rate of employers' deposits to a type of product**, and should such stipulation exist, contrary to these provisions, employees will be entitled to the higher rate of deposits among the maximum rates deposited by the employers in the benefit of their employees, as per the provisions of the Law or the agreement.

The Company is of the opinion that Amendment No. 12 may increase employers' provisions to pensionary arrangements, compared with the current situation. For details see Clause 26.5.12 in Part D below.

In this context, it should be noted that in February 2016 an agreement was signed between employers and the Federation of Labor regarding the increase in the deposit rate to pension, and a Law Memorandum was published regarding the same issue, as set forth in Clause 6.3.2 above.

6.3.8 **The mechanism for the election of a default fund**

In March 2016 the **Circular setting Provisions regarding the Election of a Default Provident Fund by the Ministry of Finance ("Elected Default Fund")** was published. The fund will be the default fund for employees regarding whom no provident fund was chosen according to the Law or in an agreement or by their virtue, for the depositing of their payments, and who have not elected provident fund after they were given the chance to do so. In addition, the Circular determines the conditions required from managing companies of provident funds that add members pursuant to the Provident Fund Law.

The aim of the Circular, as detailed, is setting provisions regarding provident funds to which the payments of employees who did not choose a provident fund after given the opportunity to do so. The Circular sets forth that managing companies of provident funds shall not allow the payment of employers' deposits to provident funds in respect of employees who did not fill in a form for joining the provident fund managed by it, and shall not allow the adding of such employee to the provident fund, unless it is one of the following default funds:

(a) An elected default fund, which is one of at least two new comprehensive pension funds, that will be determined by the Commissioner before September 1st, 2016.

(b) Another default fund, which is a fund that was elected in a competitive procedure by the employer or by the employees' organization pursuant to conditions and criteria detailed in the Circular, and, *inter alia*, the weight of management fees in the election of the default fund shall not be less than 50%.

For additional details regarding the procedure for the election of the default fund pursuant to the conditions and criteria set forth by the Commissioner and regarding the procedure for the election of another default fund, including regarding restrictions on the election of a managing company that constitutes a "related party" (as per its definition in the Circular) as another default fund, as well as regarding restrictions that apply to the elected default fund and the other default fund, including as to management fees and their update, see Clause 26.5.21.

The Circular came into effect immediately after it was published, except the provisions regarding the election of another default fund, which will come into effect on July 1st, 2016, and it sets forth that the default agreement that was effective when the Circular was published will remain in effect until the earlier of the end of the agreement period or March 31st, 2019.

The Company estimates that the election of an elected default fund and/or the election of another default fund, including the provisions as to an advantage in the management of an elected default fund for small players in the market and the competitive advantages given to the elected default fund will have an across the board effect on the market of pension funds and educational funds, and maybe even on other products in the area of LTS.

The Company is of the opinion that these provisions are expected to be reflected in a decrease in the rate of management fees in these products, both from new members and existing members, as well as in damage to the Group's profitability (mainly in Makefet, as the managing company of new pension funds and of educational funds), and may also affect the mix of LTS products' sales in the entire Group, and their scope.

6.3.9 **Unified Articles of Association for comprehensive pension funds**

In October 2015 the **Draft Circular regarding Provisions as to the Rights and Duties of Members in New Comprehensive Pension Funds** was published. Pursuant to the Draft Circular, there will be a unified wording of Articles of Association for all pension funds. The Draft Circular is expected to come into effect on July 2016.

The Company estimates that if the regulatory arrangements regarding the setting of unified Articles of Association for pension funds come into effect, and in light of the publication and the coming into effect of the Circular regarding the Election of Default Provident Funds as set forth in Clause 6.3.8 above, along with turning all the existing products in pension to identical products, the differentiation between products shall decrease and the competition between various funds in the market shall increase.

6.3.10 **Consolidation of existing accounts in pension funds**

Pursuant to Amendment No. 13 to the Law of Financial Services[14] (published in November 2015), in the lack of another instruction by members, their accounts in pension funds shall be consolidated into their active pension account.

In February 2016 a Draft Circular was published, aimed at translating the temporary order set forth in the Provident Law regarding the consolidation of existing accounts in pension, into practical instructions in this matter. In March 2016 a Draft of Regulations regarding the collection of information, access to information and control within the implementation of the temporary order was published, in order to guarantee information security, for details see Clause 26.5.14 in Part D below.

The Company estimates that the implementation of provisions regarding the consolidation of accounts, especially in light of the regulatory regularization in respect of the elected default fund (see Clause 6.3.8 above) shall cause a decrease in the scope of assets managed in frozen accounts in Migdal Makefet's pension funds (since frozen accounts of members in Migdal Makefet will be consolidated with the members' active accounts in other managing companies), and accordingly, will decrease the number of members in Migdal Makefet's pension fund. On the other hand, the

[14] The Amendment to the Law of Financial Services (Provident Funds) (Amendment No. 13 and temporary orders) – 2015.

consolidation of accounts will increase the scope of monies managed in respect of the active accounts of members in Migdal Makefet's pension fund, as a result of the transfer of monies from frozen accounts in other pension funds to the accounts of active members from other companies to Migdal Makefet. These changes are expected to increase competition and cause a decrease in management fees rate.

6.3.11 **Change in the allocation of designated bonds**

In January 2016 the Team for the Increase of Certainty in Pensionary Savings' Report was published. The Team was established by the Ministry of Finance in order to examine the Ministry of Finance's strategic objectives for achieving appropriate pensionary savings for the public and the usage of designated bonds in order to achieve this goal. The Report recommends to continue allocating designated funds in respect of 30% of new comprehensive funds' assets and of old funds' assets, along with an increase, throughout a defined period, of the scope of allocation of designated bonds to pensioners and savers about to retire, at the expense of allocating designated bonds to young savers. As per the Ministry of Finance Work Plan for 2016, in December 2016 Regulations regarding the Change of Allocation of Designated Bonds are expected to be published.

For additional details see Clause 26.5.23 in Part D below.

The Company estimates that a change in the allocation of designated bonds as set forth above, and if there will not be a corresponding change regarding insurance products in the area of LTS that would put them on an equal basis with pension funds, will increase competition on monies designated for the payment of annuities just around the age of retirement, with a clear preference for pension funds over other LTS products, and might even cause a decrease in the rate of management fees in respect of annuitants.

6.3.12 **Investment tracks for the management of savings monies – age-dependent managed track**

As part of the Commissioner's general policy for striving towards expanding the resources that will be at savers' disposal at the age of retirement, in February 2015 a **Circular regarding Investment Tracks in Provident Funds** was published. The Circular sets forth rules regarding the establishment of default investment tracks that are adjusted to the age of members in provident funds, including the duty to have a separate account in which the assets against liabilities towards annuitants will be managed. The Circular comes into effect on January 1st, 2016, and it applies to new members in pensionary savings as of that date.

Existing insureds / members who have insurance policies that are not insurance funds or provident funds may join an age-dependent managed track as per their choice. For insurance policies that are insurance funds marketed before 2004, the implementation is, as per their choice, beginning from January 1st, 2017.

Pursuant to the Commissioner's instructions, the Company created three default tracks for groups, divided by ages: until the age of 50, for the ages of 50-60 and for people over the age of 60, and it will manage designated investment tracks for savers. These tracks will be defined as default tracks. This means that the general track in which most of savers in pensionary savings were deposited until now will be closed to new savers and savings monies will be diverted to investment tracks depending on age.

The Company is of the opinion that the operation of age-adjusted investment tracks, including the separate management of annuitants' assets, might affect insureds' yields and the accrual balances in these tracks, and as a result, the management fees that the Company will collect in respect of asset management.

Since it is impossible to assess the behavior of all the entities involved in the implementation of the Circular's provisions, including the behavior of the capital market in general, right now the Company is unable to assess the implications of the implementation of the Circular's provisions

6.3.13 **Remuneration in respect of the marketing and operation of pensionary products**

In December 2015 the **Amendment to the Supervision of Financial Services (Pension Consulting, Marketing and Clearing House) Law – 2015** was published, setting forth, *inter alia*, that pension insurance agents or related parties thereof may provide operation services to employees whose employees receive pension marketing from them (**"operating marketing agent"**), provided the following conditions set forth by the Law are met:

(a) Beginning from February 2016 – the pension insurance agent shall collect clearing fees in respect of each employee, in amounts or rates that are not less than those laid down by the Law, from the employer only.

(b) Beginning from July 2016 (retrospectively from the beginning of 2016) – the distribution commission paid by institutional entities to operating marketing agents will be reduced at the clearing fees rate paid to them by employers as set forth in paragraph (a) above, or shall equal zero, the highest of the two, and the management fees that will be paid by employees for whom clearing fees were paid as set forth above, shall be reduced by the rate of distribution commission as set forth above.

(c) A default fund was elected for employees, pursuant to Clause 20 to the Provident Fund Law.

Furthermore, the Law set forth a restriction regarding agents' remuneration, pursuant to which agents who receive a distribution commission from producers may not also receive handling fees from the members.

These Amendments reflect a trend by which the Commissioner is decreasing entry barriers to the area of pension distribution. The Company is of the opinion that the Amendments may encourage new entities to enter the area of pension operation, and increase the competition between them and the arrangement managers (large insurance agencies, including agencies in the Group, which are able to provide operation services in the area of pension),

6.3.14 **Investment provident funds**

In March 2016 the **Memorandum for the Amendment of the Provident Fund Law** was published, suggesting allowing managing companies to market investment provident funds, in which savings monies will be deposited, and they may be withdrawn as a lump-sum with no tax benefit, or, if members decide to withdraw them as an annuity, they can receive an exemption on capital gain tax. If monies accrued in investment provident funds bear profits, they would entail capital gain tax, unless they are withdrawn as annuities. In addition, investment provident funds will allow the members' beneficiaries to withdraw the monies to which they are entitled following the member's death (including transferring them to a new account).

The Company is of the opinion that if the Law Memorandum is approved word for word, individual savings in the market will increase, along with a diversion of the public's individual investments from other channels (including from insurance agencies) to provident funds (including in the Group's managing companies), and will increase competition over these monies.

In this context, we would like to note that the Israel Insurance Association addressed the Minister of Finance and the Commissioner in order to add an amendment to the suggested Law Memorandum, that would allow insurance companies as well to establish and manage investment provident funds, in order to avoid discrimination in the freedom of occupation choice, and avoid an unfair competition.

6.3.15 In March 2016 the Knesset plenum approved in a pre-vote **the Bill for the Supervision of Financial Services Regulations (Provident Funds) (Amendment - Restriction on Management Fees in Pension Funds) Law – 2016**. Pursuant to the Bill, it is suggested to set forth that management fees in new comprehensive pension funds shall not exceed 3% of payments transferred to the fund in respect of each member, and shall not exceed 0.25% of the accrued balance in the account of each member; and for annuitants, management fees shall not exceed 0.25%.

Pursuant to the approval of the Bill Memorandum in a pre-vote, the Bill Memorandum will be prepared for the first reading by a designated Committee that will be established by the Knesset committee.

Although at the time of this Report, the Bill Memorandum is just in its initial stage, and the wording of the Bill Memorandum that will be brought for first reading at the Knesset is unknown, if it is approved in its current wording, its implementation will have material implications on the market, including on Migdal Makefet, including a reduction of management fees collected from some members, and damage to the Company's profitability.

Information in Clause 6.3 above, with respect to the Company's estimations regarding regulatory arrangements in the area, is forward-looking information as per its definition in the Securities Law – 1968, is based on information held by the Company as of the time of this Report, the wording of legislative arrangements currently known, as well as on estimations and assumptions regarding the actions that will be taken by entities operating in the market. These estimations might not be realized, and actual results may be different than the forecasted results, if, *inter alia*, the provisions are changed or updated or implemented in a way that is different than what is expected or what exists now, as well as depending on the actions taken by entities operating in the market, including insureds, institutional entities, agents and distributors, which may be different than forecasted.

6.4 **The impact of various arrangements on the Company– regarding the mix of products and its market share**

Products mix

Deepening the sales of the pension product at the expense of other products in the area

The possibility to market new life assurance policies that include a guaranteed annuity coefficient, which was one of the characteristics that differentiated between savings products, was cancelled (except for people joining the funds and are over the age of 60), and as a result, one of the most important advantages of insurance funds over other savings products in the area, disappeared. In addition, in a market in which interest rates are low, the possibilities for achieving higher yields in asset management are reduced. The issuance of designated bonds for pension funds, which is one of the characteristics differentiating between savings products, gives a relative advantage to pension funds and also encourages the continued growth in the pension line at the expense of competing products. To these trends, we should add the regularization regarding the default fund mentioned in Clause 6.3.8 above, which may also cause a preference of pension funds.

These trends are expected to deepen even more sales in the pension line at the expense of other lines in the area of LTS.

Profitability

The trend of continued competition and its effect on management fees, the coming into effect of the regularization regarding a default fund and the regularization regarding the unified Articles of Association (as set forth in Clause 6.3.9 above), as well as Amendment No. 13 (as set forth in Clause 6.3.10 above), might cause the transfer of some of the assets managed in the Group's pension fund to other companies, as well as a continued erosion in management fees, and, as a result, a decrease in the profitability of the products in the area.

In addition, the opening of the market to mobility of insurance products that include a guaranteed annuity coefficient, along with maintaining the guaranteed coefficient, might also affect the rate of management fees in existing life assurance plans and the persistency level of these policies.

Distribution channels

In light of the low price levels, which, in some cases, do not allow conducting transactions via insurance agents, we see a trend of a shift from transactions marketed by agents to direct transactions vis-à-vis the employers. This activity is performed by the direct arms in the companies, and by various models that combine direct activity with the activity of arrangement managers / agents. This trend, which is accelerating in the entire market, also characterizes the solutions offered by the Group in these cases.

The Commissioner's instructions regarding the way insureds work vis-à-vis the producer, with no brokers, that include an exemption of a pension marketing procedure when insureds join directly, or when they join "by default" by employers, promote the possibility for employers of acting directly vis-à-vis the Company. Furthermore, the promotion of the clearing house activity and the duty to use it in every transfer of information from institutional entities to license holders, encourage the various producers, including companies with no significant distribution networks, to develop advanced digital instruments that will allow direct marketing, thus allowing these companies to become significant competitive players via direct distribution activity.

Competition in the line

The regulatory arrangements detailed above may accelerate the competition in the line even more, for details regarding the competition see Clause 7 below.

Additional trends

The Company estimates that two sub-markets may develop in the area: the market of active savers, to whom the pensionary savings products for the age of retirement will be offered, and a market for after retirement – the Third Age market.

In recent years, the Third Age area benefits from interest on behalf of most competitors in the line, since the regulatory change of Amendment No. 3 to the Provident Fund Law detailed in Clause 6.3 1 above, as well as the discontinuation of the marketing of insurance policies with coefficients for people under the age of 60, create a potential for an increase in the scope of money transfers around the age of retirement.

The Company is of the opinion that in the market for after retirement (**Third Age** market), products will be offered from retirement age, including additional synergetic products from other areas, that may be offered to this population. Also, monies from other savings products (not necessarily monies accrued in pensionary savings products, but also from other savings origins) shall be mobilized for the acquisition of annuities. The competition between the various producers shall focus also on parameters such as annuity conversion coefficients, a variety of annuity tracks, the continued management of investments, management fees and service.

Information in Clause 6.4 above, with respect to the Company's estimations regarding regulatory arrangements in the area, is forward-looking information as per its definition in the Securities Law – 1968, is based on information held by the Company as of the time of this Report, the wording of legislative arrangements currently known, as well as on estimations and assumptions regarding the actions that will be taken by entities operating in the market. These estimations might not be realized, and actual results may be different than the forecasted results, if, *inter alia*, the provisions are changed or updated or implemented in a way that is different than what is expected or what exists now, as well as depending on the actions taken by entities operating in the market, including insureds, institutional entities, agents and distributors, which may be different than forecasted.

6.5 **Description of key products/insurance coverages**

6.5.1 **Life assurance**

Life assurance policies are divided into two main types: insurance policies with risk components only, and insurance policies that combine insurance coverage with a savings component.

(a) Insurance policies with risk components only

These insurances do not include a savings component and do not accrue surrender value. These insurances are offered both as individual insurance and within agreements for collective insurance.

The uniqueness of collective insurance policies compared with individual insurance policies is the following characteristics:

The policyholder: it may be an employer / a corporation. Insurance amounts are defined in advance for the group's insureds, and are set as per various parameters such as marital status, etc. The tariffs are calculated, *inter alia*, as per the group's actuarial age and occupation, the term of the insurance agreement is for a short period agreed in advance between the policyholder and the insurance company. When the insureds leave the group, in most cases, there is a duty to offer the insureds the right to continue the insurance under an individual policy.

(b) Insurance policies that combine insurance coverage

These policies are divided into two main types, those recognized as provident funds and are aimed for pensionary savings (usually designated for employees and self-employed (insurance funds)), and policies not recognized as provident funds, and usually designated for individual saving (individual plans).

The main difference in designating policies for savings as provident funds is mainly expressed in tax benefits granted to savings in these plans, set forth in the legislative arrangement, along with withdrawal rules that restrict the withdrawal of monies to only after the age of retirement, and under the conditions defined in the legislative arrangements.

The nature of the policies that include savings has changed throughout the years due to the reforms initiated from time to time by the Capital Market Division in the Ministry of Finance, as described above.

Details about the main insurance coverages/plans that include only a risk component are provided below:

Type of plan	Coverage description
Pure risk insurance	Life assurance in the event of death, without a savings component. This insurance provides members with a predetermined insurance amount should the insured pass away during the insurance period. The insurance amount may be a lump-sum, or a predetermined monthly amount for a predetermined period, depending on the relevant insurance plan. The insurance is provided against the payment of a fixed monthly premium, CPI-linked or a premium that changes once a year or once every five years. It is possible to add other extensions or riders such as accident-related deaths, accident-related disability, dread disease riders, etc. This coverage is also offered within the "mortgage insurance" plan, usually offered to the population that takes housing loans.
PHI insurance	A coverage that guarantees a monthly compensation that shall not exceed 75% of the wage in the event of occupational disability, and a release from premium payment. The coverage market in various plans that refer to various definitions of occupational disability, such the loss of the ability to engage in another reasonable occupation or the loss of the ability to engage in a specific profession / occupation. The compensation is paid as long as the insureds suffer from an occupational disability or until the end of the insurance period. Employers and self-employed receive tax benefits in respect of payments for this coverage, under certain restrictions.
Accident-related death insurance	An insurance that guarantees the payment of a lump-sum in the event of death caused by an accident.
Accident-related disability insurance	An insurance that guarantees the payment of a lump-sum in the event of disability caused by an accident.

Presented below are details about the main insurance plans in which savings may be combined with an insurance coverage for the event of death or PHI and/or savings only:

Plans currently marketed	
Type of plan	**Coverage description**
Migdalor for Life, 2013 series	The Migdalor for Life 2013 insurance plans are divided into insurance plans recognized as provident funds and insurance plans not recognized as provident plans, and into annuity paying insurance plans and non-paying annuity plans. In these insurance plans, there are also investment tracks as per the insureds' choice. All plans include a separation between the savings component and the risk component and the expenses (management fees) component. The plans recognized as provident funds are aimed for annuity only, and they allow only the purchase of coverages for death and PHI. They allow insureds to choose a variety of investment tracks. These plans continue the series of policies marketed beginning from 2004 (**Migdalor** series) (that were adjusted to the legislative arrangements from time to time). These plans were also adjusted to the annuity coefficients reform and the management fees reform, that came into effect beginning from January 2013. Beginning from January 2016, the investment tracks in these policies that are recognized as insurance funds were adjusted to the provisions of the Circular regarding Investment Tracks in provident funds, that was published in 2015, and currently they include also a managed model of age-dependent investment, as detailed in Clause 6.3.12 above.
New Life policies series	Insurance plans for the payment of an immediate annuity, CPI-linked, starting from the age of 60, are marketed within New Life policies series. Furthermore, the Company writes policies designated for employers who would like to pay their employees lump-sums during the early retirement period, before receiving annuities.

Plans marketed in the past	
Type of plan	**Coverage description**
Migdalor series	Policies marketed in 2004-2012. The policies include a separation between the savings, risk and management fees components. Furthermore, the insurance policies that combine savings are also divided into insurance plans recognized as provident funds and insurance plans not recognized as provident plans. In these policies insureds can choose between several investment tracks. Some insurance plans that were marketed guaranteed, as per the conditions set forth in the relevant insurance plans, a guaranteed interest or a minimal yield.
Adif policies (in the Group, these policies' brand name is Yoter)	The policy was the main policy in life assurance that was sold in the sector in 1989-2003. Its purpose was, *inter alia*, to provide a solution to employers who deposited the pensionary insurance payments linked to wages (unlike CPI-linkage). The main characteristics of this product are: the premium is divided into two components: a certain percentage of premium accrued as savings, and the balance of the premium is designated for the acquisition of risk for the event of death (risk) and operation and marketing expenses. The division of the premium between the components is determined by insureds. The insurance coverage component is calculated again every month, as per the ceded premium and the insureds' age in that month, while savings are accrued separately. The accrued savings are usually designated for annuity payment. Beginning from October 2001, the Group allowed the choice between several investment tracks within this plan.

Plans marketed in the past	
Type of plan	**Coverage description**
Classic (traditional) policies (mainly endowment, annuity and pure savings)	Endowment insurances include two components, savings and risk, at a predetermined amount as per the insureds' age and underwriting terms set forth when writing the insurance. The cost of the savings and risk coverage is mixed. The insurance amount is paid at the end of the period set forth in the policy as accrued savings or when a death event occurs before the end of the insurance period. The endowment insurance sold until the early nineties was usually CPI-linked, both the insurance amount and premiums. In these policies, since premiums were CPI-linked, if there were salary raises exceeding CPI, it was not possible to deposit additional amounts that reflected the salary raise. Annuity insurances are insurances in traditional policies, in which most premiums are designated to annuity payment upon retirement.

For details regarding results as per types of policies, see Note 18 to the Financial Statements

6.5.2 **Pension products**

Pension funds managed by the Group:

Old pension fund	
The Group has an old pension fund, Yozma Pension Fund for Self-Employeds, managed by Yozma Pension Fund for Self-Employeds Ltd. This is an old pension fund based on a personal actuarial balance mechanism. The fund was closed to new insureds pursuant to the reform in pension fund from 1995.	
New pension fund	
Migdal Makefet Ishit is a pension fund designated for current deposits of employees and self-employed members up to the allowed cap for deposits. The fund offers a variety of pension tracks that include insurance coverage in case of disability and death, as well as various investment tracks. The savings part in the fund is paid as old age pension as of retirement age. This fund is entitled for designated bonds.	**Migdal Makefet Complementary** is a general pension fund designated for current deposits, including deposits in amounts exceeding the allowed cap for new pension funds, and it also allows making one-time deposits. Beginning from January 2008, in addition to saving for old age pension starting from age 60, this fund offers a variety of pension tracks that include insurance coverage in case of disability and death, and as of that date it also operates as a comprehensive pension fund. This fund is not entitled to designated bonds.

6.5.3 **Provident products**

Migdal Makefet is also the managing company of provident funds in the Group. Provident funds managed by the Group:

Type of fund	Description
Educational fund	The fund is designated for salaried and self-employed. It allows members to accrue monies for educational purposes and enjoy tax benefits. The monies accrued in the fund may be withdrawn for educational purposes starting from three years' membership in the fund. After six years' membership in the fund, the monies may be withdrawn for any purpose.
Personal provident fund for provident benefits and severance pay	The fund is designated for employees and self-employed. Deposits to the fund are made on a monthly basis for employees. Self-employed may deposit once in a while (this fund is considered as a non-paying fund to annuity).
Sick leave provident fund	It allows employers to accrue monies in the fund for the payment of sick leave.
Central provident fund for the participation in Defined Benefit (DB) pension	The fund is designated for managing the sums deducted by employers, defined in The Israel Economic Recovery Program (Legislative Amendments for the Achievement of the 2003 and 2004 Economic Policy and Budgetary Objectives) - 2003, from the salary of employees employed by that employer, namely employers to whom the DB pension arrangement applies. The deduction rate as of 2005 is 2% of the employee's salary.
Central Fund for Severance Pay	This fund is closed to new deposits since January 2011. The fund is designated for employers who would like to accrue monies in order to secure severance pay for their employees. Members are the employers and the money accrual is in the employers' name for their employees.

6.6 Details about the pension and provident funds managed by the Group

Presented below are key data for 2013-2015 (NIS million)[15]:

Year	AuM	Contributions (1)	Net accrual (2)	Management fees rate to AuM (3)	Management fees rate from contributions
New pension funds					
Migdal Makefet Ishit					
2015	47,739	5,647	4,084	0.31%	3.32%
2014	42,955	5,208	3,808	0.34%	3.75%
2013	37,298	4,612	3,419	0.34%	3.79%
Migdal Makefet Comprehensive					
2015	611	99	74	0.84%	0.66%
2014	536	93	76	0.79%	0.55
2013	442	83	72	0.80%	0.32%
Old pension funds (Old Yozma)					
2015	1,698	21	(20)	0.60%	9.06%
2014	1,658	22	(20)	0.60%	9.14%
2013	1,557	24	(11)	0.60%	9.13%
Provident and educational funds					
Provident funds – Educational funds					
2015	13,306	1,584	(369)	0.86%	-
2014	13,602	1,655	(115)	0.90%	-
2013	13,275	1,690	(279)	0.95%	-
Provident funds – Provident funds for provident benefits and severance pay					
2015	1,857	93	0	0.73%	-
2014	1,851	88	20	0.79%	-
2013	1,767	77	(16)	0.83%	-
Provident funds - Other(4)					
2015	253	4	(32)	0.75%	-
2014	283	4	(21)	0.80%	-
2013	294	4	(3)	0.86%	-

Total pension and provident funds

Year	AuM	Contributions	Net accrual
2015	65,464	7,449	3,737
2014	60,885	7,070	3,748
2013	54,633	6,4908	3,182

(1) Pursuant to the Institutional Entities Circular 2016-9-3, the item of contributions shall not include the credit of contributions in respect of disabled members and risk from accrual by the fund, as a result of the above there was a decrease in the classification of contributions in Makefet Ishit fund in 2014 and in 2013, in the amount of approx. million 38 and approx. NIS 36 million, respectively.

(2) Pursuant to the provisions of the above-mentioned Circular, the payment that was transferred to the fund's reinsurers is currently presented in the net accrual, less contributions, such as the net accrual balance decreased in 2014 and 2013 by approx. NIS 2 million for these years, respectively.

(3) The details regarding the rate of management fees to AuM refer to insureds who do not receive annuities.

(4) Including: central provident fund for severance pay, central provident fund for the participation employer pension and sick leave provident fund.

[15] "Net accrual" is defined as contributions plus members' transfers net and less surrenders and pension payments.

In 2014 and 2013, the data regarding management fees as described in the table above are after the change in the provision for the reimbursement of management fees as per a ruling in principle by the Commissioner regarding the increase of management fees without advance notice, see Note 39 1f5) to the Financial Statements.

For details regarding the results referring to changes in management fees in pension and provident funds, see Clause 3.4.4 to the Board of Directors' Report.

7. Competition

7.1 General

The area is characterized by harsh competition both between the various lines in the area (insurance, pension and provident), *inter alia*, due to the nature of pensionary products that are alterative products, with certain emphases in each of them. The legislative arrangements in the area in recent years, were mainly aimed at removing barriers that delay money transfers between institutional entities, may increase transparency and competition in the area.

The regularization regarding annuity coefficients, that came into effect in 2013, the regularization in management fees and the suggestion of creating unity in pension funds' Articles of Association decreased some of the significant differentiating characteristics between the area's products and between the various competitors, and are expected to affect the competition level, while diverting sales to pension products, at the expense of declining life assurance products' sales.

The competition in the area concentrates on management fee rates, yields, the cost of insurance coverage, as well as on the existence of differentiating characteristics between the area's products and service level.

The continued harsh competition brings about a continued erosion in management fees, and as a result, it affects the profitability level in the area's products. The significant competition is also expressed in an increase in the mobility of accruals between managing companies in pension and provident funds. For details regarding net transfers of monies in the Group's pension and provident funds, see Clause 3.4.4 to the Board of Directors' Report.

7.2 Market data[16]

As of September 30th, 2015, and on the basis of the size of insurance liabilities in life assurance and assets managed in new pension funds and provident funds, the Company is the largest entity operating in this area. The Company's main competitors are Clal, Menorah, Harel and The Phoenix.

Due to the recent regulatory regularizations in the area, in recent years there was a decrease in the weight of life assurance new sales to total new sales of pensionary savings products in the Group (except provident funds), and on the other hand, there was an increase in the weight of new sales of pension funds.

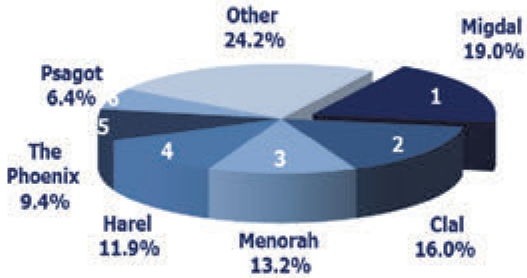
In 2015 there was a slight increase in total sales of pensionary savings products in the Group (except provident funds), following a stability in 2014. In addition, the mobility of net monies due to the shift of pension and provident funds members to other institutional organs, continued.

[16] Unless specified otherwise, the data brought in this Clause regarding market data are based on the processing of Ministry of Finance Reports published on the Ministry of Finance's website (**Managerial Reports, pensyanet.mof.gov.il, gemelnet.mof.gov.il**).
Also, premiums in data published in the Managerial Reports do not include premiums in respect of investment contracts, as defined by the various insurance companies.

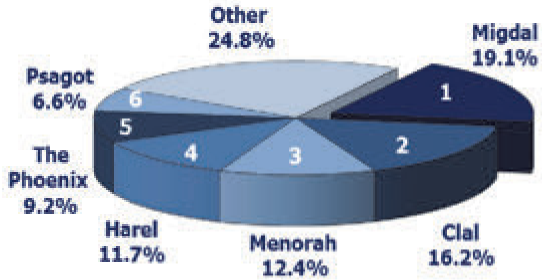
The entire area

Based on insurance liabilities in life assurance and assets managed in new pension funds and provident funds

As of September 30th, 2015



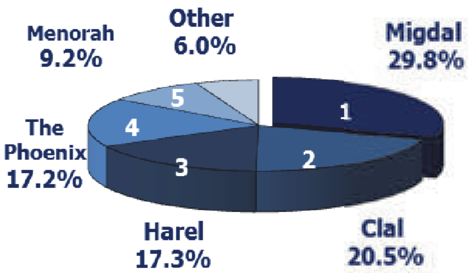
As of September 30th, 2014



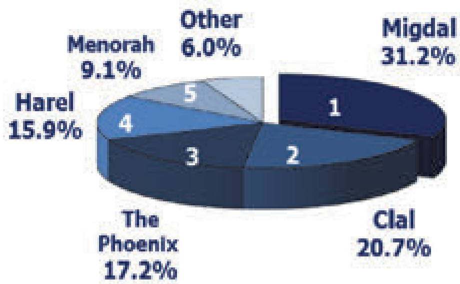
Life assurance

Premium breakdown

For 1-9/2015

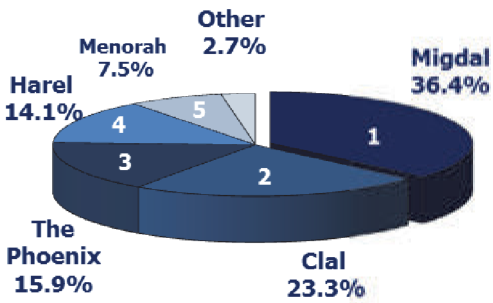


For 1-9/2014

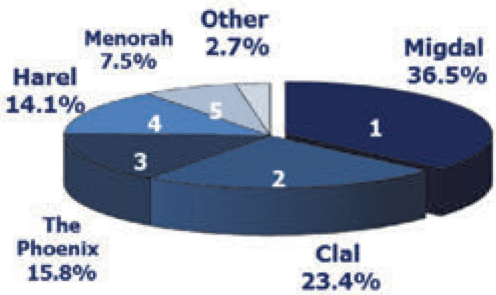


Insurance liabilities breakdown

As of September 30th, 2015



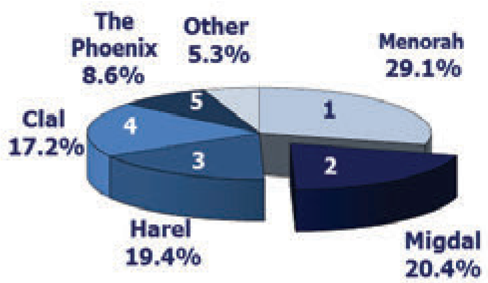
As of September 30th, 2014



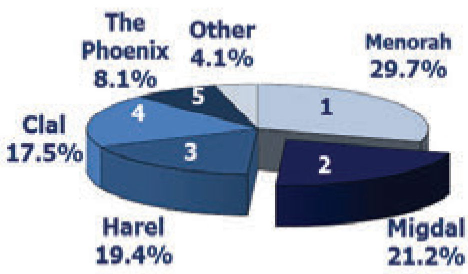
New pension funds

Contributions' breakdown

For 1-12/2015

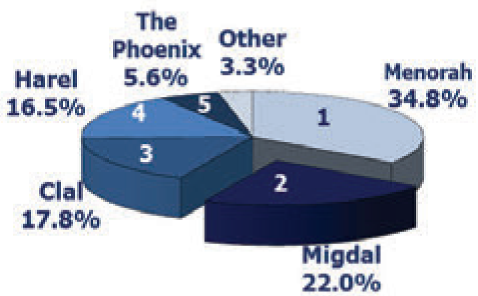


For 1-12/2014

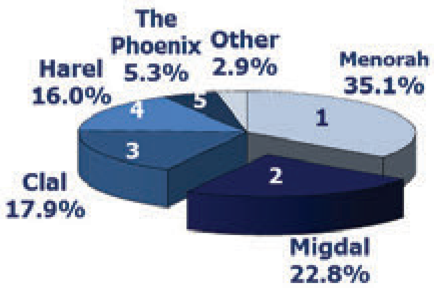


AuM breakdown

31.12.2015

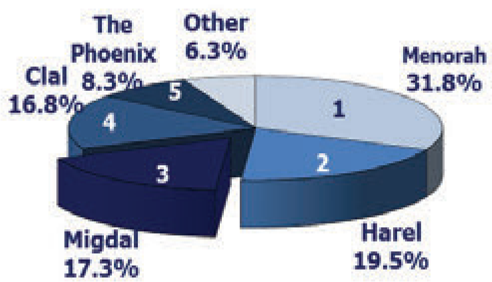


31.12.2014

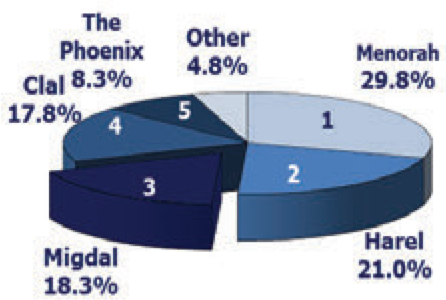


Net accrual breakdown

For 1-12/2015



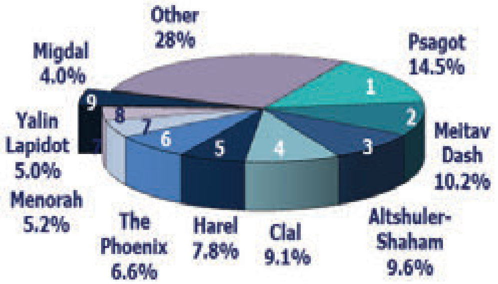
For 1-12/2014



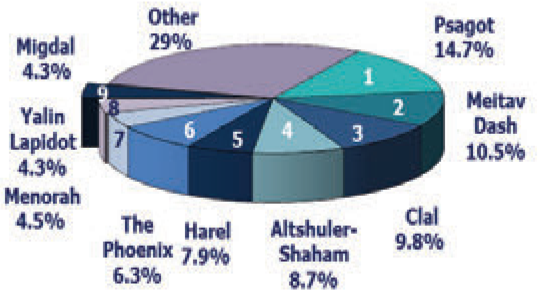
Provident funds and educational funds

Provident funds' AuM breakdown

31.12.2015

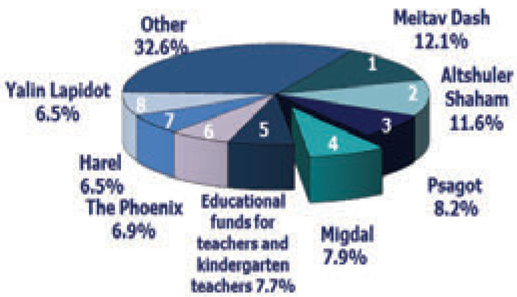


31.12.2014

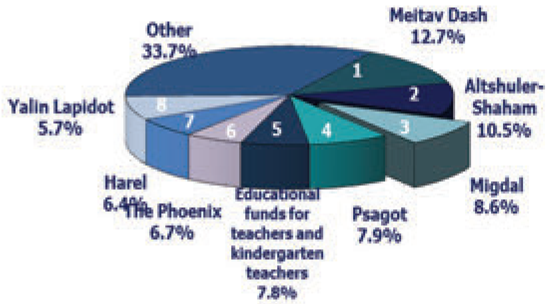


Educational funds' AuM breakdown

31.12.2015



31.12.2014



7.3 The Group's main methods for coping with the competition

The Company has experience, knowledge and a long term reputation in the area of life assurance and LTS, and as said above, it is the leading company in this area[17].

The Group deals with all the area's products, and it has a platform through which it offers customers an array of products in the area, including the integration of insurance products which are synergetic with the LTS products, thus increasing the basket of products that it offers to its customers, and it can adjust, for each customer, a product that meets his/her needs and special characteristics, with a simplification of selling procedures.

The Group's financial solidity and the advantages of economies of scale also affect its position in the area.

The Group strives towards an improvement in customers' loyalty and satisfaction, which, in its estimation, can be achieved via leadership in service and distribution channels and by increasing customer share, while creating a basis for long-term relations with the end customers.

In addition, in order to improve and strengthen relations with end customers, the Company updates the sales incentives to distributors, such that they would promote long term relations with end customers.

[17] As of September 30th, 2015, based on the data of insurance liabilities in life assurance and AuM in pension funds and provident funds.

Also, the Company intends to operate in order to increase the number of customers for whom the Company manages more than one product, by recruiting agents who specialize in this niche, as well as by establishing independent selling platforms.

Furthermore, the Company strives towards changing the sales mix, along with an increase of the sales of the pension product that became the leading product in the area, in light of the increased competition and the focus on selling risk products and individual savings products.

At the same time and in addition, the Group acts towards adjusting the marketing and distribution systems to the changes in the area, and integrating sales tools, due to the increasing competition.

In order to adjust itself to the regulatory trends and to the developments in the arena of distribution, the Company intends to perfect the abilities of direct pension sales, and develop its digital sales and service abilities.

The Group continues to work on adjusting the products offered to its customers to their needs and to the new changing conditions in the market. The Group has identified the Third Age population as a developing market and it expands its activity in the area of Third Age and in developing products for this target population. In addition, the Group has experience in managing assets portfolios for the long term, via diversified investment activities, with an emphasis on developing abilities and specialization in the area of investment management, both in Israel and abroad, including investments in the areas of real estate and credit, in order to achieve good yields for insureds and members, in accordance with the risk level.

Furthermore, the Company invests in branding and in advertising, in order to increase customers' awareness to the areas in which it operates, including advertising in various media channels.

In order to improve operational efficiency and the quality of products in the area, in 2015 the Group carried out a change in the structure of the LTS operation.

Along with all the above, the Group continues to focus on manpower and high quality human capital, while examining across-the-board processes and the cost structure, in order to improve operational efficiency.

8. Customers

8.1 Life assurance

Presented below are data regarding the gross premiums breakdown in life assurance in 2013-2015 (excluding receipts in respect of investment contracts):

	2015		2014		2013	
	NIS million	**Breakdown in %**	**NIS million**	**Breakdown in %**	**NIS million**	**Breakdown in %**
Salaried insureds	5,480	71	5,492	76	5,618	75
Individual and self-employed insureds	2,109	28	1,648	23	1,841	24
Collective insurance	75	1	84	1	86	1
Total	**7,664**	**100**	**7,606**	**100**	**7,545**	**100**

Presented below are data regarding the gross premiums, including receipts in respect of investment contracts, in 2013-2015:

	2015		2014		2013	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Salaried insureds	5,498	65	5,517	66	5,641	70
Individual insureds	2,937	34	2,813	33	2,343	29
Collective insurance	75	1	84	1	86	1
Total	**8,414**	**100**	**8,414**	**100**	**8,070**	**100**

8.2 **Pension funds**

Presented below are data as to the breakdown of contributions in pension funds (new and old) in 2013-2015:

	2015		2014		2013	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Salaried members	5,283	92	4,950	93	4,484	95
Individual members	485	8	373	7	236	5
Total	**5,768**	**100**	**4,757**	**100**	**4,3719**	**100**

8.3 **Provident funds**

Presented below are data as to the breakdown of contributions in provident funds in 2013-2015:

	2014		2013		2012	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Salaried members [18]	1,455	86	1,497	86	1,505	85
Individual and self-employed members	226	14	250	14	266	15
Total	**1,681**	**100**	**1,747**	**100**	**1,771**	**100**

8.4 **Surrender rates**[19]

In **life assurance**, surrenders to average reserves ratio was approx. 1.7% in 2015, vs. about 1.8% in 2014 and approx. 2.0% in 2013.

In **pension**, the surrender to average accrual ratio[20] was approx. 4.5% in 2015, similar to about 4.1% in 2013 and in 2014.

In **provident**, the surrender to average accrual ratio[21] was approx. 14.8% in 2015, vs. about 13.3% in 2014 and approx. 15.4% in 2013.

The Group does not have customers constituting 10% or more of total premiums and contributions in the area of life assurance and LTS.

[18] Including a sick leave fund and Makefet DB in non-material amounts in every year.

[19] Surrender rate, including outgoing mobility.

[20] The average accrual is defined as the average between the net asset balance as of the beginning of the period, and the net asset balance by the end of period in the fund.

[21] The average accrual is defined as the average between the net asset balance as of the beginning of the period, and the net asset balance by the end of period in the fund.

Area B – Health Insurance

9. Key products and services

9.1 General description of the area of activity

The area of health insurance includes the Group's insurance activity in the main following sub-lines: medical expenses insurance (such as surgery, medications and transplants), dread diseases insurance, LTC insurance, dental insurance, travel insurance and personal accidents insurance in which insurance period does not exceed one year, etc.

The area of health insurance is a developing and growing area. The supply and demand in the area depend, *inter alia*, on the Government health policy, including an expansion or reduction of services included within the health basket and the other services provided with the Additional Health Services (Shaban), quality of life and life expectancy, and technological developments that allow using medications and advanced medical treatments.

This area is also characterized by vast regulatory regularization, that affects the scope of the Groups activity in the area of health and its product mix, as detailed in Clause 9.3.

9.2 Key characteristics of the area

Health insurances are aimed at indemnifying or compensating insureds in the event of damage to their health due to disease or accident.

The insurance coverages in this area, offered by insurance companies, are divided mainly to the following layers:

Alternative insurance (an alternative to the services provided in the National Health Basket[22]/Shaban[23]), complementary insurance (insurance beyond the National Health Basket and/or Shaban), supplementary insurance (insurance not included in the National Health Basket and/or Shaban).

The insurance coverages are usually offered as separate independent policies, or as a rider to another policy, or via a package of coverages which bundle several insurance coverages.

Insurance premiums are fixed premiums or premiums that change throughout the insurance period according to the insureds' age.

Health insurances are offered either as individual policies for insureds ("**individual insurance**") or as collective insurance agreements ("**collective insurance**").

The key characteristics of the collective insurance terms:

The terms of the agreements for collective insurance are determined in negotiations between insurers and the entities representing the group, and they apply to all individuals within the group.

[22] The basic health basket that is provided to each resident in Israel pursuant to the National Health Insurance Law – 1994 ("Health Law").
[23] Additional supplementary health services in health funds (expanding/alternative to the health basket).

Usually the agreements are signed for preset periods of time of several years.

The premiums are lower than the premiums that would have been paid in similar individual policies, and sometimes they include a mechanism for premium adjustment throughout the insurance period.

Sometimes the insurance coverage in the collective policies is larger than coverage in individual policies.

When insureds leave the group, usually the insurer must offer them to continue in an individual policy as per the terms set forth in the legislative arrangements, and usually premiums are collected in one payment for the group's insureds.

9.3 Key changes

Presented below are several key changes in health insurance:

9.3.1 Individual health insurance

In February 2016 the following regulatory provisions in the area of health insurance came into effect:

(a) As part of the regulatory regularization of health insurances, in September 2015 an updated **Circular regarding the Writing of Individual Health Insurance Plans**, regarding determining the insurance period and renewal, was published.

Pursuant to the above-mentioned Circular, insurance plans that will be marketed beginning from February 1st, 2016 will be effective for two years, and they will be renewed, beginning from June 1st, 2018, under the same conditions or different conditions, with insurance continuity (without underwriting and no qualification period), automatically and with no need for the insureds' consent, except when insurance companies will increase insurance fees by the end of the insurance period by an amount exceeding NIS 10 per month or approx. 20% of premium paid prior to the renewal, the highest of the two, or in the event of a reduction of insurance coverage, that was made instead of increasing insurance fees as set forth above, and except exceptions set forth in the Circular, there will be need to address insureds in order to receive their consent for the renewal of the insurance period under the new conditions.

The Circular sets forth provisions regarding the way to notify insureds just before the renewal date in writing, the content of the notification and how to document the consent for renewal (whenever needed). Furthermore, insureds who did not give their consent in the required procedure, may continue to be insured for another 60 days. The Circular imposes a duty of addressing existing insureds in individual health insurance, with an offer to shift to a policy that is adjusted to these provisions with no medical underwriting procedure for coinciding coverages. For additional coverages, see Clause 26.6.1 (c) in Part D below.

The duty of updating the terms of insurance policies every two years might bring about an increase in insurance operation costs. In addition, the provisions of the Circular might undermine the ability to keep insureds in new policies. On the other hand, this undertaking may bring about a decrease in insurers' future risk due to the ability to examine, every two years, and re-assess medical expenses, thus reducing the uncertainty in medical costs.

At this point, except an estimation regarding a reduction in the cost of premiums to insureds, it is impossible to assess all the implications as set forth above, which depend, *inter alia*, on insurance coverages (which have not yet been published by all companies in the line), the behavior of competing companies, the distribution entities and customers' preferences and behavior.

(b) **Setting identical terms for insurance policy regarding surgery and non-surgical alternative treatments in Israel including consultations** ("**surgery policies**"). In September Regulations[24] stating that surgery policies that are marketed beginning from February 1st, 2016 shall be reworded as a standard policy, that includes coverages whose conditions are set forth in the Regulations.

Insurers will not be able to change these conditions, except if the change was approved by the Commissioner in advance and in writing. The Regulations also state that in general, and except criteria detailed in the Regulations as set forth above, insurance fees in surgery policies will be identical for all age groups. Within these Regulations, it was laid down that insurers may not stipulate joining surgery policies with the purchase of another insurance coverage or another service, and vice-versa.

Further to the publication of these Regulations, in October 2015 a Circular with Provisions regarding the Regulations' Implementation[25] was published, stating provisions as to the notification of existing insureds and how to join them to surgery policies. For additional details regarding surgery policies and the provisions of the Regulations and the Circular as set forth above, see Clause 26.6.1 (a) in Part D.

The Company is of the opinion that a standard policy between companies might increase the competition, that will focus on price and not on the scope of coverages, and also might affect insureds' persistency in this policy. In the insurance plan marketed after the Regulations came into effect, pursuant to the standard policy, the coverages have changed, the coverages ancillary to surgery, that were included in the surgery policies in Israel that was marketed until then were cancelled, and premiums for insureds were decreased as per the tariff that was presented to the Commissioner for approval. Furthermore, it should be noted that the instruction regarding the change in insurance period, to policies that are renewed every two years (for the first time on June 1st, 2018), as detailed in Clause (a) above, also applies to this plan, and the implications mentioned in Clause (a) above are relevant for this plan as well.

(c) **Cancellation of the possibility for reimbursement in respect of surgeries in Israel**

In November 2015, the Economic Program Law[26] was published, within which, *inter alia*, it was set as a rule that beginning from July 2016 health funds will be able to offer coverages for surgeries within the Shaban, and insurers will be able to market insurance plans that include coverages for surgeries (and a change in existing plans will be approved) only after the Minister of Health or the Commissioner (as the case may be) have

[24] The Law of Supervision of Financial Services (Insurance) (Conditions in Insurance Contracts regarding Surgeries and Non-Surgical Alternative Treatments in Israel) – 2015 Regulations ("**Standard Policies Regulations**").

[25] Insurance Circular 2015-1-21 Implementation Provisions regarding the Law of Supervision of Financial Services (Insurance) (Conditions in Insurance Contracts regarding Surgeries and Non-Surgical Alternative Treatments in Israel) – 2015 dated September 24th, 2015.

[26] The Economic Efficiency Law (Legislative Arrangements for the Implementation of the Economic Policy for Budget Years 2015 and 2016) – 2015.

considered and found that health funds or insurers (as the case may be) have satisfactory arrangements vis-à-vis physicians for surgeries, both regarding the number of physicians and the scope if surgeries in the arrangement, as well as their geographic spread.

In addition, there will be no reimbursement of medical expenses in respect of a choice of surgeon or a consulting physician, and there will only be a service of arrangement, with the insureds' deductible, if so determined. For additional details regarding the Economic Plan Law, including the possibility for insurance companies to offer reimbursement even when there is no arrangement, and regarding the appeal to the High Court of Justice filed by the Israel Medical Association against the Law, see Clause 26.6.1 (b) in Part D.

These provisions might affect the coverage of surgeries in Israel, as well as the way new insureds' claims are sold and settled pursuant to the suggested guidance. The Company is of the opinion that the implementation of the above-mentioned amendment.will not materially affect the scope of activity of the Company in the area and the Company's profitability.

(d) **Non-dependence between coverages**

In July 2015 a Circular regarding the **Non-Dependence between Coverages in Individual Health Insurance**[27] was published. The Circular sets forth provisions regarding the marketing of various insurance coverages in individual health insurance, as well as provisions regarding the separation of such coverages, which were sold together, and the cancellation of one plan out of various coverages sold together without the cancellation of additional plans that were sold together with the cancelled plan. Therefore, *inter alia*, the consent of potential buyers of each of the plans included under the policy must be received, separately, and they should be notified regarding the possibility to cancel each of the above mentioned plans, provided not all the fundamental *insurances* in the policy were cancelled, subject to exceptions. The provisions of the Circular also apply to individual insurance policies in the line of diseases and hospitalization and in the line of personal accidents that are marketed beginning from February 1st, 2016. For additional details regarding the Circular see Clause 26.6.1 (d) in Part D below.

The Company is of the opinion that a separate sale of health insurance products pursuant to the Circular might increase the scope of premiums in the health line, because of customers who may choose to purchase part of the product packages that are sold now. However, the above may not realize, all depending on the actual behavior of competing entities and insureds.

Along with the changes detailed above, the Ministry of Finance launched a calculator that allows the comparison between all insurance companies that market coverages within health insurances (transplants, medications and surgeries).

[27] Insurance Circular 2015-1-18 Non-Dependence between Coverages in Individual Health Insurance dated April 1st, 2015.

9.3.2 **Collective LTC insurance**

In February 2016 the following regulatory provisions in the area of health insurance came into effect:

(a) In December 2015 **Regulations and a Circular regarding Collective LTC Insurance for Health Funds' Members**[28] were published. The Regulations set forth conditions that will be included in collective LTC insurance plans, the terms for the joining, leaving or transfer of insureds between health funds, how insureds' monies should be handled in insureds' funds, as well as rules regarding the engagement between insurers and the relevant health funds.

The Company estimates that the suggested change may increase the scope of sales in private LTC insurance, and open the competition on health funds' members' collective insurance.

(b) In December 2015 an update to the **Circular the Writing of LTC Insurance Plans** was published, stating, regarding collective insurance (except collective insurance for health funds' members), that collective policies may not be marketed nor renewed not pursuant to the provisions of the Circular, except the renewal of existing policies until the date stated in the Circular. In the update to the Circular, the date was postponed to December 31st, 2016.

The Company estimates that the cancellation of the collective LTC insurance as set forth above may increase the scope of sales in individual LTC insurance.

9.3.3 **Riders**

In December 2015 the Commissioner published a Circular regarding the Marketing of Riders. For details see Clause 26.4.2 in Part D below.

The Circular may affect the way riders are marketed, as well as their content, such as the services sold in them may be restricted, and the scope of riders that will be sold after the coming into effect of the Circular may decrease.

9.3.4 **Draft Appendix to the Circular regarding the Clarification and Settlement of Claims and the Handling of Public Complaints**

In February 2016 the second draft of the **Circular regarding the Appendix to the Circular as to the Clarification and Settlement of Claims and the Handling of Public Complaints** was published. The draft sets complementary corrective provisions for the handling of claims in institutional entities (in the areas of their activity, not only in the area of health), as detailed in Clause 26.6.4 in Part D below. Furthermore, within the above-mentioned draft Circular, specific provisions were laid down regarding health insurance and LTC insurance.

Regarding health insurance, it was set forth that if an insurance company decides to dismiss a claim due to a previous health condition, in its dismissal notice or in its partial payment, the insurance company should detail the medical condition argued by it, and it will not calculate aggregate disability of insureds if the insured is defined as being disabled in more than one organ, by the way of disability weighting carried out by the NII, if this method is not laid down in the terns of the policy. Also, it states that insurance companies

[28] Law of Supervision of Financial Services (Insurance) (Collective LTC Insurance for Health Funds' Members) – 2015 Regulations. These Regulations were amended on January 18th, 2016; Insurance Collective LTC Insurance for Health Funds' Members dated January 24th, 2016.

shall not require, in the filling in of a claim form, reference to a specialist's opinion or the delivery of medical documents.

Regarding LTC insurance, the draft Circular includes instructions as to the definition of an insurance event in LTC, and specific instructions for the test of "cognitive impairment".

Regarding the settlement of LTC claims, *inter alia*, there is a provision stating that insureds who, due to problems in mobility or due to low responsiveness of the bladder suffer from functional incontinence, shall be considered as unable to carry out alone a material part (at least 50% of the action) of sphincter control, and insureds suffering from a lack of equilibrium or instability that cause recurring falls, shall be considered as unable to carry out alone a material part (at least 50% of the action) of "mobility" as defined in the LTC Circular. There are also instructions and restrictions regarding the examination of the occurrence of an insurance event in LTC insurance, and rules for the performance of tests as to the functional and cognitive evaluation, and rules for the dismissal of claims.

This draft, if it is published as a binding wording, may affect the definition of insurance event in LTC insurance, but at this point, the Company is unable to assess the draft's entire impact.

In September 2015 the draft Commissioner position regarding a clarification as to the renewed examination of eligibility in LTC insurance was published. In this Draft, the Commissioner clarifies several issues regarding the performance of a renewed examination of eligibility, *inter alia*, as far as conditions for the execution of a renewed examination of eligibility before discontinuing payment in the event of non-exhaustion of the policy, and notifications to insures, are concerned.

This draft, if it is published as a binding wording, may affect the definition of insurance event in LTC insurance and processes required within claim settlement, but at this point, the Company is unable to assess the draft's entire impact.

It should be noted that in March 2016, another draft regarding the appendix to the Circular regarding the Clarification and Settlement of Claims and handling of Public Complaints was published.

9.3.5 Collective health insurance

In July 2015 and January 2016 amendments to the **Supervision of Financial Services (Insurance) (Collective Health Insurance) Regulations – 2009** were published. Within the Amendment of the Regulations, there are several changes, mostly related to how insureds join collective insurances and how the agreement is renewed, including information that should be provided to insureds before receiving their consent for joining the collective insurance. Furthermore, the cases in which it is mandatory to receive the insureds' explicit consent for the renewal of collective insurance, such as when there is an increase in insurance fees by a rate that exceeds the limit set forth by the amendment to the Amendment, are detailed.

For additional details regarding the Amendment to the Regulations as set forth above, see Clause 26.6.2 in Part D below. The provisions of the Amendment may have operational implications, which may increase the cost of operation of collective health policies, *inter alia*, due to the need to receive insureds' consent on the renewal dates, including when premiums are updated during the insurance period or upon its renewal.

The Company's evaluation regarding the implications of regulatory provisions as set forth in Clause 9.3 above, including with respect to the provisions of the implementation of the standard policy, the cancellation of the possibility for reimbursement of medical expenses, the period of individual health insurances and how they are renewed, and the non-dependence between coverages, as well as the Company's estimation regarding the Amendment of the collective health insurance regulations, is forward-looking information that is based on the Group's estimations and assumptions and on information held by the Company as of the time of this Report. At this point it is impossible to assess all the implications that may be recorded, since they depend on the actual behavior of the competing companies, the distributing agents, the insureds and policy holders with whom the Company is engaged.

For additional legislative arrangements in the area of health – see details in Clause 26.6 in Part D below.

9.4 **Description of the main insurance coverages / services that are offered by the Group:**

Type of plan	Coverage description
	Medical expenses insurance
Surgery insurance	It mainly provides coverage for expenses involved in private surgery in Israel and abroad, in policies marketed beginning from January 2014 pursuant to the Commissioner's instructions, insurers may not give a compensation to insureds if they chose to have the surgery within the Shaban or in the public system. The coverage for surgeries in Israel is marketed in several layers, which include coverage for surgeries in Israel with deductible, complementary plan to Shaban and coverage "from the first Shekel". Beginning from February 1st, 2016, the surgery coverage is marketed within a standard policy for insurance companies within "from the first Shekel" track or complementary to Shaban. In individual insurances this coverage is offered for life. For the change regarding surgery medical insurance plans, see Clause 9.3.1 above.
Transplant insurance	It mainly provides coverage for expenses involved in organ transplants abroad and/or special treatments abroad. In individual insurances this coverage is offered for life.
Medications insurance	It mainly provides coverage in respect of medications that are not included in the National Health Basket. In individual insurances this coverage is offered for life.
Dental insurance	It mainly provides the insureds with coverage of expenses in respect of dental treatments based on several coverage layers: basic dental treatments, gums, restorative, dental implants and orthodontics. As of the date of this Report, this coverage is marketed by the Group only as collective insurance and for limited durations.
Riders	Various coverages provided to insureds such as physiotherapy treatments, consultations with psychologists, alternative medicine treatments, house calls by physicians as well as ambulatory coverages such as consultations with physicians, diagnostic medical tests, managers' screening tests and preventive medicine checks. Riders are offered as appendices to the main coverage and sold as riders that are effective for the same period as the main coverage. The Company may cancel these riders as per the arrangements set forth in the relevant riders. Regarding the regularization related to riders, see Clause 9.3.3 above.
	Dread diseases insurance
Dread diseases	An insurance coverage which provides the insureds with insurance benefits (mainly compensation, as opposed to indemnification) in case of contracting one of the dread diseases or severe medical occurrences, on the basis of a predetermined list included in the insurance plan. **The insurance is offered for a limited period**.
	LTC insurance
LTC insurance	An insurance which provides the insureds with compensation in case they become LTC-dependent under the definition set in the policy, and after the preset waiting period in the policy. The payment of insurance benefits is for a limited period or for life, depending on the policy's conditions In insurance plans marketed up until 2012, the monthly compensation was linked to the investment portfolio, as per the conditions set forth in the plan. Effective from 2012, the marketed insurance plan links the monthly compensation amount in the event of LTC to the CPI, as per the conditions set forth in the plan. Under certain conditions, in case of discontinuing the premium payment before the end of the insurance period, the insured is entitled to partial insurance coverage, according to the policy terms. In individual insurances this coverage is offered for life.
	Personal accidents insurance
Personal accidents	A plan granting insureds with insurance benefits in respect of damages (compensation) or medical expenses (indemnification) they incurred as a result of an accident. The coverage is multi-annual and is provided in the event of death, burns, fractures, LTC condition, hospitalization or disability, and medical expenses caused following an accident, and may also include coverage for temporary occupational disability. The insurance coverage is offered for a limited duration.

Type of plan	Coverage description
	Foreign travel insurance
Foreign travel insurance	The policy provides indemnification for expenses related to medical events that occurred abroad as well as indemnification in respect of third party damages and luggage.
	Plans marketed in the past
Healthy investment	A plan combining medical insurance for surgery and compensation in case of dread disease. In addition, as per the plan terms, the insureds may be reimbursed with premiums if they have not claimed on the policy.

For details regarding results as per policy types in the area of health insurance – see Note 19 to the Financial Statements.

10. Competition

10.1 General

The main competitors in the area are divided into two main groups: insurance companies, most of which operate in the area, and health funds that offer some of the insurance coverages within the Additional Health Services ("**Shaban**") offered by them.

In the area there is harsh competition stemming, *inter alia*, from the large number of competitors and the similarity in products, and it is reflected mainly in collective insurances, whose weight in the area has been increasing constantly. The harsh competition, has brought about a significant decrease in prices, an erosion in the price of insurance, low profitability, and sometimes even losses.

The area of health insurance in Israel is concentrated and held mainly by the five large insurance companies, Harel Group, Clal Group, The Phoenix Group, Migdal Group and Menorah Group, and the strongest is Harel Group with a market share of over 42% of premiums in the market for the period ending on September 30th, 2015.

Collective insurance's share constituted approx. 48% of total premiums in the area in 2014[29]. The collective LTC insurance constituted about 26% of total premiums in the area, and most of it is attributed to LTC insurance for members of health funds.

The Company's share in the collective health insurance market is small, and the Company does not have agreements regarding LTC insurance with health funds.

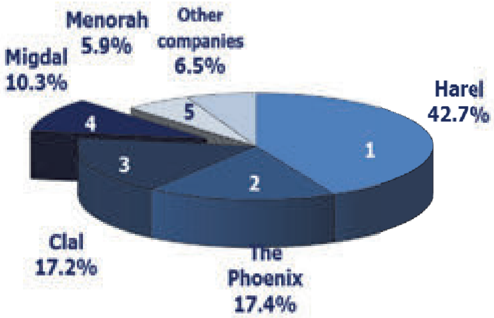
[29] Based on the 2014 Annual Report by the Capital Markets, Insurance & Savings Division. Excluding disability insurances, foreign workers' insurance, personal accidents and other.

10.2 Market data

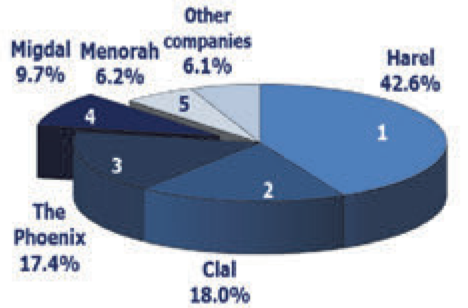
Presented below are market shares in individual insurance and in collective insurance in terms of premiums:

Total health insurance business[30]

For the period 1-9/2015

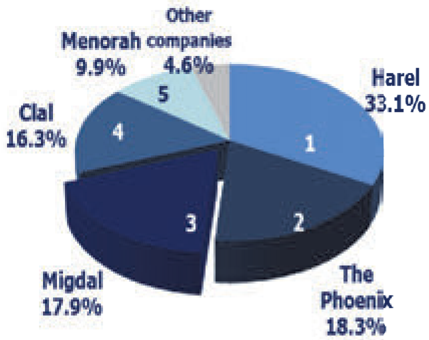


For the period 1-9/2014

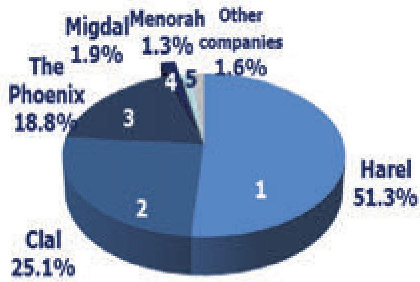


Individual[31] **and collective insurance in 2014**

Individual insurance



Collective insurance



10.3 The Group's main methods for coping with the competition

The Group copes with competition by branding the Group in the market of health insurance and ancillary services.

In addition, the Group strives towards expanding the array of products and services offered by the Group to other target populations, and putting an emphasis on innovation in the area of products, while making adjustments to meet the regulatory changes in the area. In addition, the Group develops digital tools to support sales for distribution channels.

The Group strives towards expanding its activity, with an emphasis on business acceptance policy, expansion of the actuarial information basis, along with an efficient management of claims.

[30] Market shares are based on the processing of the Ministry of Finance reports published in the website ("**Managerial Reports**").

[31] Market shares in individual and collective insurance are based on the 2013 Annual Report by the Capital Markets, Insurance & Savings Division. Excluding disability insurances, foreign workers' insurance, personal accidents and other.

11. Customers

Presented below is a table showing the breakdown of customers in the area of health insurance by gross premiums in 2013-2015:

	2015		2014		2013	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Individual insurance	921	90	810	92	706	92
Collective insurance	105	10	71	8	64	8
Total	1,026	100	881	100	770	100

The increase in premiums in collective insurance in 2015 was mainly affected by winning tenders for the insurance of corporate businesses in the end of 2014.

In individual LTC policies, the cancellation rate, in terms of premiums, as a percentage of policies in force at the beginning of the year, equaled approx. 4.9% in the reported year, vs. approx. 4.6% in 20144 and about 4.1% in 2013.

In individual policies in other health insurance (not including LTC insurance and including the other sub-lines in the policies for a period exceeding one year), the cancellation rate, in terms of premiums, as a percentage of policies in force at the beginning of the year, equaled approx. 10.0% in the reported year, vs. approx. 9.9% in 2014 and about 8.3% in 2013.

The Group does not have a single customer from whom revenues in the area constitute 10% or more of total premiums.

Area C – General Insurance

12. Key products and services

12.1 General

The area of general insurance includes the line of CMBI insurance, the casco line and other insurance lines, which include the other insurance lines in which the Group engages, other than insurance lines included under the area of life assurance and long term savings and long term health insurance. The area includes the following sub-lines, as detailed below:

The **compulsory motorcar bodily injury ("CMBI") area** – it focuses on the coverage of bodily injuries, and its acquisition by car owners or drivers is mandatory under the Law (Motor Vehicle Insurance Ordinance (revised version) – 1970. For details regarding characteristics that are unique for the CMBI line see Clause 12.4 below.

The casco area - focuses on coverage of property damages to the insured car and coverage of property damages that the vehicle might cause to a third party.

The area of other general insurance lines - it focuses mainly on property insurance and liability insurance, and is characterized by providing coverage for specific risks or "packages" for houses, businesses etc., which combine several insurance coverages, and also includes short-term personal accidents policies (for one year).

12.2 Key changes in the area

12.2.1 Engagement in an agreement for the acquisition of the claims portfolio included in Eliahu Insurance's general insurance in Migdal Insurance

Migdal Insurance engaged with Eliahu Insurance in an agreement for the absorption the general insurance portfolio that includes claims (outstanding and future) of Eliahu Insurance, originating from general insurance policies sold by Eliahu Insurance until December 31st, 2012, which is in run-off, and most outstanding claims are in CMBI. Within the engagement, the insurance portfolio will be transferred from Eliahu Insurance to Migdal Insurance's exclusive responsibility. The engagement was approved by the Company's General Meeting on February 3rd, 2016, and its completion is subject to the Court approval. For additional details see the Company's corrective Immediate Report dated December 29th, 2015, Reference No. 2015-01-081583, as well as Note 38e2 to the Financial Statements.

12.2.2 Amendment to the provisions of the consolidated Circular in CMBI

On March 1st, 2016 the **Amendment to the provisions of the consolidated Circular**, which, *inter alia*, updates insurance fees for private vehicles in residual insurance ("**the Pool**"), according to additional parameters, came into effect, and sets forth that beginning from January 1st, 2017 net insurance fees for the insurance of vehicles that are not motorcycles, shall not exceed 90% of net insurance fees for an insurance with identical characteristics within the arrangement for residual insurance.

As of the date of this Report, the Company is unable to assess how this Amendment will affect the behavior of the insurance market, as well as the scope by which insurance companies will use the set parameters. The Company is of the opinion that following the above, there might be an additional erosion in average premium in CMBI. For additional details regarding the appeal to the High Court of Justice filed by the Israel Insurance

Association and the managing corporation of the Pool's database, *inter alia*, claiming that the Commissioner may not take measures aimed by themselves at turning the Pool into a competitive player in the area of CMBI, see Clause 26.7.1 in Part D below.

12.2.3 **Actuarial valuations and the way insurance reserves in general insurance are calculated**

In January 2015 the **Commissioner published a position paper regarding the best practice for actuaries for the calculation of reserves in general insurance for the financial reporting**, such that the reserves would properly reflect the Company's insurance liabilities. Furthermore, an update to the Circular regarding actuarial evaluations in general insurance was published, integrating, *inter alia*, the duty to implement the Commissioner's position as set forth above beginning from the Financial Statements in respect of 2015. Accordingly, beginning from this Periodic Report reserves for the excess of revenues over expenses were cancelled. For additional details, including the implications on the Company, see Note 2j2d)(4) to the Financial Statements.

12.2.4 **Draft Circular regarding Reporting Infrastructures to the Commissioner about Casco Insurance Tariffs**

In December 2015 a Draft Circular with provisions regarding the duty imposed on insurers to report casco tariffs pursuant to variables that will be determined by the Commissioner to a tariff calculator that will be established in the Ministry of Finance website, was published. For additional details, see Clause 26.7.4 in Part D below. The Company is preparing towards the implementation of the draft Circular, and at this point it is of the opinion that its implementation will not have a material impact.

12.2.5 **Draft for the Amendment of the Consolidated Circular regarding Water Damages in Homeowner Insurance**

In January 2016 the **Draft for the Amendment of the Consolidated Circular regarding Water Damages in Homeowners Insurance** was published, including provisions aimed at improving the service that insureds will receive from service providers who perform the repair of water damages due to the basic risks covered in the homeowners policy or within the extension for risks from water and other liquids.

The suggested amendment, *inter alia*, redefines the term "plumbers company", and differentiates between "plumbers" and "plumbers in the arrangement", who are plumbers on behalf of the insurance company, included in its list of plumbers, and it sets forth provisions regarding how insureds should choose from the list of service providers in order to repair the water damages, including the duty of the insurance company to allow insureds to choose the plumber who would repair the plumbing damage from the list of plumbers in the arrangement, upon the occurrence of the insurance event.

The Company is of the opinion that the implementation of the amendment's provisions, should they be approved as a binding Circular, might have material implications on the way water damages are handled.

For the time being, the Company is studying the provisions of the Draft Circular, and it is preparing towards its implementation from the operational aspect, including handling water damages, along with a deployment towards the absorption of insureds' claims, control over damages and the adjustment of claims management in water damages to the new situation. At the same time, possibilities for establishing a framework for the handling of water damages via plumbers in the arrangement are being examined. Furthermore, the Company is examining the financial implications stemming from the above-mentioned Draft. For additional details see Clause 26.7.5 in Part D below.

12.2.6 **The payment of VAT and depreciation in unrepaired vehicles**

In July 2015 the Ministry of Finance published a ruling in principle, regulating the payment of VAT in the event of a third party claim, within which the plaintiffs decided not to repair their vehicle. Within this ruling, it was laid down that if insurers decided to compensate the insureds by paying the value of damage, or if a third party claimed direct damage in respect of the vehicle repair, after an appraiser set forth the damage's value and the insurance companies have not appealed it, they should pay the plaintiffs insurance benefits that include, *inter alia*, the vehicle's depreciation, if any, and the related VAT, if applicable, even if the plaintiffs did not repair their vehicles.

12.3 **Description of key insurance coverages offered and their unique characteristics**

Type of plan	Coverage description
	Motorcar insurance
	CMBI
Providing insurance coverage by virtue of the Motorcar Insurance Ordinance (New Version) - 1970 ("Motorcar Insurance Ordinance")	The product is a policy that covers bodily injuries caused as a result of using a car, and its purchase is mandatory under the Motorcar Insurance Ordinance. The CMBI policy covers, according to the Motorcar Insurance Ordinance, the owner of the vehicle and the driver from any liability they may bear according to the Traffic Accident Casualty Compensation Law - 1975 ("**TACC Law**") due to bodily injury caused by the use of a motorcar to the driver, to the passengers, or to pedestrians hit by the vehicle. The policy is a standard policy that should be issued pursuant to the **Regulations of Supervision of Financial Services (Insurance) (Conditions of Contract for Insurance of Vehicles) – 2010**. The amount of insurance benefits in this area is unlimited except for certain heads of damage such as "**pain and suffering**" whose amount is limited, and compensation in respect of salary loss, all as per the coverage restrictions set forth in the TACC Law. Amendments to the TACC Law and/or precedents regarding interpretation to this Law affect the scope of coverage. Usually, CMBI policies are written for a period of one year. However, claims in this area are handled over a long period, which might take several years, due to the long time that elapses from the occurrence of the event until the final damage assessment date and the settlement of the claim. The tariff principles are based on the instructions of the Commissioner of Insurance under the **Consolidated Circular**[32], and as per these principles, the parameters / variables that may be used by insurers in order to determine the tariff and the procedures with which insurers must comply regarding the approval of insurance fees, including the maximum tariffs that may be charged by insurers, were set. In January 2016 a **Draft for the Amendment of the Consolidated Circular in the Line of CMBI** was published. Within the suggested amendment, the Commissioner intends to update maximum tariffs in CMBI, beginning from January 1st, 2017 (Beyond the expected amendment to these tariffs beginning from March 1st, 2016 as detailed in Clause 12.4.1 below). The Group applies a differential tariff, based on some variables, selected by the Group as being the most appropriate in assessing risk and setting premium.
	Casco
Casco insurance includes coverage for property	The product is a motorcar insurance policy that provides coverage against damages that might be incurred to the vehicle itself or to the property of a third party. There are two types of casco insurance:

[32] The Consolidated Circular concentrates the Commissioner's instructions.

Type of plan	Coverage description
damages to the insured vehicle and property damages caused by the vehicle to a third party	(a) Insurance for third party vehicle, that provides only coverage for damages incurred to a third party's property. (b) A comprehensive coverage that offers coverage for a third party's damages as well as damages to the vehicle itself, such as theft. Casco policies are divided into two main groups, depending on the vehicles: • Insurance for private and commercial vehicles of up to 3.5 tons that grants insurance coverage as per the terms of the standard policy set forth in the **Supervision of Insurance Business Regulations (Conditions of Contract for Insurance of a Private Vehicle) – 1986**. It is possible to add to the standard policy extensions as to the scope of coverage and covered risks (within riders). Various coverages are offered, such as windshields, road services and towing, alternative vehicle etc. The tariff is an actuarial differential tariff (not standard for all insureds, and adjusted to risk), and it is based on several parameters / variables, both related to the vehicle insured by the policy (such as make, model, etc.) and to the insured's characteristics (number of drivers, drivers' age, past claim record etc.). • Insurance for other types of vehicles such as trucks of over 3.5 tons, motorcycles, taxis, heavy equipment, buses, agricultural equipment etc. Insurance policies for these types of vehicles are not subject to the terms of the standard policy.

Other general insurance

This line mainly includes two types of insurance: property insurances, which include coverage in respect of loss or physical damage to the insured property and liabilities, which include coverage in respect of a financial liability by insureds towards a third party in respect of bodily injury incurred to them, as per the Law, as detailed below. Furthermore, this line includes personal accidents policies for a period of one year.

Property insurances

Property insurances are aimed at providing insureds with coverage against loss or physical damage to their property. The main risks covered in property policies are fire hazards, explosion, burglary, earthquake and natural disasters.
Property insurances sometimes include coverage for consequential damage (loss of profit) due to physical damage caused to the property, and they are a layer in homeowners insurance, business insurance, engineering insurances, goods in transit (marine, terrestrial, aerial) etc. In most cases, the property insurance policies are written for a period of one year. Also, in most cases, claims in respect of such policies are clarified a short time after the occurrence of the insurance event. Insurance coverages in this area are designated for private and corporate customers.
The key products in the property insurance line are as follows:

Homeowners insurance	Homeowners insurance includes building insurance and content insurance, based on property insurances as described above plus liability insurances related to homes (third party liability and employers' liability in respect of housekeeping employees). The homeowners insurance policy is based on the terms set forth in the **Supervision of Insurance Businesses (Conditions of Contract for Home Insurance and Content) Regulations – 198**6. It is possible to add to the standard policy extensions as to the scope of insured coverage, risks, property and liability of the insured. The proposed coverages are water damages, repair of electric appliances, computers, emergency services, house calls by physicians etc. The standard policy was updated in July 2015, along with an expansion of the minimal coverage set forth in it, and now it includes: another coverage amount in condominiums, an expansion of coverage for risks of water and other liquids to also cover damages originating from the of escape of liquids from plumbing and heating appliances of another property in the condominium, as well as the inclusion of a standard wording for liability insurance towards a third party. The underwriting of this product is based on a basic tariff (with some variance regarding parterres, villas and penthouses) and through analyzing the specific risk. Within homeowners insurances, the Group also offers a "**structure insurance for mortgage**" policy, which is a policy covering the building only, as per the standard policy, whose main target is mortgage banks borrowers.

Type of plan	Coverage description
Business insurance	Business insurance is property, buildings and content insurance, which are used for business needs against fire risks and associated risks (risks coverage sold together with fire risks coverage, such as coverage for burglary, explosion and earthquake). This coverage is extendable to consequential damage coverage, namely loss of profits. This product is usually sold as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), aimed at combining into one policy all coverages needed for the business. The underwriting of this product is mostly based on the specific risk analysis and in large corporations insurance, on individual negotiations with the reinsurers.
Other property insurance	Within other property insurances, the Group offers additional insurance coverages such as marine and aviation insurances (watercrafts, aircrafts, goods in transit), contractor work insurances, mechanical engineering equipment insurance, fidelity insurance and all risks insurance. The scope of activity in these insurance lines is non-material.
	Personal accidents insurance (for one year)
Personal accidents insurance compensates the insured in respect of any damage caused to him/her due to an accident. Coverage is granted against death or disability as a result of an accident, and may also include coverage for temporary occupational disability. The area of general insurance includes personal accidents for one year (and personal accidents policies for a period of over a year are included with the area of health insurance. It should be noted that there is no difference between the two types of policy).	
Liability insurances	
Liability insurances are aimed at covering an insured's liability, by law, in respect of damage he/she may inflict upon a third party. The liability insurance policies are usually issued for one year. However, the pace at which claims in this line progress is longer and may take several years, for several reasons: the damage covered in the policy is caused to a third party who is not the policyholder, the time elapsed between the occurrence of the event and the time of establishing the liability and damage and filing the claim, is relatively long. In many cases it involves a relatively complex factual and legal inquiry, both regarding the insured's liability and the scope of damage. The statute of limitation period in respect of the cause of claim is longer than the customary limitation period in property insurance. In some of the liability insurances, mainly third party and employers' liability, coverage is usually event-based, namely the coverage is for events that occurred during the insurance period and the claim can be filed after the end of the insurance period, subject to limitation. In liability insurances, mainly professional liability and product liability and D&O insurance, coverage is based on filing claims, i.e., the coverage is for events that occurred during the insurance period or in the retrospective date set forth in the schedule, and the claim must be filed within the insurance period.	
Insurance of liability towards a third party	The purpose of this product is to protect insureds against a liability which they might bear, in respect of damage they caused, by negligence, to a third party. The coverage is adjusted to the insureds' activity and the limit of liability in the policy is determined by the insureds, at their discretion, based on the risk level to which they are exposed, in their opinion. This product is sold both as an independent individual policy (third party liability coverage only), and as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), whose aim is to combine into one policy all coverages required for the business.
Employers' liability insurance	The purpose of this product is to protect employers from liability which they might bear, in respect of damage they caused, by negligence, to one of their employees, during and due to work. Coverage in these policies is provided above the sums provided by the National Insurance Institute of Israel, which handles work accidents. The limit of liability in such policies is set by the insureds, as per their discretion, based on the risk level to which they might be exposed. This product is sold both as an independent individual policy (employers' liability coverage), and as part of an "umbrella" policy, which includes several coverage chapters (property and liability chapters), whose aim is to combine into one policy all coverages required for the business.
Other liability insurances	These are insurance coverages for product liability, professional liability insurance, and D&O insurance.

12.4 Special arrangements referring to the CMBI line

12.4.1 Residual insurance arrangement ("the Pool")

Since on the one hand there is a duty imposed on vehicle owners to insure their vehicles pursuant to the CMBI Ordinance, but on the other hand, insurance companies may refuse to insure vehicles as per their discretion, vehicle owners who were rejected by insurance companies may acquire insurance via "the Pool" – the Israeli Vehicle Insurance Database, that the way of its establishment, the way it is managed and the way it behaves, its duties, the share of each insurance company in the arrangement, the way the coinsurance is settled, including arrangements as to the setting of tariff, are regulated in the Motorcar Insurance Regulations (Residual Insurance Arrangement and Mechanism for Setting the Tariff) - 2001 ("**the arrangement regulations**"). All insurance companies operating in the area of CMBI participate in "the pool" and each bears the pool's losses or profits as per its relative share in the CMBI market, as determined by the end of the current year. For the Group's share in the Pool's results see Clause 3.6.4 in the Board of Directors' Report.

For details regarding the amendment to the provisions of the consolidated Circular dated January 7th, 2016, which, *inter alia*, updates insurance fees for private vehicles in residual insurance, such that beginning from January 1st, 2017 the Pool's tariffs deriving from net insurance fees[33] shall decrease substantially, see Clause 12.2.2 below.

12.4.2 Karnit

The Traffic Accident Casualty Compensation Fund – Karnit, is a corporation established following the TACC Law, whose role is to compensate casualties who are entitled to such compensation by virtue of this law, and who cannot sue the insurance company for compensation due to one of the following events: the liable driver is unknown, the driver does not have CMBI or the insurance does not cover the liability, the insurer of the motorcar is in liquidation or was appointed an authorized manager.

Insurance companies must pay Karnit 1% of their insurance premiums without fees in respect of CMBI policies. Furthermore, insurance companies must transfer to Karnit another 9.4% of insurance premiums, less the amount transferred to Karnit, since the insurance liability for granting medical services due to bodily injuries to car accident victims was transferred from insurance companies to health funds.

In December 2015 a Bill for the Amendment of the Traffic Accident Casualty Compensation Law[34], stating that with the consent of the Minister of Justice, the Minister of Finance or a representative thereof shall be empowered in order to approve to Karnit to reimburse monies accrued in the fund beyond the amount required for the fulfillment of its role, to CMBI insureds (by a refund or a reduction in CMBI tariffs for several years).

At this point, the Company is unable to assess whether and how the provisions of this Bill might affect the Company, *inter alia*, due the uncertainty as to how premiums will be reimbursed, if they are reimbursed and/or the timetable for their reimbursement.

[33] Pursuant to the Consolidated Circular, net insurance fees for insureds shall not exceed 90% of insurances with identical characteristics within the Pool.
[34] The Bill for the Traffic Accident Casualty Compensation Law – (Amendment No. 25) - 2015.

12.3.4 **"Light heavy" clearance outline**

Under CMBI activity, the Insurance Companies Association operates a clearance system aimed at transferring payments automatically between motorcar insurers as per the TACC Law and the Compensation for Traffic Accident Casualty Order (Arrangements for the Distribution of the Burden of Compensation Between Insurers) – 2001. The parties in the clearing system are all the insurers and it applies to accidents in which the vehicles insured in the policies were involved. The outline manager is also authorized to execute arbitrations regarding disputes as to liability, both in the legal aspect and the factual aspect.

12.4.4 **Subrogation right of the National Insurance Institute of Israel (NII)**

As per Clause 328 to the National Insurance Institute Law (combined version) – 1995 (henceforth: "**the Law**"), the NII has the right to claim from a third party to pay back annuities paid or that will be paid by the NII, if the case serves as a cause for charging a third party as per the Civil Wrongs Ordinance or the TAAC Law ("**subrogation right**"), i.e., the NII may sue insurance companies in respect of monies it paid or will pay to their insureds. In order for the NII to exercise this right, it needs information from insurance companies.

Accordingly, as of January 2014, insurance companies must inform the NII whenever insurers deducted or were allowed to deduct from the compensation amount the amounts of annuity that the NII paid or would pay under the Law, and which the NII may claim from insurers. The provisions also set forth the deadlines and the ways the reporting should be made. If insurers do not inform the NII within the time set forth by the Law, the statute of limitation period of NII claims in respect of the subrogation right shall begin upon the reporting or when the NII was informed about the procedures in which insureds are entitled to compensation, the earlier of the two.

On January 1st, 2016 another Amendment to Clause 328 to the Law[35] came into effect, setting provisions regarding the way of reporting and its publication by the NII, deadlines for the relations between the NII and insurers after the NII requests payment, as well as provisions regarding the statute of limitation, which will be 7 years after the reporting date or the date upon which the NII was informed about the procedures, regardless of the breach of the reporting duty, but no more than 15 years after the accident.

At the same time, Clause 92a to the Supervision of Financial Services (Insurance) – 1981, and the Commissioner was authorized to impose a fine on insurers who breached the reporting duty set forth by the Law.

In September 2014 an agreement was signed between with the NII and the Company, which brings into effect an old agreement between the parties, with certain changes, including: detailing the cases in which the Company may dismiss a claim and setting a sanction if the Company breaches its undertakings as per the agreement. It was also agreed that the agreement's cancellation or non-renewal for any reason shall apply immediately to all events in respect of which the Company has not yet paid compensation.

Discount interest rate in National Insurance Institute of Israel (NII) allowances – in July 2014 an intra-ministerial committee headed by the retired judge Dr. Eliyahu Winograd ("**the Discount Committee**"), for the examination of the data used by the NII in determining the amount of

[35] Within the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives for Budget Years 2015 and 2016) – 2015.

compensation fees due to work-related accidents and the discount of such allowances, pursuant to the NII Regulations (Discount) – 1978 ("**the Regulations**"), was established, further to an appeal filed to the High Court of Justice, claiming that insureds are entitled to amounts that are higher than those given by the NII. The allowances are based on mortality tables and interest rates that were not updated since 1987. In March 2016 the conclusions of the Discount Committee were published, stating, *inter alia*, that the Regulations should be updated both regarding the life expectancy component, and regarding the discount rate. It should be noted that pursuant to the Committee's recommendations, until the Regulations are changed and as long as they are not changed, the discount rate set forth in Regulation 15(1) to the Regulations for the discount of annual allowance 2% (instead of 3%). Also, the recommendations set forth that after this update, the Regulations shall be updated every four years.

The Company is of the opinion that if the Regulations are updated pursuant to the Committee's recommendations, the amount of allowances that victims of work-related accidents are entitled to will increase, and accordingly, this may affect the insurance amounts that insurance companies will have to pay to the NII, within subrogation claims filed by the NII to insurers, and may also affect the insurance sums that the companies will have to pay to victims in other disability claims. These implications will be reflected in the Financial Statements if and when the Regulations are amended as set forth above.

13. Competition

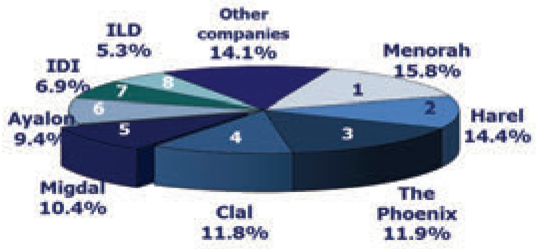
13.1 General

The area of general insurance is characterized by continued competition, which focuses on tariffs and service. The Company's market share, as reflected in revenues from insurance fees in the first nine months of 2015, is approx. 10.4%, similar to the same period in 2014. As of September 30th, 2015, and based on market data in terms of gross premium, the Group is fifth among the entities that operate in this area, as detailed below:

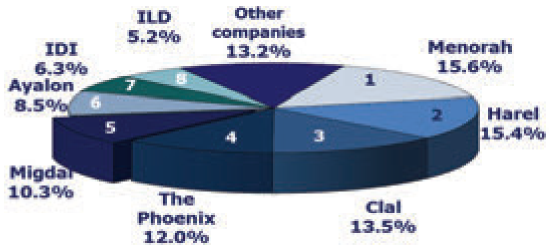
13.2 **Market data in terms of gross premiums**[36 37]

The entire area of general insurance in Israel

For the period 1-9/2015

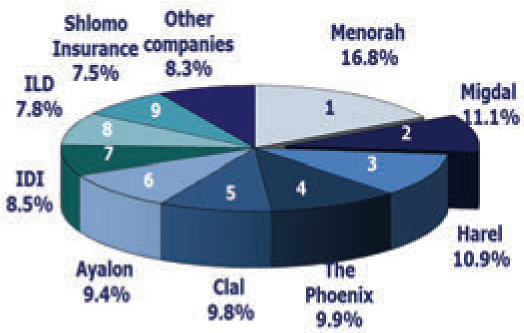


For the period 1-9/2014

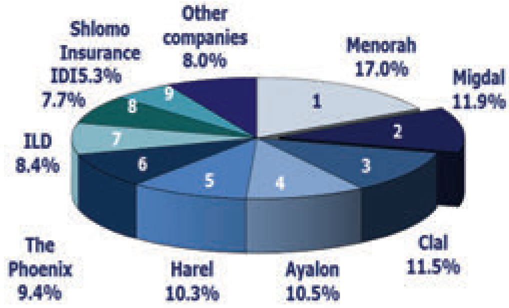


CMBI

For the period 1-9/2015



For the period 1-9/2014



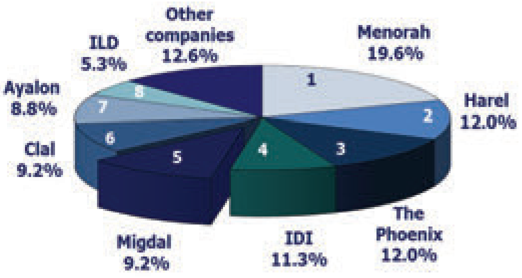
The share of all direct insurance companies in this period equaled approx. 10.6% of total gross premiums in the line, vs. approx. 10.7% in the same period in 2014.

[36] The data brought in this Clause are based on the processing of the Ministry of Finance Reports published on the Ministry of Finance's website ("**Managerial Reports**") unless specified otherwise.

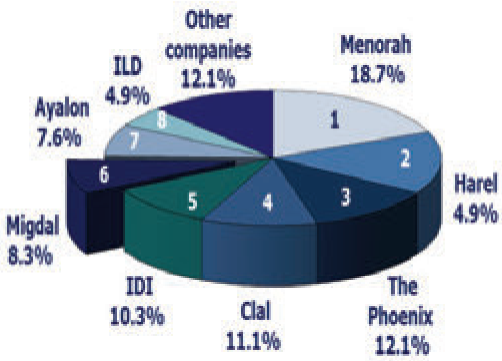
[37] The item of other companies includes the data regarding the Insurance Fund for Natural Damages in Agriculture Ltd., whose market share as of September 30th, 2015 is approx. 1.6%.

Casco insurance

For the period 1-9/2015



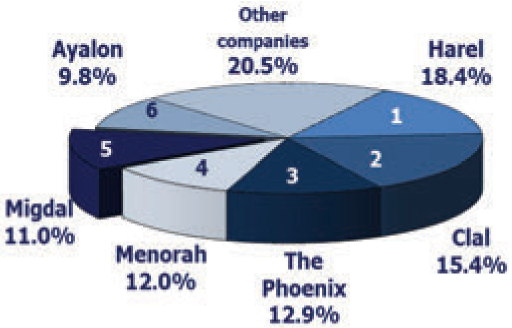
For the period 1-9/2014



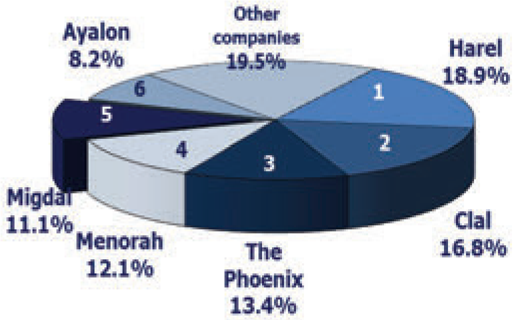
The share of all direct insurance companies in this period equaled approx. 15.2% of total gross premiums in the line, vs. approx. 14.0% in the same period in 2014.

Other general insurance lines

For the period 1-9/2015

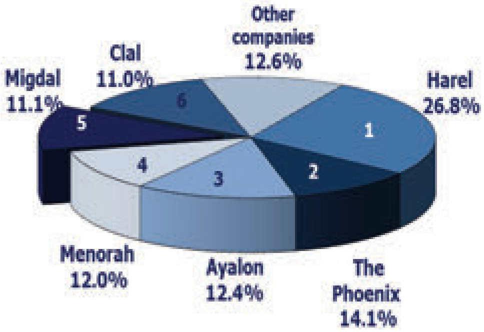


For the period 1-9/2014

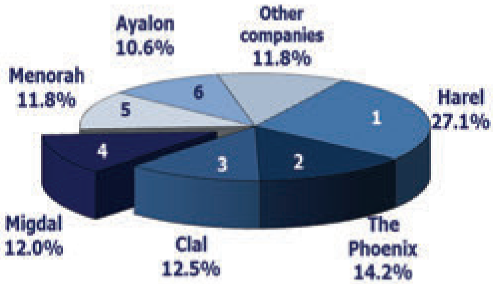


Liability lines (excluding CMBI)

For the period 1-9/2015

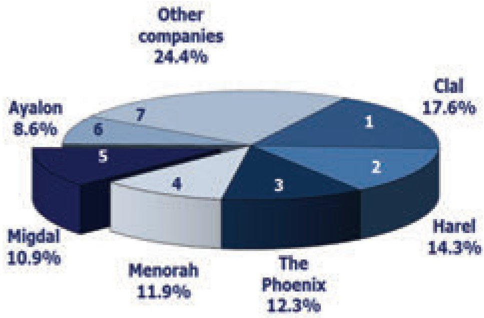


For the period 1-9/2014

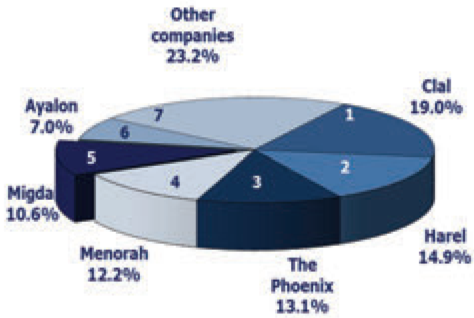


Property lines (excluding casco)[38]

For the period 1-9/2015



For the period 1-9/2014



In the first nine months of 2015, the Group's market share in terms of gross premium remained similar to the same period in 2014. On the one hand, there was an increase in market share in casco due to an increase in the number of policies to individual and collective customers, as well as an increase in market share in other property lines, mainly due to an increase in premiums in the corporate business insurance, and on the other hand there was a decline in the CMNI line, mostly due to an erosion of tariffs, as well as a decrease in the market share of liability insurance. For more details, see Clause 3.6.4 in the Board of Directors' Report.

13.3 **The Group's main methods for coping with the competition**

The Company deals with the competition in several ways:

Managing tariff and risks – the Group manages the tariff in individual insurance in a way that allows it to cope with customers' segments in which it is interested, along with analyzing the information accumulated in the area, which allows it to respond to changes in the market.

The Company focuses on developing and offering combined products and structured tracks, which include several coverages that provide a comprehensive solution for customers. For example, the Group focuses on the combined sale of CMBI and casco policies.

Also, the Company focuses on increasing sales and promoting products in general insurance by recruiting, training and increasing the professionalism of high quality manpower as well as recruiting new agents, creating a wide service basis, with an emphasis on high quality service. In addition, the Company strives towards increasing sales via a quarterly-objectives based incentives system for agents and salespersons engaged in marketing and providing service in the area of general insurance.

In addition, the Company takes the following measures: improving and increasing accessibility of service to customers and agents, via operational streamlining and integrating advanced computerization systems, including developing various digital tools for agents, aimed at facilitating their work and streamlining it.

[38] The item of other companies includes the data regarding the Insurance Fund for Natural Damages in Agriculture Ltd., whose market share as of September 30th, 2015 is approx. 6.0%.

14. Customers

14.1 Breakdown of activity in the area of general insurance

Presented below are details about the breakdown of activity in the area of general insurance, by gross premiums, in 2013-2015 (in NIS million and in %):

	2015		2014		2013	
	NIS million	Breakdown in %	NIS million	Breakdown in %	NIS million	Breakdown in %
Individual insureds and small business customers	1,606	73	1,526	78	1,513	75
Collective insurance and big businesses(1)	444	22	443	22	509	25
Total	2,050	100	1,969	100	2,022	100

(1) Including vehicle fleets and companies engaging in motor vehicles.

There was stability in the share of individual insureds and small business customers in 2015 compared with 2014, following an increase in the rate of these insureds in 2014 compared with 2013, which was affected by the discontinuation of activity in several motorcar collective insurance, as well as by a decrease in premiums attributed to large businesses, partly stemming from the renewal dates of policies in which insurance coverage exceeds one year.

For details regarding the breakdown of premiums per lines within general insurance, see Note 3 to the Financial Statements.

14.2 Customers' seniority and persistency[39]

14.2.1 CMBI

In 2015, the renewal rate in the CMBI line, in terms of premiums to policies in force in the previous year, equaled approx. 59%, vs. a renewal rate of about 62% in 2014 and about 58% in 2013.

In 2015 there was a moderate decrease in the renewal rate compared with 2014, mostly affected by the erosion in tariffs in the Company, following a moderate increase in renewal rate in 2014 compared with 2013, which was partly affected by a tariff update in the fourth quarter.

[39] The renewal rates in 2013 detailed in this Clause refer to policies in force in Migdal Insurance before the absorption of Eliahu Insurance's new business in general insurance in Migdal Insurance. The new policies that were absorbed as set forth above, in the data referring to the breakdown of customers' seniority in 2013, are presented under "First insurance year (with no seniority)". Policies that were renewed from that population are included in 2014 under the second insurance year (one seniority year), and in 2015 under the third insurance year (two seniority years).

Presented below are details of the breakdown of customers by seniority in CMBI, in terms of premium turnover, in 2013-2015:

Number of underwriting years (seniority years)	2015	2014	2013
First insurance year (no seniority)	40%	39%	73%
Second insurance year (one seniority year)	20%	44%	9%
Third insurance year (two seniority years)	28%	6%	6%
Over three seniority years	12%	11%	12%
Total	100%	100%	100%

14.2.2 Casco

In 2015, the renewal rate in the casco line, in terms of premiums of policies in force in the previous year, equaled approx. 75%, vs. approx. 69% in 2014 and approx. 70% in 2013.

The increase in the renewal rate in 2015 was partly affected by a tariff update in 4Q14.

Presented below are details of the breakdown of customers by seniority in casco, in terms of premium turnover, in 2013-2015:

Number of underwriting years (seniority years)	2015	2014	2013
First insurance year (no seniority)	40%	32%	59%
Second insurance year (one seniority year)	18%	42%	12%
Third insurance year (two seniority years)	27%	7%	9%
Over three seniority years	15%	19%	20%
Total	100%	100%	100%

14.2.3 Customers' segment that is common to the CMBI and casco lines

(a) In 2015 the segment of customers that is common to the CMBI and casco lines is approx. 57% of premiums in CMBI, vs. about 49% in 2014 and about 48% in 2013.

(b) In 2015 the segment of customers that is common to the casco and CMBI lines is approx. 85% of premiums in casco, vs. about 79% in 2014 and about 75% in 2013

14.2.4 Homeowners insurance

In 2015, the renewal rate in the homeowners insurance[40] line in terms of premiums of policies in force in the previous year, equaled approx. 91%, vs. about 79% in 2014 and approx. 86% in 2013.

The increase in the renewal rate in 2015 was affected by an update of tariffs in the line, following a decrease in renewal rate in 2014 vs. 2013, which was mainly affected by an update of tariffs and the composition of coverages in the line.

[40] Does not include insurance for mortgage banks borrowers, which is under collective insurance in run-off.

Presented below are details of the breakdown of customers' seniority in homeowners insurance[41], in terms of premium turnover, in 2013-2015:

Number of underwriting years (seniority years)	2015	2014	2013
First insurance year (no seniority)	13%	11%	27%
Second insurance year (one seniority year)	95%	25%	10%
Third insurance year (two seniority years)	22%	9%	10%
Over three seniority years	56%	55%	53%
Total	100%	100%	100%

[41] Does not include insurance for mortgage banks borrowers, which is under collective insurance in run-off.

Area D – Financial Services

15. Financial information in the area of financial services[42]

	2015	2014	2013
Total revenues			
Revenues from external sources – not from other areas of activity	196	210	196
From other areas of activity(1)	9	4	5
Total revenues	**205**	**210**	**201**
Costs that do not constitute revenues from other areas of activity	207	207	203
Costs that constitute revenues from areas of activity(2)	2	2	2
Total costs	**209**	**209**	**205**
Out of which: expenses in respect of original difference amortization and goodwill amortization (3)	26	8	1
Income (loss) for the period before tax	(4)	1	(4)
Comprehensive income (loss) for the period before tax	(3)	2	(3)
Total assets in balance sheet	**636**	**789**	**883**

(1) The revenues of Capital Markets Group as a result of services supplied to other companies in the Group, in respect of brokerage services in 2014-2015 (an activity that was discontinued in the reported period, pursuant to the merger of Migdal Stock Exchange Services into Investment IBI and from distribution services in respect of bond issuance by Migdal Capital raising in 2015, which were provided to other areas of activity in the Group.

In 2013 (until June 30th, 2013) the revenues of Capital Markets Group stemmed mainly from investment management services to some provident funds in Migdal Makefet.

(2) Including the cost of rent paid by Capital Markets Group to another company in the Group.

(3) During 2015, the value in books attributed to mutual funds in Migdal Holdings Group exceeded its recoverable amount. Therefore, in Migdal Holdings a loss from impairment in the amount of approx. NIS 26 million was recognized. In 2014, in Capital Markets Group a loss from impairment in the amount of approx. NIS 7 million in respect of the balance of goodwill of one managing company of hedge funds of Migdal Capital Markets Group, whose activity was discontinued in 2014, was recognized. See also Note 4 to the Financial Statements.

[42] The information in this Clause is information which, pursuant to the Securities Regulations, appears in Part B to the Corporation Businesses Description. Since this Report is prepared as per the Commissioner's Circular mentioned in the introduction to this Chapter, this information appears in the beginning of the area's description. Data regarding revenues, expenses and income before tax include the results of activity of financial services performed under Migdal Capital Markets, as well as the activity of Arxcis Global Wealth Management Ltd. (which was held by Migdal Management until its sale on March 31st, 2015. As a result of the sale, a capital loss in a non-material scope was recorded).

Presented below are details of development in revenues of different segments comprising the financial services area between 2013-2015 (NIS million):

	2015	2014	2013
Revenues from mutual funds and investments portfolio management fees	142	144	144
Revenues from commissions on investment banking, distribution and brokerage services activity [43]	55	44	37
Other revenues	2	7	4
Income/losses from securities (net) and finance income	6	15	16
Total revenues of the area	**205**	**210**	**201**

For explanations regarding the revenues and income in the area of financial services, see Clause 3.7 in the Board of Directors' Report.

16. General information about the area of financial services

16.1 General

The Group's activity in the financial services area is performed by Migdal Capital Markets (1965) Ltd. ("**Migdal Capital Markets**") and its subsidiaries ("**Capital Markets Group**"). Migdal Capital Markets was established in 1965 and was acquired by the Group in 2001.

The Capital Markets Group engages mainly in financial asset management services, investment marketing and investment banking and distribution.

Furthermore, in part of the reported period Capital Markets Group, via Migdal Stock Exchange Services (N.E) Ltd. ("**Migdal Stock Exchange Services**"), which was then a subsidiary, engaged also in the activity of brokerage and custodian services – which was discontinued on October 28th, 2015 upon the completion of the merger of Migdal Stock Exchange Services into a TASE member - Stock Exchange Services and Investment IBI Ltd. ("**IBI Stock Exchange Services**" or "**the merged company**"), as detailed in Clause 16.2.4 below. Migdal Capital Markets' investment in the merged company is classified as a financial asset that is non-material and/or that does not constitute a business area of activity – therefore it will not be included in the Corporation Businesses Description report regarding this activity.

16.2 The area of activity structure and its changes

16.2.1 General

The financial services area is subject to vast regulation in the capital market, including decisions taken by the various regulators in the capital market, including: the Israel Securities Authority (ISA), the Tel Aviv Stock Exchange Ltd. ("**the Stock Exchange**"), the Bank of Israel, the Commissioner, etc. The area is characterized by continued harsh competition, and it is extremely affected the by high volatility in the capital market in Israel and abroad, including as a result of political and economic events, affecting the securities rates in the Stock Exchanges and regulated markets.

[43] The increase in this item is due to revenues that were received for the handling of investment banking transactions.

16.2.2 **The activity of asset management and investments marketing**

The asset management activity includes the management of mutual funds, the management of investment portfolios and mutual funds, via the following companies in Capital Markets Group - Migdal Trust Funds Ltd. (“**Migdal Funds**”), Migdal Investment Portfolio Management (1998) Ltd. ("**Migdal Portfolio Management**") and MCM Alternative Investments Ltd. ("**MCM**"), under which the hedge fund management activity is concentrated via several subsidiaries. The investments marketing activity includes the marketing of investments to customers and the marketing of foreign funds' investments, to eligible customers in Israel.

16.2.3 **Other activity**[44]

Investment banking and distribution – this activity includes the accompaniment of M&A transactions, capital raisings, financing and distribution. This activity is performed through a subsidiary fully controlled and owned by Migdal Capital Markets – Migdal Underwriting and Business Initiative Ltd. ("**Migdal Underwriting**"), which is a "non-active underwriter"[45].

Nostro – within the activity of hedge funds management, Capital Markets Group invests its own money (Nostro) as well, in securities and various financial assets, by investing as a limited partner in hedge funds managed by it. Furthermore, Migdal Capital Markets has other non-material Nostro investments.

16.2.4 **Termination of brokerage activity in Capital Markets Group and the TASE privatization**

On October 28th, 2015 the merger of Capital Markets Group's brokerage company - Migdal Stock Exchange Services into Stock Exchange Services and Investment IBI Ltd. ("**the merger date**") was completed, thus the Group's brokerage activity, which focused mainly on providing execution services in securities and derivatives on the TASE and on regulated markets abroad, and custodian services. Beginning from the merger date and as of the date of this Report, Migdal capital markets holds 19.9% of the shares of the merged company – IBI Stock Exchange Services, and IBI Holdings (1997) Ltd. ("**IBI Holdings**") holds the balance of shares at the rate of 80.1%.

The merger agreement sets forth, *inter alia*, that if during the period determined in the agreement, a decision will be made regarding the regularization of the change of the TASE structure and the distribution of its shares among the TASE members ("**the TASE privatization**"), Migdal Capital Markets will be entitled to the share of Migdal Stock Exchange Services in the TASE shares that will be distributed among its members. Pursuant to the approvals received by the TASE's organs, this share is expected to be approx. 4.77% of the TASE shares. The TASE privatization requires a primary legislation amendment, which is currently being prepared. To the Company's best knowledge, in December 2014, a draft valuation performed by EY as per the TASE request was published, and pursuant to it, the indicative value of the TASE activity in the beginning of 2015 was approx. NIS 400-420 million, and the value of the TASE shares was approx. NIS 570-590 million.

For additional details regarding the merger and the shareholders' agreement in the merged company, signed between Migdal Capital Markets and IBI Holdings ("**shareholders' agreement**"), and which came into effect on the merger date, including the provisions that were set forth regarding the TASE

[44] Within the area of financial services, there are also other activities that are non-material.
[45] In spite of its name, Migdal Underwriting does not engage in underwriting. Furthermore, in part of the reported period, the distribution activity was performed via Migdal Stock Exchange Services.

privatization, see Note 39.2.f3 to the Financial Statements, as well as the Company's Immediate Report dated July 19th, 2015, Reference No. 2015-01-075543, September 10th, 2015, Reference No. 2015-01-118068, September 29th, 2015, Reference No. 2015-01-125514, October 18th, 2015, Reference No. 2015-01-136186 and October 28th, 2015, Reference No. 2015-01-144144.

16.3 **Limits, legislation, standardization and special restrictions applying to the area of activity**

See Clause 25 below.

16.4 **Developments in the macro-economic environment and their implications on the area of activity**

16.4.1 **General**

For developments in the economy and in capital markets, see Clause 4.1 in the Board of Directors' Report.

16.4.2 **The line of asset management and investments marketing**[46]

Mutual funds are established pursuant to the Joint Investments Trust Law, as per an agreement between the fund manager and the trustee, and based on the fund's prospectus, and they serve as an instrument for joint investments in securities and financial assets, and for the joint production of profits from holding them and from any transaction thereof, and they are characterized with high liquidity.

The line of mutual funds is divided into 2 ways of management - traditional investment management (also called active management) and index-tracking management through tracking funds (also called passive management), which are mutual funds, whose investment policy states that they are designated to achieve results that are similar as much as possible to their reference asset, and usually the reference assets are indices in Israel or abroad.

Presented below are details regarding the scope of assets in the mutual funds and index products sector (NIS million):

	Traditional management / "active management" (in NIS billion)		Index-tracking management / "Passive management" (in NIS billion)	
	Traditional funds	Money market funds[47]	Tracking funds	Index products
2015	173.9	25.9	29.3	103.5
2014	185.0	51.3	24.5	118.1
% change in 2015 vs. 2014	(6%)	(50%)	20%	(12%)

As can be seen from the data above, the trends that characterized 2015 are as follows:

[46] Data referring to the mutual funds line in 2015 are based on Bizportal system and the data referring to index products for 2015 are based on information of chambers of commerce. Regarding the portfolio management line, since there are no official data regarding this line, the Company is unable to refer to developments in this line.
[47] Money market funds in NIS.

The competition between tracking funds and indices products - in 2015 investment houses continued to deploy towards the passive market regularization reform, as a result of which, the tracking funds will become ETFs and will begin to be traded daily, and as a result, there was an increase in the scope of assets in the tracking funds sector compared with 2014, and there was a decrease in the scope of assets in index products (for details see Clause 25.1). The increased competition, the low interest rate and the competition between investment houses brought about an erosion in income spreads in the sector.

A change in the public's preferences – due to the price decreases in bond and equity markets in 2H15, the public decreased investments in investments portfolios, and accordingly, there was a reduction in the scope of assets in the non-tracking funds sector compared with 2014. Therefore was also a significant decrease in the scope of investments in money-market funds, compared with its scope in 2014, mainly due to a low investment rate environment.

The investment banking and distribution line[48]

Presented below are details regarding issuances to the public (NIS billion):

	Capital raising	Number of issuances (capital raising)	Scope of debt raising
2015	4.3	72	55
2014	3.5	79	34.5
% change in 2015 vs. 2014	23%	(9%)	59%

16.4.3 **The scope of activity of Capital Markets Group and its income**

The revenues in the area of financial services mainly stem from management fees, that are calculated as a rate of the volume of managed assets, as well as from commissions from the investment banking and distribution businesses.

Until the completion of the merger of Migdal Stock Exchange Services into IBI Stock Exchange Services on October 28th, 2015, the area's revenues included also commissions in respect of brokerage services, custodian and the granting of credit.

[48] The data are based on processed data produced from the annual review of the Stock Exchange for 2015.

16.4.4 **The scope of AuM**[49]

Presented below is the development in the scope of assets managed by Capital Markets Group (in NIS million), in 2014-2015:

	2015	**2014**
Portfolio management (1)	6,172	6,289
Mutual funds (2)	26,831	28,919
Total	33,003	35,208

(1) After the neutralization of the units of Migdal Funds' mutual funds held in Migdal Portfolio Management's customers portfolios, and after the neutralization of the assets of the Group's mutual funds, provident funds, and educational funds, that are and/or were managed by Migdal Portfolio Management.

(2) After the neutralization of assets in investment management by an external portfolio manager in the amount of approx. NIS 61 million in 2015 and approx. NIS 71 million in 2014.

16.5 **Developments in the markets of the area of activity and changes in its customers' characteristics**

For changes in the market share of players in the mutual funds line, and regarding the activity of companies with investment portfolios management licenses - see Clause 17 below.

16.6 **Alternatives to the financial services area's products and changes they are undergoing**

Asset management and investment marketing line

The main alternative to the asset management and investment marketing services is conducting investments by the customers themselves, including with the assistance of external investments advisors. The savings and deposits plans of the banking system and insurance companies, as well as structured products, are also alternatives to the financial assets management services.

The direct acquisition of securities, and the acquisition of ETNs on various indices (including on indices of foreign securities), constitute an alternative to mutual funds in general, and to tracking funds in particular. In addition to the above, investing in mutual funds constitutes a certain alternative to investments portfolios management services.

16.7 **The structure of competition in the financial services area and changes it is undergoing**

As aforementioned, the financial services area is characterized by harsh competition, *inter alia*, due to the fact that the market is relatively small, and the number of competitors is large, including both banking corporations (including foreign ones), and companies held by insurance companies. For details regarding the competition in the area, see Clause21 below.

[49] Except an investment in a hedge fund that is non-material as of December 31st, 2015. In 2015 Migdal Capital Markets and a corporation controlled by Mr. Shlomo Eliahu withdrew their entire investment, in the amount of approx. NIS 38 million each, in one of the hedge funds, and its activity was discontinued.

The merger between Migdal Stock Exchange Services and IBI Stock Exchange Services reflects the trend of consolidations of non-banking investment houses, that characterized recent years.

17. The area's key products and services

Presented below is the description of the main services provided by Capital Markets Group:

17.1 Mutual funds management

This area of activity includes the management of mutual funds – both traditional and tracking funds. Presented below are data regarding several mutual funds managed by Migdal Funds[50]:

	2015	2014
Portfolio management	117	120
Mutual funds	69	45
Total	**186**	**165**

Presented below are additional details on the assets in mutual funds managed by Capital Markets Group, as well as the total amount in the sector, as of December 31st, 2015 (NIS millions)[51]:

Categories	Scope of assets of Migdal Capital Markets Group funds	Scope of assets in the sector
Bonds in Israel - general	5,692	68,253
Bonds in Israel - State	1,437	33,629
Bonds in Israel - Forex	45	159
Bonds in Israel - NIS	2,174	22,188
Overseas bonds	276	9,342
Bonds in Israel - corporate and convertible	1,109	19,590
Fund of funds	21	778
Flexible	-	1,997
Overseas - general	-	388
Money market - USD	179	795
Money market - NIS	1,932	25,862
Bond tracking	9,878	23,153
Share tracking	3,158	6,146
Leveraged and strategic	223	1,365
Shares in Israel	531	7,860
Shares abroad	473	6,045
Foreign residents	-	48
Total in 2015	26,831	229,048
Total in 2014	28,919	260,727

[50] After neutralizing 7 traditional mutual funds, whose investments are managed by an external investments manager.

[51] The data for the line are pursuant to the data of Bizportal as of December 31st, 2015. The data regarding Migdal Capital Markets are after the neutralization of assets in mutual funds in investments management by an external portfolio management, in the amount of approx. NIS 61 million in 2015 and approx. NIS 71 million in 2014.

Out of total assets managed by Migdal Funds by the end of 2015 as set forth above, the total amount of assets in tracking funds managed by it constitute approx. 48.6% (vs. approx. 42.7% by the end of 2014).

17.2 **Investment portfolio management and investment marketing**

The management of an investments portfolio is the execution of transactions in securities and financial assets, with discretion, to the accounts of customers managed at a bank or at a TASE member, according to the investments policy agreed upon vis-à-vis the customers and customized to their needs, and pursuant to the provisions of the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law - 1995 (“Regulation of Investment Law"). This activity is characterized with direct contact and acquaintance with customers. For the scope of portfolios managed by Migdal capital Markets see Clause 16.4.4. above.

Investment marketing is an activity of investment advice in securities and financial assets, and the advisor is affiliated to the financial asset or to its manager. This activity includes, in Capital Markets Group, mainly investments marketing to the Group's customers in Israel and abroad in relation with their investments portfolio, as well as the marketing of investments to eligible customers in Israel, of foreign mutual funds that are issued or managed by foreign corporations. In the reported year this activity is non-material.

17.3 **Hedge fund management**

In this framework, the assets of customers, who are investors in hedge funds in the status of limited partners, are managed, pursuant to corporate instruments and the agreements for joining hedge funds. The activity of hedge funds is subject to a special regulation. In the reported year this activity is non-material.

17.4 **Investment banking and distribution line**

This activity includes the accompaniment of M&A transactions, capital raisings, financing and distribution. In 2015 Capital Markets Group handled about 25 transactions in the area of investment banking, part of which have not yet been completed. Furthermore, Capital Markets Group handled approx. 7 distributions of issuances to the public as the main or secondary distributor, out of which also 2 issuances to the public performed by the Company itself in the reported year.

18. Revenues and profitability breakdown of products and services

In 2015, revenues in the line of investment banking and distribution in respect of commission stemming from the handling of one of the transactions in the line was received, constituting approx. 11% of revenues in the area of financial services. Other than this transaction in the area of financial services, there is no group of products, whose revenues constitute 10% or more of the area's total revenues.

19. Customers

The mutual funds management activity is characterized with a managerial distance between the customers and the fund's manager, since most of the public's investments in mutual funds are made through the banks, therefore the investors' identity is unknown to the fund manager.

The customers of the portfolio management and investment marketing line are divided into three main types:

(a) Private – retail.

(b) Eligible customers – as regulated by the Regulation of Investment Law (mainly mutual funds, provident funds, pension funds, insurance companies, as well as corporations and private customers, meeting the definition in the Law).

(c) Corporations (that are not eligible).

Presented below are details of the breakdown of data regarding the rate of customers' assets, out of the total scope of assets in portfolios managed by Capital Markets Group (excluding mutual funds of Migdal Capital Markets Group, whose investments are managed by Migdal Portfolio Management, but including units of mutual funds of Migdal Capital Markets Group and held by the customers of Migdal Portfolio Management in the managed portfolio[52]), totaling approx. NIS 6,804 million as of December 31st, 2015:

Type of customers	Rate to total AuM in managed portfolios	
	31.12.2015	31.12.2014
Eligible customers	50%	52%
Private customers	25%	26%
Other companies and corporations	25%	22%
Total	100%	100%

Capital Markets Group has no dependence on a single customer, or on a small number of customers, the loss of which might have a material impact on the area of financial services. Capital Markets Group does not have a customer from which the Group's revenues constitute 10% or more of total revenues of the Group, other than a revenue from commission, that was received from a single customer in respect of handling one of the transactions in the area of investment banking and distribution in 2015, described in Clause 18 above.

20. Marketing and distribution

Presented below are the main marketing and distribution channels of Capital Markets Group:

Marketing and distribution through banking corporations' investment advisors

This is the main distribution channel for mutual funds, and it is made through the relation of Capital Markets Group with investment advisors in the banks, and providing them with the relevant information and marketing documentation. As of the date of this Report, Migdal Funds engaged in distribution agreements with most of the banks. The distribution agreements state that the commission rate paid to those banks will be the maximum rate that the banks may collect from time to time as per the provisions of the Law.

Marketing and distribution through the Company's marketing and sales forces, and through referrals from various brokers and insurance agents

This is the main distribution channel in the area of portfolio management for private-retail customers. This distribution channel includes also referrals by agents who work with the Group's Customers Division. In this distribution channel commissions are paid to brokers, most of which are usually derived as a rate from the management fees that are collected from the referred customers.

[52] In the amount of approx. NIS 632 million.

Directly soliciting eligible customers or corporations through Capital Markets Group employees

This is a distribution channel that serves mainly for soliciting eligible customers or corporations in the portfolio management line (including by participating in tenders published by them), soliciting customers in the investment banking line, and soliciting eligible customers in order to market investments of foreign mutual funds in Israel, that Capital Markets Group is engaged with their managers in marketing agreements.

Holding professional/marketing conventions.

Press and internet-related advertising.

Capital Markets Group has no exclusivity agreements with any of the abovementioned marketing and distribution channels.

21. Competition

The area is characterized with harsh competition. The main competition is over the yields achieved to customers (relative to the risk level), the rate of management fees or commissions, and the quality of service.

21.1 Mutual funds management services[53] [54]

Key competitors operating in the mutual funds sector [55]	Data as of the end of 2015	Data as of the end of 2014	Data as of the end of 2013
Competitor name			
Psagot	12.28%	12.42%	15.48%
Meitav-Dash	12.26%	14.05%	14.90%
Migdal s	**11.71%**	**11.10%**	**10.60%**
Harel-Pia	10.76%	12.91%	14.26%
Yalin Lapidot	9.75%	7.06%	5.87%
Excellence	8.89%	9.21%	9.43%
Altshuler Shaham	8.45%	8.44%	7.42%
IBI	5.13%	5.71%	4.55%

.

As of the end of 2015, about 19 mutual funds management companies operate in Israel, managing about 1,400 mutual funds (vs. about 1,300 funds last year), out of which 8 companies manage assets in the scope of over NIS 10 billion, 9 companies manage assets in the scope of over NIS 1 billion and 2 companies manage assets in the scope of about NIS 0.5 billion.

For details regarding the scope of assets in mutual funds in the sector, including Migdal Capital Markets, and regarding the key factors for the decrease in this scope compared with 2014 see Clauses 16.4.2 and 17.1 above.

[53] As per data of Bizportal system as of December 31st, 2015.

[54] The data in this Report are presented without funds whose investments are managed by external investment managers, therefore they are different than those presented in the Periodic Report for 2014.

[55] As per Bizportal data for 2013-2015. The data do not include funds managed by non-related external investment managers and include money market funds.

	End of 2015	End of 2014	End of 2013
Market share of Capital Markets Group			
In the sector of tracking funds	44.5%	50.4%	56.5%
Of total passive management (tracking funds and index products)	9.8%	8.7%	7.2%

Migdal Funds is the largest fund in the sector of tracking funds as per the scope of managed assets.

21.2 **Portfolio management and investment marketing services**

There are many portfolio managers in the portfolio management line, some of them are related to banking corporations and most of them are non-banking entities, which are divided into large portfolio management companies (including Migdal Portfolio Management), and portfolio management companies that are not large, depending on the classification set forth in the Regulation of Investment Law.

Pursuant to the ISA publication regarding data as to the activity of companies with investment portfolios management licenses, as of June 30th, 2015[56], there are 124 companies with portfolio management licenses, out of which 18 are large portfolio management companies; the value of assets managed by investment portfolios management companies in Israel was approx. NIS 260 billion as of the date mentioned above, out of which approx. NIS 226 billion managed by large portfolio management companies.

For details regarding the scope of assets in portfolios managed by Capital Markets Group see Clause 16.4.4 above.

Capital Markets Group's main competitors in this area, to the best knowledge of the Group, are: Psagot Securities Ltd., Peilim Portfolio Management Company Ltd., Altshuler-Shaham Ltd., IBI – Amban Investment Management Ltd., Analyst Stock Exchange & Trading Services Ltd., Harel Finances Investment Management Ltd., Excellence Nessuah Investment Management Ltd. and Meitav-Dash Investment Management Ltd.

21.3 **The main methods used by Capital Markets Group to handle competition in all the financial services area lines are as follows:**

Increasing awareness to the performances and quality of Capital Markets Group's products, mainly among banks' investment advisors; adjusting and diversifying the basket of products, including with respect to foreign asset management; developing new products; advertising; using the Group's reputation; strengthening and increasing the channel through insurance agents; emphasizing the customer services quality; maintaining current professional relations with institutional investors in Israel, who are the main target for investments in the Group's products; professionalism and high reliability.

22. Seasonality

The Company estimates that the financial services area, as a whole, is not characterized by seasonality.

[56] The data regarding the activity of investment portfolio management companies with licenses as of June 30th, 2015, as published in the ISA website.

23. Suppliers and service providers

As of the date of the Report, Capital Markets Group does not have a main service supplier.

Until the completion of the merger between Migdal Stock Exchange Services and IBI Stock Exchange Services, Migdal Stock Exchange Services was engaged in an agreement with FMR Computers and Software Ltd. ("**FMR**"), which was a main supplier. Under the agreement, FMR provided Migdal Stock Exchange Services with the software, through which Migdal Stock Exchange Services gave instructions to the TASE to execute securities and financial derivatives-related trade, and through which Migdal Stock Exchange Services managed its Back Office array. In addition, FMR provided Migdal Stock Exchange Services with a software for monitoring and revaluating Migdal Funds' funds, when they were operated in Migdal Stock Exchange Services. It should be noted that even before the merger and regardless of it, the funds' operation activity was transferred to the banking system.

The rate of acquisitions from FMR compared with all Capital Markets Group's expenses (that are not wages) in 2015 is approx. 5.9%.

24. Working capital

Suppliers' credit: in 2015, the average suppliers' credit was not material.

25. Restrictions and supervision applied to the financial services area

25.1 Main laws and regulations

The line of mutual funds management and the line of portfolio management are characterized with vast regulation under the supervision of the ISA, pursuant to the Joint Investments Trust Law- 1994 and the Regulation of Investment Law. This regulation regularizes, *inter alia*, licensing requirements, duties imposed on fund managers and portfolio managers, duties of trust and caution, eligibility requirements, how to establish mutual funds or sign an agreement with customers and how to manage assets, how to check managed customers' needs and instructions and the adjustment to these needs in portfolio management and investment policy, examining the reliability of the supervised entities, and the regularization of the regulator's supervision and enforcement powers. Furthermore, the line of portfolio management is also subject to regulation pursuant to the Money Laundering Prohibition Law – 2000, regulating, *inter alia*, the duty to identify and know customers by the portfolio manager.

The changes that were recorded in the regulatory provisions in the reported period, and which, according to the Group, may have a material impact on the area of activity, are the planned reform in the area of the market of passive asset management (the management of index products and tracking funds), which is reflected in a pending **Bill for the Joint Investments Trust Law (Amendment No. 21) (ETNs and ETFs) – 2012**. This reform is aimed, *inter alia*, at closing the gap that currently exists between the regulatory provisions in index products and in mutual funds, including turning tracking funds into ETFs traded on the TASE. This reform, if it is outlined, may allow Migdal Funds to continue developing and expanding the line of tracking funds.

25.2 Licenses and permits

Migdal Portfolio Management – it holds a portfolio management license.

Migdal Funds – it holds a license as a fund manager, which was given by the ISA.

25.3 Standardization and control

Capital Markets Group's companies detailed above are required to meet the requirements and standards set forth in the regulatory and supervising provisions that apply to them.

25.4 **Entry and exit barriers** – for entry and exit barriers see Clause 27 below.

Part C - Additional Information Regarding Insurance Lines Not Included Under Areas of Activity - None

Part D - Additional Information at the Entire Company Level

26. Restrictions and supervision applying to the Company's activity

26.1 General

The Group's activity in the various areas is subject to vast regulation and strict by various regulatory authorities, as follows:

The insurance, pension and provident activity in the Group, through Migdal Insurance and its subsidiaries are supervised by the Commissioner of Insurance, who is also the Commissioner of the Capital Markets, Insurance and Savings in the Ministry of Finance who, within his/her authorities pursuant to the various laws, may publish provisions regarding the way the entities under his/her supervision operate and are managed.

In accordance with the Supervision Law, conducting insurance activities, including insurance brokerage, requires licensing, and the Supervision Law sets provisions as to the licensing of insurers and insurance agents, including the authority to revoke licenses. Holding means of control in an insurer and in an insurance agency requires receiving permits, and the Supervision Law provisions include provisions as to obtaining control and holding permits, as set forth above. The Group's activity in the area of pension requires receiving insurers' licensing, as well as receiving a permit for operating as a managing company. The Group's activity in the area of provident also requires a permit for operating as a managing company. For details regarding licenses and permits, see Clause 27.1.1 below.

The Group's activity in the area of financial services, through Migdal Capital Markets Group, is subject to the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law – 1995 and to the Joint Investments Trust Law and the regulations thereof, and to the supervision of the ISA. For details regarding legislation specific to the area of financial services, see Clause 25 above.

Furthermore, since the Company is a public company that issued securities to the public, it is subject to the provisions of the Securities Law and the Companies Laws that apply to public companies, and is supervised by the ISA.

The regulatory provisions presented below are divided into sub-Clauses according to the Company's areas of activity, as described in Part B to this Report. Regulatory provisions, which were detailed in the description of areas of activity in Part B to this Report will be brought in abbreviation in this Clause, with a reference to the detailed description under the area of activity itself, which also includes the expected implications on the Company, as the case may be. Regulatory provisions that are relevant to several areas of activity and/or were not brought in detail within the description of a specific area of activity as set forth above, shall be described in detail in this Clause below.

It should be noted that the regulatory provisions detailed below are not an exhaustive list of all law provisions applying to the Group, only the main provisions.

26.2 Rulings in principle regarding complaints, audits, data requests, financial sanctions

From time to time, complaints are filed against the Group, including complaints that are transferred to the Commissioner. The Commissioner's rulings on such claims, if and insofar as a ruling is made in their respect, are sometimes given, and in recent years, even more so, as across-the-board rulings with respect to groups of insureds.

Furthermore, under his/her supervisory authorities, the Commissioner from time to time conducts audits and/or examinations of the Group's institutional entities. Within this framework, instructions are received and/or guidelines are provided regarding the Group's handling of various products, including instructions to amend various actions, including by way of making reimbursements.

For details regarding rulings, rulings in principle, audits on behalf of the Commissioner, data requests, financial sanctions, see Note 39 1 g to the Financial Statements.

26.3 **Material legal pronouncements (including drafts) published in the reported period and until publication of this Report, referring to the Group's areas of activity in general**

26.3.1 **Solvency governance and risk management**
See details in Note 7c6 to the Financial Statements regarding the following regularizations:

(a) An instruction for the conduction of **IQIS for 2015** and the letter of the Ministry of Finance regarding transitory provisions for the implementation of the Solvency II-based governance.
(b) Risk management in institutional entities – across-the-line comparative review.

26.3.2 **Financial Statements**

(a) In August 2015 the Commissioner published a **Circular regarding the Calculation of Liability Adequacy Test (LAT) in Financial Statements** (**"the Circular"**) and a letter with clarifications regarding the Disclosure in Financial Statements and the requirement of a special report to the Commissioner (the clarification").

The purpose of the Circular is unifying and improving several actuarial assumptions that serve for the calculation of LAT. The assumptions refer, *inter alia*, to the way non-liquidity premium used in the discount of insurance liabilities is set, and to the way actuarial evaluations are set at the basis for calculating LAT. The Circular provisions apply beginning from the Financial Statements as of June 30th, 2015 and on. For details, including the implication on the Financial Statements, see Clause 1.2.1 in the Board of Directors' Report, as well as Note 37b3b5 to the Financial Statements.

Within the clarification, the Commissioner instructed to provide disclosures in the Financial Statements as follows:

(1) Disclosure regarding changes in actuarial evaluations, that will be handled as a change in the accounting evaluation, that will be given under the Risk Management Note in the annual report and in the Material Events Note in the quarterly report.

(2) Disclosures regarding the changes due to cancellation of the reserve for the excess of revenues over expenses, see Note 2j2d)(4) to the Financial Statements.

(3) Disclosure regarding the Company's deployment towards the implementation of Solvency II in the Board of Directors' Report, beginning from the Reports for 3Q15, if the Company is of the opinion that the new solvency governance might have a material negative impact on its solvency ratio at the time of implementation and a significant deficiency in equity pursuant to IQIS4 results, that would require designate deployment activities with a material impact on the Company's future profitability.

The disclosure shall include: a quantitative disclosure reflecting the magnitude of negative impact (deficiency) on the solvency ratio as of December 31st, 2014 based on IQIS4 results and taking into account the transitory provisions, the material characteristics of the new solvency governance, which bring about an increase in the required equity and the types of actions that the Company plans to take in order to reduce the deficiency.

The Company will update the scope of disclosure taking into account the time left until the date of implementation, if it will receive new information or if it will take material deployment actions.

For details see also Note 7c6 to the Financial Statements, as well as Clause 26.3.1 above.

(4) Update of a special report by the Company's actuary to the Commissioner regarding the impact of risk-free interest curve on the Financial Statements.

(b) In August 2015 the Commissioner published a **Circular regarding the Structure of Required Disclosure in Financial Statements (Interim) of Insurance Companies Pursuant to International Reporting Standards.** The Circular deals with general principles for the reporting, principles for the signing of Financial Statements and reporting to the Commissioner in the event of a material error. Along with the Circular, an appendix detailing all the required updates and changes in financial reporting was published.

Most of the Circular provisions regarding the structure of disclosure applied to the Financial Statements as of September 30th, 2015 and on, and the balance refer to the Financial Statements as of March 31st, 2016 and on.

(c) In January 2016 the Commissioner published a **Circular with an Update of Instructions regarding the Required Structure of Disclosure in the Financial Statements of Insurance Companies Pursuant to International Reporting Standards.** Within the Circular, it is required to add a disclosure regarding capital surplus after the deduction of immobilized capital. Disclosure requirements regarding liabilities presented at reduced cost and regarding interest rate used for setting the fair value were added to the Note regarding Financial Liabilities, and in the Risk Management Note the disclosure regarding the sensitivity analysis to changes in the rate of annuity take-up in life assurance and health insurance as well as in geographic risks was expanded – to the analysis of exposure in respect of Nostro assets. Any disclosure requirement that is relevant to interim Reports shall apply there as well.

(d) In November 2015 a **Circular regarding Periodic Reports of Managing Companies** was published. The purpose of the Circular is updating the Corporation Businesses Description Report and the Board of Directors' Report included in the Periodic Report, such that they would be focused, up-to-date and in a standard structure. In addition, there is a provision regarding the finding of a material error in the Financial Statements and reporting it to the Commissioner. The Circular details principles for annual and quarterly reporting, including the issues that at least must be addressed in the quarterly report.

(e) In January 2016 a **Circular with Instructions regarding the Required Disclosure Structure in the Annual Periodic Report of Provident Funds and New Pension Funds** was published. The Circular amends a previous Circular on this matter, and applies beginning from the Financial Statements for 2015.

26.3.3 **Remuneration policy in institutional entities and regularization regarding the employment of Senior Officers**

(a) In April 2014 an **Updating Circular regarding the Remuneration Policy in Institutional Entities** was published**.** The Circular sets provisions regarding the outline of the remuneration policy for Senior Officers, key position holders and other workers.

(b) In October 2015 an **Amendment to the Circular regarding the Remuneration Policy in Institutional Entities** was published**.** The Circular sets complementary provisions to those of the Remuneration Policy Circular that was published in 2014, and amends some of the provisions of this Circular.

Within the amendment, provisions regarding the following issues, *inter alia*, were added and amended:

(1) The remuneration for Directors and Chairman of the Board of Directors shall not include a variable component.

(2) The remuneration for Directors who are not External Directors, independent Directors or Chairman of the Board of Directors, will be determined pursuant to the External Directors' Remuneration Circular.

(3) The remuneration for Chairman of the Board of Directors will be set based on the remuneration for External Directors, and will include a maximum coefficient by which the External Directors' remuneration will be multiplied by institutional entities' Compensation Committee.

(4) Institutional entities shall not bear the cost of employment or key position holder in it due to their office in another corporation, including in a corporation that is part of the same investors' group to which the institutional entities belong.

(5) Upon outlining a remuneration policy, expected regularizations and Commissioner positions that are relevant for the remuneration of position holders in institutional entities, should be taken into account.

(6) Institutional entities should set forth a stipulation in their remuneration policy, stating that key position holders shall reimburse the institutional entity with amounts paid to them as a variable component, provided the conditions and the circumstances are met.

(7) Amounts that were paid to key position holders may be recoverable for a period of five years since the variable component was granted, and this period will be extended by another two years provided the conditions and the circumstances set forth in the Circular are met.

(8) If there are circumstances that require reimbursement, institutional entities must report to the Commissioner within 30 days after they are informed that the circumstances are met, and report about the measures taken by them in order to collect the recoverable amounts.

(c) In January 2016 the draft **Financial Services Supervision Regulations (Restrictions on the Appointment and Office of Key Position Holders in Institutional Entities) – 2016** were published.

The draft deals with setting a prohibition on employing a person as a key position holder in institutional entities (any Senior Officer as per its definition in the Supervision Law, as well as other position holders as instructed by the Commissioner, whose activity may have a material effect on the institutional entity's risk profile or on the monies of savers, except Directors), who meets one of the following:

They control the institutional entity or a relative thereof; they are relatives of a Director; they were convicted of an offense set forth in the Draft; whoever is a candidate for a position and an indictment was filed against them in respect of an offense set forth in the Draft; whoever serve as Senior Officers and an indictment was filed against them in respect of an offense set forth in the Draft, the Commissioner may decide that they are not eligible for serving as a key position holder. Furthermore, it is set forth that it is forbidden to intervene with key position holders' discretion, and there is a sanction in respect of such intervention.

Within the Draft, it is suggested that the application will be within 30 days after the publication of the Regulations, and that key position holders that do not meet the Regulations' provisions may continue to serve for another three years after the Regulations come into effect.

26.3.4 **Enforcement of tax laws between countries**

In April 2014 the Commissioner published a **letter to institutional entities' managers regarding the preparation towards FATCA**. The Commissioner describes the legal provisions and regulations and their application to non-American financial entities ("**foreign financial entities**") ("**the regularization**"). Pursuant to it, foreign financial entities will have to take some measures vis-à-vis the IRS, and transfer information regarding accounts belonging to American entities / citizens, as well as certain sanctions imposed on foreign financial entities that would not comply with the instructions, including deducting tax at source from customers who refuse to provide information and documents as requested.

(a) As an alternative to the implementation of the regularization, the IRS offered various countries to engage in a bilateral agreement that will exempt foreign financial entities, in most cases, from the duty to deduct tax at source and to report directly to the IRS.

In July 2014 the agreement between Israel and the United States was published. The agreement regulates the transfer of information to the IRS, via the Israeli Tax Authority, that will receive the information from financial entities in Israel ("**FATCA agreement**").

(b) In October 2015 the Commissioner published a **Draft regarding the Preparation for the Implementation of the FATCA Agreement**. The document includes clarifications regarding the agreement that was signed between the Israeli and U.S. governments, and its application regarding companies operating in the areas of insurance, pension and provident at the entity and product level. Furthermore, the Draft refers to the role of the license holder as to the duties set forth in the agreement and the possible way for handling customers who do not collaborate with the agreement's requirements.

(c) In January 2016 the **Draft Bill for the Amendment of the Income Tax Ordinance – CRS (Amendment No. 221) – 2016** was published. Within the Draft, it is suggested to execute legislative amendments that are required in order to allow the State to identify, collect and transfer information regarding the enforcement of tax laws between countries as far as the FATCA agreement and other international agreements for Common Reporting Standard (CRS), that will be signed, are concerned.

26.3.5 In March 2016 a **Bill for Legislative Amendments to the Law of Supervision, to the Provident Funds Law, the Law of Advice and other interfacing Laws, pursuant to which it is suggested to establish the Capital Market, Insurance and Savings Authority ("the Authority"),** was published. According to the suggested structure, the Authority will operate as an independent and separate governmental unit, and the Minister in charge of it will be the Minister of Finance. It is suggested to determine that the Authority's main role will be to protect the interests of insureds, members, and customers of entities supervised by the Commissioner, and the Authority will be responsible for the stability and proper management of the supervised entities, including fairness towards their customers, for the promotion of competition in the financial system, and especially in the capital market, insurance and savings, for the promotion of technological and business innovation in the activity of entities that are supervised by the Commissioner.

The amendment includes provisions regarding the appointment of the Commissioner and the restriction of his/her office to five years (with no possible prolongation). Furthermore, it is suggested to empower authorities from the Minister of Finance to the Commissioner, such as: the classification of insurance businesses into the various insurance lines, setting provisions regarding the calculation of minimum capital requirement in order to guarantee insurance companies' solvency, setting the way for managing insurance companies' investments, the types of assets that they may hold and how to hold them, provisions regarding conditions in insurance contracts and their wording, and that any contradictory arrangement – is annulled, the structure of insurance policies and their format, a list of material conditions in policies, etc.

In addition, a chapter was added to the Law of Supervision, regarding the regularization of the activity and work of organs and other position holders in insurers, stating that the Commissioner may set forth provisions regarding the slate of the Board of Directors and the Committees next to it, the eligibility of its members, the way they are appointed, quorum, types of resolutions, the way they are made, etc.

Furthermore, it is suggested to significantly expand the Authority's supervising authorities also to holding companies of institutional entities and to investment houses, that entities supervised by them are a material share of their activity.

The amendment also includes amendments to the Provident Funds Law, *inter alia*, giving the Commissioner some of the Minister of Finance's authorities, including: to allow managing companies to engage in another occupation, and the authority to set provisions regarding the way for investing required capital and the insurances that will be required from managing companies, setting provisions regarding the investment policy of provident funds (except regarding designated funds), the way for calculating the value of provident funds' assets, etc.

If the version of the proposal is approved, it will be effective as of September 1st, 2016, unless it is postponed by the Minister of Finance.

26.3.6 In March 2016 the Knesset passed the second and third reading of the **Law regarding Remuneration for Senior Officers in Financial Corporations** (Special Authorization and Disallowance of Tax Deductible Expense due to Extraordinary Remuneration) – 2016[57], whose main points are:

(a) Setting a mechanism for the approval of an engagement between financial corporations with Executive Senior Officers or employees thereof, regarding their terms of office and employment, that includes a remuneration exceeding NIS 2.5 million per year, such that the expense in their respect is expected to exceed NIS 2.5 million per year (CPI-linked), requires the approval of: (1) the Compensation committee (and if it does not exist – the Audit Committee); (2) the Board of Directors, with a majority of the External Directors or independent Directors; and General Meeting, with a special majority among the minority shareholders.

(b) The engagement as set forth above will not be approved if the ratio between the expected expense in respect of such remuneration, and the lowest remuneration paid by the financial entity to an employee exceeds 35 (including manpower contractor employee, whether the financial corporation is his/her direct employer or if the worker is employed in extending services at the financial corporation).

(c) In the clarification of financial entities' tax deductible revenue, deductions due to the wages of Senior Officers and employees in financial entities beyond this cap will not allowed. For this matter, a cap of approx. NIS 2.5 million per year was set, with the deduction of the difference, if there is one, between the cost of age and NIS 2.5 million and with the deduction of the granting of shares or the right to receive shares pursuant to generally accepted accounting rules.

(d) The provisions will apply to financial entities (insurers, managing companies, companies managing educational funds, investment portfolio management, banking corporations and other entities that provide financial services defined by the Minister of Finance in an Order, with the approval of the Knesset Finance Committee) as well as to entities that control financial entities as per there definition there. It should be noted that in the calculation of the wage cost for the clarification of the remuneration cap, the total wage cost will be taken into account, including the amount of remuneration that will be paid to the employees or Senior Officers in respect of their work in corporations that are related to the financial corporation, as per defined by the Law.

(e) In addition, financial corporations must report regarding any employee or Executive Senior Officer, that the cost of wage paid to them through the financial corporation (by itself or together with other related to it) exceeds the cap set forth above.

(f) Engagements that will be approval after the date of the Law approval will be subject to the Law provisions. For engagements approved prior to the date of the Law approval, its provisions will apply by the end of six months after the law publication, and the aforementioned engagements will require approval until such date. Furthermore, the Law provisions regarding the disallowance of tax deductible expense will apply to engagements that were approved prior to the Law publication, by the end of six months after its publication, and for engagements approved after the Law publication date – beginning from January 1st, 2017.

57 The data presented below regarding the Law as set forth above are based on the wording of the draft to the Law, that was published in the Knesset website on March 23rd, 2016, towards the approval of the Law in second and third reading. The final version of the Law has not yet been published.

26.4 Material legal pronouncements and legislative arrangements (including drafts) published in the reported period and until publication of this Report, referring to all areas of activity in insurance (life assurance and LTS, health and general insurance)

26.4.1 Joining insurance plans

In July 2015 the **Circular regarding Joining Insurance Plans** was published, aimed at setting binding rules regarding the way in which insurers or insurance agents should behave when marketing or selling insurance contracts and after writing insurance contracts. The main instructions include the need to receive the candidates' consent for the marketing action, adjusting insurance to their needs, providing a written insurance proposal, providing an insurance summary of the contract after it is signed, documentation and control.

In December 2015 the Commissioner published a **Draft Amendment Circular regarding Joining Insurance Plans**. Within the Draft, it is proposed to perform the following changes to the Circular published in July 2015:

(a) Changes in the information that will be submitted to insurance candidates prior to signing the contract, by the agent or the insurer.

(b) A change in the information submitted to insurance candidates when adding coverages or expansions to existing policies.

(c) The duty to conduct a comparison between the new policy that is being sold, with an existing policy, and setting complementary provisions for insurers and agents in this respect.

(d) A change in the details that should be included in the insurance summary that should be submitted to insureds after the contract is signed.

(e) In the application item, it is suggested to exclude the Circular in the insurance of vehicle fleets.

The Draft Circular requires an operational deployment in order to adjust current selling and operational procedures to the provisions that were set.

26.4.2 Marketing of riders

In December 2015 the Commissioner published a **Circular regarding the Marketing of Riders** was published. The purpose of the Circular is to define the rules for the operation of riders. Within the Circular, the Commissioner states that insurers may market riders that the Commissioner did not object to their marketing, and subject to the fact that these riders comply with the conditions set forth in the Circular. The riders should include the details set forth in the Circular, and the insurers would be in charge of the execution of the service pursuant to the riders. The marketing of riders will be such that the cost will be presented separately, and the purchase of a rider will not be stipulated as part of an insurance plan. The conditions of the riders will be given in advance. Agents may market riders without the involvement of insurers, under the conditions set forth in the Circular. The Circular will come into effect on June 30th, 2016, except the duty of marketing riders with two service providers, regarding which transitory provisions will be in effect until May 31st, 2017.

26.4.3 **Provisions regarding license holders (including pensionary license holders) – changes in brokerage fees**

For proposed arrangements regarding this issue – see Clause 26.5.9 below.

26.5 **The area of life assurance and LTS – material legal pronouncements and legislative arrangements (including drafts)**

26.5.1 **The Law of Supervision of Financial Services (Insurance) – 1981 ("the Supervision Law")**

The Supervision Law includes provisions as to the supervision of insurance businesses, *inter alia*, as to restrictions on business management, regulations regarding corporate governance, organs and office holders in insurers, submission of reports, authorities of supervision and administrative inquiries, provisions regarding the separation of life assurance businesses from other businesses of the insurers, provisions regarding maintaining the insureds' interests, provisions regarding maintaining the ability to meet obligations and proper management, provisions authorizing the Minister of Finance and/or the Commissioner of Capital Markets to set regulations/instructions as to various issues associated with various aspects of insurance supervision, etc. By virtue of these authorities, regulations regarding various issues were legislated, and from time to time the Commissioner publishes various instructions regarding the regulation of the entities supervised by him/her.

The Supervision Law also includes provisions that if violated, are considered to be a criminal offense, and it also empowers the Commissioner to impose financial sanctions and civil fines in significant amounts, using the administrative authorities vested to him/her by the Law.

For the Amendment that came into effect in the reported period, related to the change in the regulation of insurance plans, see Clause 26.4.1 above.

26.5.2 **The Law of Supervision of Financial Services (Provident Funds) – 2005 ("Provident Funds Law")**

The Law regulates the establishment of provident funds, the types of provident funds, the management and actions of managing companies, and the relationship between members and the managing company. The Provident Funds Law applies some of its provisions to managing companies as well. The Provident Funds Law also includes provisions as to the Commissioner's authority to publish provisions as to proper management by insurers and similar provisions regarding financial sanctions, civil fines and criminal offenses, similar to the Supervision Law. The Provident Funds Law's provisions also regulate the employees' right to choose their own preferred pension product and the institutional entities from which they want to acquire the elected product. Insurance plans recognized as insurance funds are also subject to some of the provisions included under the Provident Funds Law.

For the Amendments to the Provident Funds Law in the reported period, see Clause 26.5.12, 26.5.14 and 26.5.29 below.

26.5.3 **Supervision of Financial Services Regulations (Provident Funds) (Rules of Investment Applying to Institutional Entities) - 2012 ("Investment Regulations")**

The Investment Regulations that came into effect in July 2012 sets forth a standard framework for investment rules that apply to all institutional entities, regulating the investment principles in assets of institutional entities/institutional investors, and empowering the Commissioner to set provisions regarding various issues referring to the investment rules applying to institutional entities (Nostro, managing companies, monies of profit participating policies and the assets of pension and provident funds).

In addition, these Regulations also set provisions regarding the control and holding of means of control by insurers in other corporations, and *inter alia*, it was set forth that insurers shall not control nor hold more than 20% of means of control, except in corporations set forth in the Regulations, namely: (1) another insurer; (2) a managing company; (3) a corporation whose main business is holding real estate assets and their management; (4) corporate agent; (5) a corporation whose main occupation is investment management or extending credit on behalf of an insurer and/or other institutional entities under its control (6) another type of corporation whose main business is related to the insurer's current activity. Investment in the types of corporations set forth in (5) and (6) above needs the Commissioner's approval in advance, and there are provisions regarding required minimal equity against holdings in such corporations.

Migdal Insurance has investments which, pursuant to the Investments Regulations, will be gradually put against the recognized capital. For details regarding investments that should be put against capital, see Note 7c4 to the Financial Statements.

As set forth above, the Commissioner was empowered to give detailed instructions in order to adjust part of the current restrictions applying to institutional entities to changing market conditions. Accordingly, in February 2016 a **Circular regarding the Rules of Remuneration that Apply to Institutional Entities** (replacing a previous Circular on this matter) was published. The Circular sets detailed provisions regarding deviations from investment rates, the appointment of Directors in Corporations by virtue of holding means of control of institutional entities in a corporation, specialized investment track, specialized index-tracking investment track, investment in a partnership and in real estate titles through a corporation that is not a partnership, extending loans to members and insureds and participation in loans extended by a third party, lending securities and investing in non-negotiable debt assets, a transaction with a related party or through it, investing in a related party and in an interested party, controlling and holding means of control by an insurer.

The main amendments are as follows:

(a) Increasing the total investment restriction in partnerships and real estate corporations from 4% to 6%.

(b) Adding a Clause regarding participation in a loan provided by any third party that carries out underwriting based on specific model principles. This would be considered as if the institutional entity conducted an analysis provided specific conditions are met.

(c) The Clause regarding the participation in a loan extended by a bank or an institutional entity was amended.

(d) A loan may be extended with a partial or full collateral by the State of Israel, if the institutional entity conducted an analysis by itself or by the approval and validation of an existing analysis by the Investments Committee.

(e) An amendment to the conditions for entering into the database the 3% of loans that do not comply with the stated conditions, including cancelling the demand for the approval of sufficient collateral, and instead, examining the need to receive a collateral by the institutional entity.

(f) Adding conditions regarding extending loans to members or insureds.

(g) Adding a provision regarding how to examine the channel of extending loans to members or insureds by the institutional entity's Investments Committee, and details regarding the matters that it should address when setting procedures in this issue, including criteria for extending loans, setting collaterals, setting the risk level and required measures for an early identification of flaws and the collection of the principal's or interest's monies.

(h) Institutional entities may extend loans to members and insureds against their savings balance in another investment track at the time.

(i) Adding a reporting duty every six months and every year to the Investments Committee regarding extending loans to members and insureds.

26.5.4 **The Insurance Contract Law – 1981 ("the Insurance Law")**

The Insurance Contract Law mainly regulates the relationship between the insurers and the insureds, including the status of insurance agents, and sets various provisions regarding the following main issues: the essence of the insurance contract, the duty of disclosure and consequences of non-disclosure, the insurance period and conditions for cancellation or shortening of the policy, the status and rights of members, provisions regarding payment of insurance fees and their dates, including setting a special interest rate for non-payment of insurance benefits that are not disputed, provisions regarding changes in the insured risk, provisions regarding the way insurance benefits are paid, including their limitation periods, various provisions which are specific to various types of insurance, such as life assurance, accident, disease and disability insurance, damage insurance, liability insurance etc.

26.5.5 **The Law of Supervision of Financial Services (Pensionary Advice, Marketing and Clearing System) – 2005 ("the Advice and Marketing Law")**

This Law regulates two key issues:

(a) Provisions regarding the practice of providing advice for and marketing of pensionary products and the supervision thereof;

(b) Provisions regarding the central pensionary clearing system.

The practice of providing advice for and marketing of pensionary products - the Law defines two practices requiring training and licensing – the advisor and the marketing agent. The distinction between advice and marketing is based on the existence of an "affiliation" of the license holders and the product marketed by them. The Law sets forth regulations regarding the requirement of licensing for both pensionary advisors and pensionary marketing agents and the conditions, duties, prohibitions and restrictions that apply regarding the practice of pensionary advising and pensionary marketing, including provisions regarding the practice of pensionary advising by banking corporations, provisions regarding the supervision of license holders, including the Commissioner's authority to publish instructions for proper management and securing insureds' businesses, provisions regarding the relationship between the pensionary advisor/agent and the institutional entity aimed at unifying relevant legal provisions that apply to agents by having them apply also to pension advisors and marketing agents, as well as provisions that give the Commissioner the authority to impose financial sanctions and civil fines, including criminal sanctions.

For details regarding an amendment to the Advice and Marketing Law dated December 2015, regarding the marketing and operation of pensionary products, and the implications of said amendment on the Company, see Clause 6.3.13 in Part B above.

The regulation of pensionary clearing house – the Law includes provisions regarding the regularization of the establishment and operation of a pensionary clearing house, including the permits required for its establishment, as well as provisions regarding the duty to use the pensionary clearing system.

For the amendments to the said Law published in the reported period see Clauses 26.6.10 and 26.5.20 below.

26.5.6 **The Supervision of Financial Services (Provident Funds) (Management Fees) Regulations - 2012**

The Regulations are part of the regulatory regularization in the area's management fees that came into effect as of January 1st, 2013, and set forth a unified model for management fees collection in the three pensionary savings products (insurance policies recognized as provident funds, pension and provident funds), such that management fees are collected both from contributions and from accrual, and they also determine the maximum management fee rate that may be collected in pensionary savings products.

26.5.7 **Regulations of the Supervision of Financial Services (Provident Funds) (Money Transfer between Provident Funds) – 2008 ("Mobility Regulations")**

These Regulations regulate the transfer of pensionary products monies, and include provisions regarding the following key issues: conditions for their transfer, restrictions to the transfer, timetables for transfers, the way money is transferred, transfer of the insurance liability, etc.

26.5.8 **Joining insurance plans**

In March 2015 the Commissioner published a **Circular regarding Joining Pension or Provident Funds**. The aim of the Circular is setting provisions regarding the joining of members through their employers or without them. The Circular sets forth a standard wording for the joining form and the changes form, and which information should be attached to the form. Furthermore, it sets provisions regarding the information that must be provided to joining members, and the way notices sent to members should be presented. The Circular amends the Circular regarding Money Transfer between Provident Funds in order to maintain members' successive rights and sets forth rules for the money transfer from pension funds in which the member is inactive, to the pension fund that the member joined, in order to consolidate savings.

In October 2015 the Commissioner announced that due to the approval of Amendment No. 13 to the Provident Law by the Knesset's Finance Committee (see also Clause 26.5.14) and the changes that will have to be entered to the existing Circular as a result of the Amendment, and since the timetables were adjusted to those of the standard interface in the clearing house, she intends to publish provisions that would postpone the application of the Circular to January 2017.

As per the Company's estimation, the Circular will require an operational preparation in order to adjust the current sales and operation proceedings pursuant to the Circular's provisions.

26.5.9 **Payment of brokerage fees to license holders**

In January 2015 the Commissioner published the position **Institutional Entities' Payment to License Holders,** stating that the payment of brokerage fees that are derived from management fees paid by members or insureds, encourages license holders to offer products with higher management fees, and does not comply with the fiduciary duty imposed both on institutional entities and with the duty of license holders to act for the benefit of their customers and not prefer their personal interests over the customers' benefit. In March 2015 a clarification regarding this Position was published. For additional details regarding the Position Paper, the clarification's wording, and implications on the Company, see Clause 32.2.2 (a) below.

26.5.10 In May 2015 the Commissioner published a **Circular regarding the Duty to Use the Pensionary Clearing House System**. The Circular sets actions that institutional entities and license holders must conduct via the central pensionary clearing house, was published. The Circular sets, *Inter alia*, that any transfer of data between institutional entities and license holders, regarding advice or marketing pensionary products, shall be conducted via the clearing house, unless there is a computerized interface between the institutional entities and license holders, or if license holders have access to a designated system in the institutional entity.

For details regarding the implications of the Circular provisions on the Company, see Clause 6.3.6 in Part B above.

26.5.11 In June 2015 the Commissioner published a **Circular regarding the Reasoning Document**. The aim of the Circular is to simplify the wording of the reasoning document from 2009 and its two updates from 2010, and set a standard format that would allow its computerization and transfer via the clearing house. The Circular determines when a full reasoning document, an abbreviated one or a summary of a conversation should be delivered. In the reasoning document, the duties of disclosure by license holders were expanded, such they would have to specify whether the recommended product is part of a sales campaign, the essence of remuneration and the conditions for receiving it. Furthermore, license holders should specify the affiliation to institutional entities from which they receive the highest commissions. For this purpose, the institutional entities will have to transfer information regarding the commissions that were paid to each license holder. Also, the Circular determines the way the reasoning document should be transferred and received in actions that are not face-to-face. The Circular comes into effect on February 1st, 2016, except the duty to submit, via the clearing house, a one-off information request to all institutional entities, that does not include identification details of a certain product, that would come into effect on December 1st, 2015 (pursuant to the Amendment to the Circular dated November 2015).

As per the Company's estimation, the duty to address the clearing house with every advice action that requires reasoning, will expand the information required by the license holder in order to carry out the reasoning process. The Circular has operational implications that require an adjustment of the selling systems.

26.5.12 In August 2015, **Amendment No. 12 to the Provident Funds Law** was published. Within the Amendment, the temporary order for the withdrawal of monies with low balances with a tax deduction will become a permanent order, such that it will be possible to withdraw monies from non-paying funds to annuity and from old funds, if the total balance is lower than NIS 8,000.

In addition, employers may not stipulate the rate of their deposits to a certain fund or to a certain type of funds, and if such stipulation exists, in violation of these regulations, the employees will be entitled to the higher deposit rate among the maximum rates that may be deposited by the employers to the employees' credit pursuant to the Law provisions or the Agreement, until the Law or the Agreement are amended. Also, the Commissioner is empowered to set provisions regarding the rights and duties of members in the fund's Articles of Association and their wording. For details regarding the implications of Amendment No. 12 to the Provident Funds Law on the Company, see Clause 6.3.7 (b) in Part B above.

26.5.13 In January 2016, the **Supervision of Financial Services Regulations (Provident Funds) (Money Withdrawal from Provident Funds) (Small Amounts) - 2016** were published in the official gazette. Pursuant to the Regulations, it will be possible to withdraw in one amount, with no tax payment, monies from authorized provident funds if the balances in the members' accounts are small.

The Regulations define the conditions for withdrawal: if no monies were deposited in the account from January 1st, and on, if no monies were transferred to the account from January 1st, and on, the balance accrued in all the accounts as of the effective date is lower than NIS 8,000 and regarding the monies of the severance pay component, the Law provisions must be met in order to withdraw them.

Furthermore, it was set forth that the managing company will send to the member who is entitled to withdraw monies a notice detailing the rights for money withdrawal and the implications of leaving them in a provident fund. The Regulations come into effect on January 1st, 2016.

26.5.14 In November 2015, the **Amendment to the Law of Supervision of Financial Services (Provident Funds) (Amendment No. 13) – 2015** was published. Within the said Amendment, the separation between paying and non-paying funds to annuity, and the definitions were changed to "Annuity Provident Funds" and "Savings Provident Funds", respectively. Pursuant to the Law provisions, Savings Provident Funds are designated for depositing monies for annuities and monies may be withdrawn from them directly, in some conditions as set forth by the Law.

Furthermore, the purpose of the Law is to perfect the annuities market and create additional withdrawal products, such as the withdrawal of a lump-sum[58] along with the purchase of life expectancy insurance, which may be mobilized also after savers begin to receive annuities.

In addition, the Amendment to the Law strives towards solving the problem of savers who have many accounts due to the opining of new pension funds upon changing workplaces, by consolidating existing accounts in a pension fund.

[58] Lump-sum is a product from which a periodic withdrawal may be carried out upon retirement, unlike "classic" annuity that converts savings into annuity for the entire life.

In February 2016 the Commissioner published a **Draft Circular regarding the Consolidation of Existing Accounts in New Pension Funds**. The Draft is aimed at translating the temporary order in the Provident Law regarding the consolidation of existing accounts in pension into practical instructions, as follows:

(a) A duty was imposed on managing companies, to notify members about the Commissioner's intention to consolidate accounts and about the information they are required to submit to the Commissioner during this move, unless the members object to submitting such information.

(b) In the case of members who will not express an objection, the managing company will submit their information as detailed in the Commissioner's Circular, no later than July 15th, 2016, in a file as per the structure set forth in the circular.

(c) After receiving the files from all managing companies, the Commissioner will conduct an adjustment between the accounts of active members and inactive members. After completing this process, the Commissioner will send a report to every company regarding members who are active in this company and inactive in pension funds of other managing companies ("**transferred members**").

(d) If a managing company receives a notification regarding the intention to transfer a transferred member, it will have to notify him/her about the intention to transfer monies from funds in which he/she is an inactive member, and inform him/her about his/her right to inform it that he/she would not like to mobilize the monies, within 45 days ("**election date**").

(e) If the transferred member does not express his/her objection to transferring monies from inactive accounts until the election date, the Company that is supposed to absorb inactive monies ("**receiving company**") will address the company that transfers inactive monies ("transferring company") with a mobility request.

(f) The Circular sets timetables for the execution of an information transfer from the Commissioner to managing companies, and for sending mobility requests between receiving and transferring companies in three time segments.

(g) There are rules regarding members who are active in more than one pension fund.

(h) There is a designated procedure for mobility between transferring and receiving companies.

In March 2016 the **Draft Circular of Supervision of Financial Services Regulations (Provident Funds) (Collection, Access and Control Upon Account Consolidation) (Temporary Order) – 2016** was published, with provisions as to how to collect information, access to information and control within the implementation of the temporary order, in order to guarantee information security. *Inter alia*, it was set that the account consolidation procedure will be carried out via a secured system in an automatic manner and without needing access to information.

For details regarding the implication of these provisions on the Company, see Clause 6.3.10 in Part B above.

26.5.15 **Reporting to the Commissioner regarding tariffs**

(a) In April 2015 the Commissioner published a **Circular regarding Reporting to the Commissioner on Management Fees in Pensionary Savings Products**. The purpose of the Circular is to regulate reporting by institutional entities about management fees in order to present them in the management fees calculator that will be established at the Ministry of Finance. The calculator will enable new joiners to compare management fees in various provident funds. Entities that will not report management fees as set forth above, will be considered as having the maximal management fees set forth in the Articles of Association's or the plan's provisions as the ones applying for new joiners. The reported management fees will serve as the management fees cap for new joiners.

As per the Company's estimation, the said Circular may cause an increased competition in the line, including an impact on the management fees rate that will be collected from members.

(b) In November 2015 the Commissioner published a **Circular regarding Reporting to the Commissioner on Management Fees in Life Assurance Plans**. The purpose of the Circular is to regulate reporting the manner by which insurers should report on life assurance tariffs to the Commissioner, in order to present them in the calculator that will enable customers to compare management between insurers, in addition, the Circular sets forth the maximum management fees that insurers may collect. Within the Circular, it is proposed to mandate insurers to report to the Commissioner on insurance tariffs that they are expected to collect, with a breakdown into types of risk and life assurance defined in the Circular, and the management fees that were actually set. Also, the dates, the conditions and the details that should be submitted to the Commissioner in the reporting were set.

Joiners may address insurers via an address given to them, and insurers will have to answer within the set timetables. The date of application is March 1st, 2016.

26.5.16 **Reporting to the Commissioner regarding tariffs**

(a) In September 2015 the Commissioner published an **Institutional Entities' Circular regarding the Execution of Actions by Institutional Entities for Employers**. Within the Circular, there is a closed list of actions that institutional entities will allow employers to do.

Furthermore, it was set that institutional entities will have to respect the execution of such actions by operating entities for employers, if they were given an authorization by the employers, that includes all the details set forth in the Circular. The Circular comes into effect on February 1st, 2016.

(b) In November 2015 a **Collective Agreement in Principle regarding Pensionary Arrangements between the New General Federation of Labor and the Presidency of Business Organizations** was signed. The agreement reflect the following key issues:

(1) Employers will bear the cost of operation of their employees' arrangement at a minimal amount or rate, the highest of the two.

(2) The employees' organization will choose a default policy for its employees, and whenever there is no representative organization, the employers will choose a default agreement.

(3) There should be efforts in order to cause producers to deduct the operation costs collected from employers from management fees collected from insureds.

(4) The parties will address the Commissioner in order to lay down the content of the agreement in principle in the legislative arrangement.

(c) In December 2015 the **Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives for Budget Years 2015 and 2016) – 2015** was published. In the framework of the amendment to the law the topics are arranged as follows:

(1) Laying down the right of employees to receive advice from the license holder of their choice, and the prohibition on employers to stipulate the execution of the transaction in the product by a certain license holder or to give benefits to employees for choosing a specific license holder.

(2) Pensionary insurance agents may not market pension products or receive commissions thereof if they or related entities perform operation services for the employers, unless the conditions set forth in the proposal are met, including, the duty to collect payment, at a minimum rate or fee, in respect of operation services from employers.

(3) Customers with sufficient knowledge for executing actions may execute them without advice.

(4) Pensionary insurance agents may not receive any benefit in relation with the distribution of a product or the execution of an action in a product, except direct payments by the customers or receiving commissions from institutional entities.

The above-mentioned regularization may have a significant implication on increasing competition in the line and on management fees that will be collected from members, as well as on pensionary arrangements' distribution channels.

(d) For details regarding the Amendment to the **Advice and Marketing La from December 2015**, regarding the marketing of pensionary products and operation thereof, and the implications of this Amendment on the Company, see Clause 6.3.13 in part B above.

26.5.17 In December 2015 the **Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives for Budget Years 2015 and 2016) – 2015** was published, amending the Income Tax Ordinance, reducing tax benefits for deposits to pensionary savings to people with high wages, such that beginning from 2016, it would apply until a cap of 2.5 times the average salary, instead of 4 times the average salary as set forth until now. Furthermore, the benefit given in respect of the purchase of PHI insurance will decrease due to the decrease of the cap to 2.5 times of the average salary.

26.5.18 In December 2015 the Commissioner published a **Circular regarding the Marketing of Life Assurance Policies with Annuity Coefficients that Embed Life Expectancy Guarantee**. The Commissioner claims that the Circular deals with allowing the marketing of policies that embed a guaranteed coefficient to insureds who own such policy and would like to transfer it to a different company, as well as with provisions regarding persistency of such policies. The Commissioner will allow the mobility of policies with guaranteed annuity coefficient to a new policy subject to compliance with the following conditions:

(a) The mobility will be for all monies managed in the existing policy.

(b) The amounts of deposits in the new policy will be identical to those in the policy from which the monies were transferred.

(c) Increasing the deposits will be possible only in the cases set forth in the Draft – CPI-linkage, salary increases or an increase of deposits.

(d) Regarding the coefficients, all the following conditions must exist:

The new policy shall include all the existing conditions in the mobilized policy regarding life expectancy guarantee coefficients, including the coefficients table and the formula for the adjustment of coefficient before retirement, in the case of interest rate gaps to annuitants an adjustment will be made, the coefficients will be attached to the new policy through an appendix for the coverage of life expectancy insurances ("**life expectancy appendix**").

(e) Regarding the life expectancy appendix, all the following should be complied with:

The appendix will be priced separately from the other conditions of the policy, the premium that will be paid in respect of the appendix will be dynamic, and will be adjusted to changes in the life expectancy risks, based on the formulas set forth in the appendix to the Circular, there will be a duty to inform regarding any change in the collected premium pursuant to the life expectancy appendix, and there are timetables for the coming into effect of a price increase.

(f) When recommending to mobilize a policy with coefficients, the reasoning document should include an explicit reference, in words and figures, to the life expectancy appendix and its expected cost under various scenarios regarding changes in life expectancy and to existing annuity tracks in the new policy, and to tracks that are not included in such policy.

(g) It was set forth that data regarding coefficients and coefficients tables should be published in insurers' websites.

(h) Insurers' Board of Directors shall determine the Company's policy regarding the marketing of new policies or management fees rate in existing policies during the persistency process.

For the implications of this Circular on the Company, see Clause 6.3.3 (a) in Part B below.

26.5.19 **Payments to provident funds**

(a) In August 2014 the **Regulations of Supervision of Financial Services (Provident Funds) (Payments to Provident Funds) – 2014** were published. The Regulations include instructions as to the way and timetables upon which employers' deposits for the pensionary products of their workers that are managed by institutional entities should be made, and the information that employers must submit to institutional entities upon depositing payments. Also, employers will have to pay interest if there are delays in deposits. Institutional entities must give feedback to employers on the dates and regarding details set forth in the Regulations.

(b) In February 2015 the Commissioner published a guideline regarding the **Deployment towards the Implementation of the Regulations of Payments to Provident Funds**. The guideline deals with setting provisions and milestones for the implementation of Regulations towards the coming into effect of the employers' interface that was established in the clearing house in order to implement the Regulation's provisions on January 1st, 2016. The Commissioner instructed institutional entities to prepare a detailed plan for the Regulations' implementation, to approve it by the Board of Directors and follow up on its implementation through the Board of Directors of the institutional entity, all before the integration examinations that would be carried out vis-à-vis the clearing house in October 2015.

(c) In December 2015 the Commissioner published an Amendment to the **Regulations of Supervision of Financial Services (Provident Funds) (Payments to Provident Funds) – 2015 ("Payments Regulations")**.

Within the Amendment, the following changes were entered to the Payments Regulations:

(1) Employers with up to five employees will be exempt from reporting all the details set forth in the Regulations regarding every deposit, provided the employer complies with all the conditions set forth in the Regulations in this respect.

(2) The deadline for submitting a summarizing feedback by institutional entities was extended to five business days, and a new date for submitting the annual feedback, February 28th of every year.

(3) The application of the Regulations for employers with 100 employees and more was postponed to February 1st, 2016.

(4) The timetables set forth in the Regulations regarding reporting in a standard structure and the duty to provide feedback by institutional entities for employers with 50-100 workers were postponed to July 1st, 2016, and for employers with less than 50 employees – to January 1st, 2017.

(d) In December 2015 the Commissioner published a **Circular regarding Payments to Provident Funds**. The purpose of the Circular is to complete the process of the interface of institutional entities vis-à-vis employers pursuant to the Regulations of Supervision of Financial Services (Provident Funds) (Payments to Provident Funds) – 2014 ("**Payments Regulations**"), as follows:

(1) Institutional entities must inform employers who do not comply with the provisions set forth in the Payments Regulations regarding the timetables set forth in the Circular, and give a reminder to employers again and inform them that the Commissioner may impose a fine on them.

(2) Institutional organs will be required to concentrate information about employers who do not comply with the provisions of the Payments Regulations pursuant to the format attached to the Circular.

(3) There are reporting duties that employers must submit when discontinuing deposits, and about the non-attribution of deposits on the deadlines set forth in the Circular.

(4) There is a procedure for reimbursement of payments in excess made by employers.

(5) It was clarified that the responsibility for executing the right division between employees' accounts/policies in the same provident fund, if the information was transferred by the employer, shall apply to the institutional entity.

The Company is of the opinion that the implementation of the provisions set forth above requires a computerized deployment by the Company, as well as the provisions of the Circular allow the creation of operating entities that would compete with arrangement managers, as well as the creation of direct interfaces with employers.

26.5.20 **Provisions referring to the clearing house / standard structure**

(a) In March 2015 the Commissioner published a document in which it informed about the timetables for the implementation of the expansion of the content of activity in the clearing house and the expected timetables for the publication of additional guidelines regarding the operation of the clearing house. There are timetables referring to the events interface, employers' interface and mobility interface. The acceleration of charges regarding the interfaces detailed above reflects the trend that was the basis for the establishment of a clearing house in order to improve giving information in the area of insurance and LTS, and *inter alia*, the Company estimates that it may increase direct transactions in the area, sometimes at the expense of arrangement managers/marketing agents, all the above, beside the required operational deployment by institutional entities towards the implementation of these interfaces.

(b) In May 2015 a Circular regarding payment for using the pensionary clearing house. The Circular sets forth provisions regarding usage fees that should be paid by institutional entities and users who are not institutional entities in a clearing house.

(c) In May 2015 the Standard Structure Circular was published. The Circular integrates the comments made by the market regarding the role of managing companies that purchased insurance coverages for their members, Appendix A "Holdings Interface", Appendix D "Events Interface", including the cancellation of power of attorney, reporting codes in the feedback interface and wording amendments to the severance pay balances interface. The Circular came into effect on November 1st, 2015, the beginning date for collective insurances is February 2016.

(d) In August 2015 the Commissioner published a **Draft Circular regarding standard structure that complements the other appendices of the mobility interface which were not published in the past**. The expected application date was brought forward to 3Q16, i.e., from that date, the transfer of information regarding the mobility of monies shall be performed through the clearing house only.

(e) In August 2015 the Commissioner published updates and clarifications regarding the rules for the system - deployment towards Version 4, in light of the conclusions further to the execution of Phase A in the integration. The rules are intended for providing instructions regarding how to implement the provisions of the Circular regarding Standard Structure, and the working procedures that will be required while working vis-à-vis the pensionary clearing house. The updates refer to the implementation and working procedures in requests for the execution of update of personal details, requests for changes in the **Events** and **Administrative Feedback** interfaces, requests for receiving information, distributors' requests for receiving production information, or requests for their cancellation, and requests for changes in the **Holdings** interface.

(f) In August 2015 the **draft of general system assessment Phase 5** – report regarding deposits and executing amendments to the reports overs employers' deposits, was published. The rules provide instructions as to how to implement the provisions of the Circular regarding Standard Structure, and the working procedures that will be required while working vis-à-vis the pensionary clearing house towards the coming into effect of the Payments to Provident Funds Regulations in the beginning of 2016.

(g) In October 2015, the **draft of general system regarding the Registration of Employers and Operating Entities for the Pensionary Clearing House**. Towards the beginning of work based on the employers interface from January 2016, the clearing house allows the registration of employers or representatives thereof (such as representing CPAs, corporation agents**,** wage bureaus, operation services providers, etc.). The draft rules details technical issues such as the entities that may be registered, how to register, how to update details, physical means required for the connection, payment for service and issues related to information security and authorizations.

26.5.21 **The mechanism for the election of a default fund**

In March 2016 a Circular setting a mechanism for the election of a provident fund for employees who did not choose another provident fund, although given the chance to do so, was published.

The Circular sets forth that managing companies of provident funds shall allow the payment of employers' deposits to provident funds in respect of employees who did not fill in a form for joining the provident fund managed by it, and employers may deposit payments for such employees, only to an elected default fund, which is one of at least two new comprehensive pension funds, that will be determined by the Commissioner once every three years (for the first time before September 1st, 2016 – "the effective date") ("**the elected default fund**"), or a pension fund or an educational fund that was elected by the employer for a period not exceeding 5 years in a competitive procedure that gives all the companies that manage the relevant type of provident funds an equal opportunity to participate in it ("**another default fund**").

The elected default fund – on March 16th, 2016 a Draft rules regarding the procedure for setting elected default funds, that would begin to operate on the effective date and regarding management fees to be collected by them in reality, was published.

Within the rules for the election process as set forth above, it is laid down that managing companies of a comprehensive pension fund that would like to be determined as an elected default fund shall submit to the Commissioner a proposal for the collection of management fees from new members as per their meaning in the Circular, at the maximum management fees rate of over 0% of the accumulated balance and from the deposits – between 0% and 2%. The proposals will be ranked pursuant to the formula detailed in the Draft, and pension funds whose market share to all deposits made to new comprehensive pension funds in the year that preceded the effective date is lower than 5%.

It was also set that the maximum management fees rate that will actually be collected by the elected default funds will derive from their proposal, pursuant to the formula detailed there and pursuant to the Circular provisions, and will be effective in respect of members that joined them during the period in which they were set as default funds, for at least 10 years from the moment they joined them.

Another default fund – the Circular includes provisions regarding the scope of insurance coverages in the default track and regarding how to conduct the competitive procedure in order to elect another default fund, including electing the exclusive criteria pursuant to which another default fund shall be elected.

Within the criteria to be examined, employers must take into account the last service index published by the Commissioner, the yield of the provident fund in the investments track that is the fund's default and the offered management fees rate, whose weight in electing the default fund should be no less than 50%. The Circular sets that managing companies may not be chosen in the competitive procedure if a related party thereof provides clearance services for deposited monies or control over their depositing, or if the managing companies or related parties thereof provide complementary insurance coverages to those included in the default fund to the employer's workers, unless the management fees rate offered within the competitive procedure was the lowest among those offered in the competitive procedure as set forth above.

For details regarding the Circular's implications on the Company, see Clause 6.3.8 in Part B above.

26.5.22 In October 2015 the Commissioner published a **Draft Circular regarding Unified Articles of Association for comprehensive pension funds**. The Draft sets a unified wording of Articles of Association. Managing companies may set provisions not according to the provisions included in the appendix to the Draft Circular, and in they do so, they should submit the changes pursuant to the provisions in the Circular regarding the Introducing of Insurance Plans and Pension Funds. Management companies must notify members in writing about an update in the Articles of Association 60 days before the implementation date and the changes that will apply to their insurance coverage.

For details regarding the Circular's implications on the Company, see Clause 6.3.9 in Part B above.

26.5.23 In January 2016 the **Report of the Team for the Increase of Certainty in Pensionary Savings** was published. The team was established by the Ministry of Finance, and it includes the Ministry of Finance CEO, the Commissioner, the Accountant General, the Budget Director and more. The Team was established in order to examine strategic objectives of the Ministry of Finance in order to achieve proper pensionary savings to the public, and the usage of designated bonds in order to achieve this objective. These are the Team's main conclusions:

(a) Subject to adjustments in debt management and based on assumptions and the flow of issuances thereof, damage to the collection flexibility may be managed, and no significant deviation in the cost of interest within the State budget is expected.

(b) Designated bonds may continue to be used, provided there is no deviation from the current use.

(c) There is no need to deviate from the current policy, and the existing bonds should continue to be allotted in respect of 30% of the assets of new comprehensive funds and old funds only.

The Team recommends to increase the scope of allocation of designated bonds to pensioners, who need a level of certainty in annuity and a rate similar to that of savers about to retire, subject to decreasing the allocation designated for young savers, since young savers have a longer investment horizon and they can take higher risks in the capital market.

(d) The possibility to provide an insurance instrument instead of the governmental tool was examined. The Team found that there are various alternatives for guaranteeing yields beside designated bonds, however, there is no tool similar to designated bonds.

(e) The Team recommends examining the development of an insurance tool through the capital market, that would protect against extreme crises in the capital market.

26.5.24 In April 2015 the Commissioner published a **Draft Insurance Circular with Guidelines regarding PHI Insurance Plans**. The Draft is aimed at creating a standard and modular structure for PHI insurance plans. Pursuant to the Draft, PHI insurance plans shall include a basic plan, to which riders with expansions to the basic insurance may be attached, including insurance umbrella, pursuant to the conditions set forth in the policy. The Draft lays down provisions for the basic plan, which are supposed to standardize the policies' conditions and allow insureds to compare between the various plans. The Draft Circular is expected to come into effect on June 1st, 2016. The provisions of the Draft Circular shall apply to new plans that will be marketed from the date of coming into effect and upon the renewal of collective insurance policies.

The Draft is aimed at standardizing the coverages that are sold, and the amendments include coverages that do not match the current coverages. The Draft is being discussed between insurance companies and the Association of Insurance Companies, and at this point it is early to assess what would be the Draft's implications on this product.

26.5.25 In June 2015 the Commissioner published a **Draft Amendment to the Regulations regarding Maximum Brokerage Fees in Life Assurance and Structure within Housing Loans**. The Draft Amendment to the Regulations adds a restriction on the maximum brokerage fees that may be paid to agents in respect of selling life assurance within housing loans, in addition to the restriction in respect of structure insurance.

The Company is of the opinion that the said Draft may not have a material impact on the Company.

26.5.26 In July 2015 the Commissioner published a **Draft Circular regarding Life Assurance Plan at Fixed Insurance Fees**. The Commissioner notes that risk life assurance plans are policies that insureds buy for long insurance periods at fixed insurance fees, however, in many cases insureds decide to decrease or cancel the coverage before the end of the insurance period, when the insurance need decreases. Pursuant to the Draft, the Commissioner intends to prohibit the sale of risk life assurance policies at fixed management fees for a period exceeding five years, including designated risk for mortgage loans.

The Company began marketing a new life assurance plan at a fixed premium, and if there is no change to the Draft, it will have to stop marketing this plan.

26.5.27 In July 2015 the Commissioner published a **Draft Circular for the Amendment of the Codex in the Loans Chapter**. The Circular amends the provisions dealing with extending loans to members and insureds. Within the amendment, it is suggested to change the way the borrowers' collaterals are examined, and the respective loan rating, as follows:

(a) Money that is not liquid at the time of the final payment of the loan may not be considered as collateral.

(b) Investments Committees should examine the channel of loans to borrowers in the same manner as they examine any other investment, and set proper procedures pursuant to the policy of the Board of Directors in this matter, that would refer, *inter alia*, to the borrower's recoverability and the collaterals' quality.

(c) Institutional investors should report to the Investments Committees regarding the processes that were taken in order to examine the need to decrease the assets value referring to insureds' and insureds' loans and other issues detailed in the Circular.

The Company is of the opinion that the implementation of the Draft Circular requires a material change, including operational aspects, in the entire array of loans to members, which might decrease the scope of loans extended to members. Furthermore, the Draft Circular might make it more difficult to keep members, although the Company estimates that the overall impact on the Company is insignificant.

In February 2016 the Circular regarding Rules of Investment Applying to Institutional Entities was published, as detailed in Clause 26.5.3 above. The Circular sets provisions regarding the extending of loans to insureds and members, as follows:

(1) The conditions that allow institutional entities to extend loans to insureds or members, against the balance of their accrued savings, except monies in respect of the severance pay component.

(2) Issues that the procedure regarding extending loans to insureds and members and collecting them should address, pursuant to which the institutional entities' Investments Committees should act when examining the channel of loans to insureds and members.

(3) Determining that institutional entities may extend loans pursuant to paragraph (1) above also to members or insureds in a track that does not allow taking a loan, against the balance of their accrued savings, from another track in the same fund that is managed by the institutional entity, and also that institutional entities may allow insureds or members that moved from one investment track to another investment track in the same fund managed by the institutional entity, to continue paying the loan they took within the first track although they moved to another track.

(4) Provisions regarding the quarterly reporting duty of institutional entities to the Audit Committee regarding the updated balance of indebtedness of Senior Officers in that quarter.

(5) The duty of institutional entities to report at least every six months to the Investments Committees.

26.5.28 In July 2015 the Commissioner published **Drafts for the Amendment of the Circular for the Provisions for the Management of a New Fund and the Circular for the Provisions for the Management regarding Financial Reporting for New Pension Funds**, pursuant to the Draft regarding the assumption of yield in annuity conversion coefficients from August 2013.

The Drafts are aimed at coping with the cross subsidy created as a result of the calculation of annuity conversion coefficients for retiring workers according to an interest rate that exceeds interest rate in the market. Pursuant to the Draft, managing companies shall set a coefficient through which it can update the pensioners' annuity. As long as interest rate remains low, the pensioners' annuity will decrease over time. Furthermore, there are interim provisions for members who reached the age of retirement prior to August 2015 and before beginning to receive annuities.

The Company is of the opinion that the cancellation of cross subsidy is very important in the improvement, adjustment and correct allocating between liabilities and assets in calculating the personal rights of every insured and pensioner. Also, the Circular's implementation may promote the competition over the monies designated for paying annuities around the age of retirement. The Company has not yet examined the operational aspects of the implementation of the proposed solution.

26.5.29 **Law Memorandum of the Law of Supervision regarding Investment Provident Funds**

In March 2016 the Law Memorandum of the Law of Supervision of Financial Services (Provident Funds) (Amendment No. 15) – 2016 was published. The Law Memorandum suggests to allow managing companies to market investment provident funds. For additional details, including the Law Memorandum's implications on the Group, see Clause 6.3.14 in Part B above.

26.5.30 In July 2015 the Commissioner published a **Draft for the Amendment of the Supervision of Financial Services Regulations (Provident Funds) (Buying and Selling Securities) – 2009 and the Financial Services Regulations (Provident Funds) (Provident Funds Under Personal Management) – 2009 ("Regulations for Provident Funds Under Personal Management")**. The Regulations deal with introducing changes to the above-mentioned Regulations, as follows:

(a) Institutional entities shall conduct a competitive procedure in order to purchase brokerage services, in which there will be eight participants instead of four as per the current wording. Such a procedure will be held every three years, and will be conducted separately for each track.

(b) Institutional entities shall not purchase brokerage or Forex services from a related party and from a bank that provides management or operation services to a group of investors ("**related bank**").

(c) Institutional entities shall conduct a competitive procedure in order to purchase custodian services. The procedure will be held every three years between at least five participants.

(d) Groups of investors may not purchase custodian services from a related bank.

The institutional entities in the Group purchase brokerage and custodian services, *inter alia*, from a banking corporation that provides to one institutional entity in the Group, through a related party thereof, operational services to provident funds managed by it. At this stage, the Company is unable to assess how the corporation will act if the regularization is finally approved.

In November 2015 a **Draft Amendment for the Regulations for Provident Funds under Personal Management** was published. Within the Amendment, it is suggested, *inter alia*, to allow savers to invest their monies also through foreign portfolio managers who are residents of an approved foreign country, and who are authorized to manage portfolios in that country, and it is also set forth that insurance funds may not serve as provident funds under personal management. In addition, it is suggested to allow a certain expansion of monies that may be managed in provident funds under personal management, which are not at the core of pensionary savings of provident funds' members, as detailed there, and it is proposed to restrict members' deposits in all their accounts in educational funds managed in the provident fund under personal management, to four times the "effective amount". Within the Amendment, there are also provisions regarding the transfer of member to another provident fund or another track, rules for allowing expenses stemming from the savers' investments in ETNs and ETFs, and allowing investments in additional investment assets.

The information included under Clause 26.5 regarding the implementation and/or the Company's estimations regarding the implementation of the provisions detailed in this Clause, whether these are draft provisions or final provisions, is forward-looking information, and in the case of drafts, it relies on the provisions that are proposed now, and there is no certainty that this will be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimations and assumptions regarding the behavior that entities operating in the market may choose, these estimations may not realize if the provisions are changed or updated, or implemented in a different manner.

26.6 **The area of health insurance - material legal pronouncements and legislative arrangements published in the reported period until the report publication (including drafts)**

26.6.1 **Individual health insurance**

(a) In September 2015 the **Supervision of Financial Services (Insurance) (Conditions in Insurance Contracts for Surgeries and Non-Surgical Alternative Treatments in Israel Regulations – 2015** ("**Standard Policy Regulations**") were published**.**

The Standard Policy Regulations set that policies with a standard insurance coverage for insurance companies, in respect of surgeries and non-surgical alternative treatments in surgeries or in non-surgical alternative treatments that are marketed beginning from February 1st, 2016 shall be reworded as a standard policy, that includes coverages whose conditions are set forth in the Regulations. Insurers will not be able to change these conditions, except if the change was approved by the Commissioner in advance and in writing. Also, they state that whenever instructed by the Commissioner, the following conditions shall apply to the surgery policy.

(1) The surgery policy shall include all the conditions detailed in the first addendum to the Standard Policy regulations, including: definitions of terms, definition of insurance event; surgery or non-surgical alternative treatment that was performed on the insured in the insurance period, or consultation received by the insured, the coverages that will be included in the policy, the length of the qualification period will be 90 days except in such coverages referring to pregnancy or birth, and there will also be exclusions. To the coverage.

(2) Standard insurance fees should be set for every group, depending on the age groups set forth in the Regulations, subject to the cases that were defined.

(3) Insurance fees will change throughout the insurance period depending on changes in the insureds' age.

(4) The Commissioner was given the authority to set the terms of deductibles, at rates as per the Commissioner's discretion.

(5) The Commissioner was given the authority to instruct the integration of a condition pursuant to which a procedure shall be carried out only through a service provider who has an arrangement with the insurer.

(6) Insurers may not stipulate the purchase of a policy with the purchase of another insurance coverage or the cancellation of a policy with the cancellation of another insurance coverage.

The Regulations apply to policies that shall be introduced or renewed from the moment the Regulations come into effect on February 1st, 2016.

Further to the publication of these Regulations, in September 2015 the Insurance Circular **Implementation Instructions for the Supervision of Financial Services (Insurance) (Conditions in Insurance Contracts for Surgeries and Non-Surgical Alternative Treatments in Israel Regulations – 2015** were published on September 24th, 2015, stating instructions for the implementation of said Regulations. The Circular sets forth instructions regarding how to address insureds who were insured in these policies before the Regulations came into effect, regarding the possibility to shift to a policy that complies with the Regulations, as well as the conditions for joining insureds who would like to join a policy that complies with the Regulations.

For details regarding the implications of such instructions on the Company, see Clause 9.3.1 in Part B above.

(b) In November 2015 the **Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives for Budget Years 2015 and 2016) – 2015** was published**.**

Within the Law, it is set that insurers may no longer offer a service that provides a refund of medical expenses when a surgeon or consulting physician is chosen, but only a service of "settlement", which is an agreement between the insurer or the health fund and a specialist or the medical institution, pursuant to which the entire payment to be paid to the physician or the medical institution in respect of the medical consultation is agreed upon in the agreement, with a deductible paid by the insured, if it is set. Also, it states that a surgery policy or a change thereof shall not be approved, if the Commissioner has not made sure that the insurance company has satisfactory surgery arrangements vis-à-vis the physicians, both in the aspect of a sufficient number of physicians and surgeries, as well as their geographic spread. In addition, every insurance company may submit for the approval of the Health Minister and the Finance Minister a list of up to 50 specialists in unique fields or in certain geographical areas in which there is a limited number of specialists, for whom the insurance company may offer a refund when there is no arrangement. Furthermore, it was set that physicians or other professionals shall not receive, directly or indirectly, any additional payment on top of the payment made to them be the medical institution, in respect of the service, and the medical institution shall not allow such payment. In an engagement of medical institutions with physicians or other professionals for the performance of a medical service on the medical institution's premises, the physicians and the other professionals will undertake to avoid receiving an additional payment.

The Law comes into effect on July 1st, 2016. For details regarding the Law and its implications on the Company, see Clause 9.3.1 (c) in Part B above.

In February 2016 the Israel Medical Association ("**the appellant**") appealed to the High Court of Justice against the Knesset, the Ministry of Health, the Health Minister, the Ministry of Finance, the Minister of Finance and the Israeli Government. As the formal appellee, the health funds operating in Israel, private hospitals for general hospitalization where surgery services are provided and the large private health insurance companies in Israel (including Migdal Insurance) were added ("**the appellees**"). Within the appeal, the appellant requires, *inter alia*, the Court to issue an order nisi instructing the appellees to explain why the health chapter in the Economic Efficiency Law, including the instructions set forth above ("**the health chapter**") that was published in November 2015 and are expected to come into effect on July 2016, is not cancelled. *Inter alia*, the appellant claims that the health chapter restricts the individuals' freedom to consume private health services, thus restricts the private health services, and also that it reduces the accessibility of surgeons to the public treated in the medical system. Furthermore, it is argued that the health chapter limits the freedom of contractual engagement of physicians and patients in the private sector, and that it undermines the physicians' freedom to realize their occupation and design the commercial relations between them and the patients.

(c) **Individual health insurance period and its renewal**

In January 2015 Insurance Circular 2015-1-19 regarding the **Writing of Individual Health Insurance Plans** was published, and it was updated on September 24th, 2015. The Circular sets forth provisions regarding the insurance period and the way for renewing the insurance period of individual health insurance policies, as well as provisions regarding how to notify insureds in writing, and the content of such notifications. For additional details regarding the implications of such provisions on the Company, see Clause 9.3.1 (a) in Part B above.

(d) **Insurance Circular regarding the Non-Dependence between Coverages in Individual Health Insurance**

In July 2015 the Circular regarding the Non-Dependence between Coverages in Individual Health Insurance**,** that sets forth provisions regarding the marketing of various insurance coverages in individual health insurance, as well as provisions regarding the cancellation of such coverages, which were sold together, without the cancellation of additional plans sold together without the cancelled plan, was published. Pursuant to the Circular's provisions, insurers will allow insurance candidates to purchase each of the following coverages as basic plans: surgeries, transplants, medications and dread diseases, and purchase a basic plan regardless of the purchase of another plan or another basic plan, unless the Commissioner permitted it in advance and in writing. In addition, the insurers shall not stipulate a discount in a specific plan with the purchase or owning of another plan. This Circular also regulates how to make insurance candidates join, including the duty to present the plans in a detailed manner in the insurance proposal form, and to receive the insured's consent separately for each plan, as well as sets provisions regarding giving information to insurance candidates during the sale of insurance plans. The provisions of the Circular apply to individual insurance policies in the line of diseases and hospitalization and in the line of personal accidents that are marketed beginning from February 1st, 2016. For details regarding the implications of above provisions on the Company, see Clause 9.3.1 (d) in Part B above.

26.6.2 **Collective health insurance**

In July 2015 and January 2016 amendments to the **Supervision of Financial Services (Insurance) (Collective Health Insurance) Regulations – 2009** were published. Within the Amendment of the Regulations, there are several changes, mostly related to how insureds join collective insurances and how the agreement is renewed. Inter alia, it is stated that:

(a) Insureds' consent to join a collective insurance shall be made only after all the chapters included in the policy and their cost are presented to them.

(b) The renewal of collective insurance with successive rights, which, prior to the amendments to the Regulations, did not require an explicit consent by the insureds, shall be made provided none of the basic coverage chapters, which existed in the policy prior to its renewal, as defined in the Regulations, is cancelled.

(c) It is possible to increase insurance fees by a rate or amount that exceeds those set forth in the Amendment to the Regulations, during the insurance period or upon the renewal of the collective insurance only with the insureds' explicit consent.

(d) The Amendment also includes arrangements regarding a situation whereas insureds did not give their consent as set forth above.

(e) It was also stated that notices should be given in several cases detailed in the Amendment to the Regulations, including a notice before the end of insurance with no renewal at the insurer, or in the event the insurer writes a collective policy to insureds who were previously insured by another insurer, as well as in the event the affiliation between the insureds and the owner of the collective in respect of which the ceased being insured, is terminated. The above-mentioned Amendment to the Regulations comes into effect on January 1st, 2016.

For details regarding the implications of such provisions on the Company, see Clause 9.3.5 in Part B above.

26.6.3 **LTC insurance**

(a) In December 2015 the **Supervision of Financial Services (Insurance) (Collective LTC Insurance for Members of Health Funds) Regulations – 2015** were published. The Regulations set forth conditions that will be included in collective LTC insurance plans, the terms for the joining, leaving or transfer of insureds, rules for the transfer of monies between various insureds' funds, rules regarding insurers' liabilities upon changing health funds, as well as rules regarding refunds from insurers to health funds. For details regarding the implications of such provisions on the Company, see Clause 9.3.2 in Part B above.

(b) In January 2016 the Commissioner published a Circular regarding LTC Insurance for Members of Health Funds. Within the Circular, there are rules for the participation of companies in the insurance risk, how insureds' monies should be managed in insureds' funds, rules for writing agreements between insurance companies and health funds, rules for the transition of insureds between health funds, instructions as to proper disclosure, how insurers' address entitled insureds and policyholders regarding entitled insureds, rules regarding providing information by the receiving fund to the shifting insured, as well as the annual reporting duty to the Commissioner regarding insureds who joined or left.

26.6.4 In February 2016 the second draft of the **Circular regarding the Appendix to the Circular as to the Clarification and Settlement of Claims and the Handling of Public Complaints** was published. The draft sets complementary corrective provisions for the handling of claims pursuant to the Circular of Settlement of Claims, further to the findings of audits conducted by the Ministry of Finance.

The specific provisions refer to general insurance, health insurance, LTC insurance and general issues. Presented below are the key guidance in the draft Circular appendix:

Data were added to the letters of notice for claimants (name of the insured, type of coverage, policy name and number). The references and arguments required in the various notices for claimants (regarding dismissal notices, notices regarding partial payment, and notices about offset in third party claims) were expanded. There are instructions regarding the use of the "non-disclosure" clause. There is a prohibition on (partial) impersonation by investigators, and a demand was added to attach a documenting file to the investigation report. There are instructions regarding the definition of an insurance event in LTC insurance, and also specific instructions for the examination of "cognitive impairment".

Regarding the settlement of LTC claims, *inter alia*, there is a provision stating that insureds who, due to problems in mobility or due to low responsiveness of the bladder suffer from functional incontinence, shall be considered as unable to carry out alone a material part (at least 50% of the action) of sphincter control, and insureds suffering from a lack of equilibrium or instability that cause recurring falls, shall be considered as unable to carry out alone a material part (at least 50% of the action) of "mobility" as defined in the LTC Circular. There are also instructions and restrictions regarding the examination of the insureds' functional situation upon settling LTC insurance claims.

For details regarding the implications of such provisions on the Company, see Clause 9.3.4 in Part B above.

26.6.5 In October 2015 the Commissioner published **a draft Provisions for the Amendment of Flaws in the Marketing of Personal Accidents Policies**. The Draft includes instructions regarding the marketing of personal accidents policies through the phone, and regarding the examination of such policies to insureds who joined through the phone in an initiated manner beginning from January 1st, 2014 and meet the definitions set forth in the Draft ("**existing insureds**"). Within the said Draft, insurance companies must address existing insureds and receive their consent to the continuation of insurance under the conditions set forth in the Draft Instruction. As to existing insureds who were not found, the Company must send a report to the Commissioner in order to receive additional instructions. By the end of the process and whenever necessary, insurers will have to submit to the Commissioner a report prepared by the Internal Auditor regarding the implementation of the recovery directives.

The Company is studying the Draft, and at this stage it is unable to assess the overall implications of the proposed instruction.

The information included under Clause 26.6 regarding the implementation and/or the Company's estimations regarding the implementation of the provisions detailed in this Clause, whether these are draft provisions or final provisions, is forward-looking information, and in the case of drafts, it relies on the provisions that are proposed now, and there is no certainty that this will be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimations and assumptions regarding the behavior that entities operating in the market may choose, these estimations may not realize if the provisions are changed or updated, or implemented in a different manner.

26.7 **The area of general insurance - material legal pronouncements and legislative arrangements published in the reported period until the report publication (including drafts)**

26.7.1 In January 2016 the **Amendment to the Provisions of the Consolidated Circular in the CMBI Line** was published. The Amendment to the Circular includes the following key changes:

(a) An update of insurance fees for private vehicles in residual insurance according to additional parameters, and also sets forth that beginning from January 1st, 2017 net insurance fees for the insurance of vehicles that are not motorcycles, shall not exceed 90% of net insurance fees for an insurance with identical characteristics within the arrangement for residual insurance.

(b) The procedure for introducing or updating insurance fees and how to report to the Commissioner about it, will change.

(c) The possibility to set special net insurance fees for fleets of vehicles will be cancelled beginning from January 1st, 2017.

(d) The possibility to change insurance fees for a period shorter than one year for collectives and fleets of vehicles will be added.

(e) The possibility to charge CPI-linkage on CMBI policies will be cancelled.

(f) The possibility to change insurance fees retroactively will be cancelled, unless insurance fees are refunded to the insureds.

In addition, in January 2016 the Commissioner published a **Draft for the Amendment to the Provisions of the Consolidated Circular in the CMBI Line**, within which CMBI tariffs will be updated beginning from January 1st, 2017, beyond the expected amendment to these tariffs beginning from March 1st, 2016.

On February 2nd, 2016, the Israel Insurance Association and the Managing Corporation of the CMBI Database ("the Pool") Ltd. ("**the appellants**") filed an appeal to the High Court of Justice against the Commissioner and the operator of the statistical database ("**the appellees**"), asking, *inter alia*, the Court to declare that the provisions of the Amendment to the Provisions of the Consolidated Circular in the CMBI Line ("the Amended Circular") are void, to instruct the appellees that a report by the operator of the statistical database should be prepared, which would allow an appropriate and reliable evaluation of the "**cost of pure risk in the free market**", and setting the tariff of "**residual insurance**", which will also reflect and weigh all the operator's restrictions in the report dated August 15th, 2015, that the Commissioner relied upon when publishing the Amended Circular, as well as the opinion that was attached to the appeal; and declare that the Commissioner may not take measures aimed by themselves as turning the "**Pool"** into a competitive player in the area of CMBI. Also, within the appeal an interim order that stipulates the validity of the amended Circular, or at least its provisions regarding the "residual insurance" tariffs, was requested, until the appeal is ruled. On February 2nd, 2016 the Court ruled that the appellees shall file their response to the appeal within 15 days before the day of the hearing, and the request for an interim order and the request for maintain confidentiality shall be deliberated before the constitution that will deliberate the appeal.

For details regarding the implications of such provisions on the Company, see also Clause 12.2.2 in Part B above.

26.7.2 In January 2016 the **Commissioner published a position paper regarding the best practice for actuaries for the calculation of reserves in general insurance for the financial reporting**, **as well as an update to the Circular regarding actuarial valuations in general insurance**. For additional details, including the implications of said position paper on the Company, see Note 2j2d)(4) to the Financial Statements and Clause 12.2.3 in Part B above.

26.7.3 **In December 2016 the Economic Efficiency Law (Legislative Arrangements for the Implementation of the Economic Policy for Budget Years 2015 and 2016) – 2015** was published.

Within the Law, Clause 328 to the National Insurance Institute Law regarding the duty of insurance companies to report to the NII about any portfolio in which there might be a cause for subrogation.

Pursuant to the Law, the reports of insurance companies to the NII will become online and standard, Furthermore, there is a sanction for not reporting and an enforcement mechanism that would guarantee that reports are submitted. There is also a mechanism for the settlement of subrogation claims between the NII and insurance companies, that would include, *inter alia*, the timetables, in order to simplify the subrogation procedures and reduce costs. For additional details, see Clause 12.4.4 in Part B above.

26.7.4 In December 2015 the Commissioner published a **Draft Circular with provisions regarding the Infrastructure for Reporting to the Commissioner about Casco Tariffs.** The Draft deals with the duty imposed on insurers to report about casco tariffs pursuant to variables that will be determined by the Commissioner to a tariff calculator that will be established in the Ministry of Finance website. The tariffs will be updated in real time. The Draft details the computerized infrastructures that insurers will have to develop in order to report to the Commissioner.

26.7.4 In December 2015 the Commissioner published a **Draft Circular with provisions regarding the Infrastructure for Reporting to the Commissioner about Casco Tariffs.** The Draft deals with the duty imposed on insurers to report about casco tariffs pursuant to variables that will be determined by the Commissioner to a tariff calculator that will be established in the Ministry of Finance website. The tariffs will be updated in real time. The Draft details the computerized infrastructures that insurers will have to develop in order to report to the Commissioner.

26.7.5 In January 2016 the Draft for the Amendment of the Consolidated Circular regarding **Water Damages in Homeowner Insurance** was published, including provisions aimed at improving the service that insureds will receive from service providers who perform the repair of water damages due to the basic risks covered in the homeowners policy or within the extension for risks from water and other liquids. The Commissioner suggests to perform the following changes to the Consolidated Circular with the Amendment:

(a) Redefining the term "plumbers company" as such that employs at least 20 service providers who would help approve service in this field, with proper geographical spread.

(b) Within the underwriting procedure, the insurer will allow the insureds to choose the way they will receive service, whether an appraiser from the plumbers company or an appraiser selected by the insureds.

(c) Insurers must have a list of contracted plumbers, and present them on the website, and the list should include the information set forth in the Drat.

(d) There should be a disclosure if the insurer has means of control in the plumbers company.

(e) Insurers shall conduct surveys regarding insureds' satisfaction from the quality of plumbers.

(f) Insurers should give a summarizing document to insureds, regarding the plumbers' service given to them.

(g) It is suggested to set mandatory timetables for providing plumbers' services, and a fine with no evidence of damage in case these undertakings are not complied with,

For additional details, including the implications on the Company, see also Clause 12.2.5 in Part B above.

The information included under Clause 26.7 regarding the implementation and/or the Company's estimations regarding the implementation of the provisions detailed in this Clause, whether these are draft provisions or final provisions, is forward-looking information, and in the case of drafts, it relies on the provisions that are proposed now, and there is no certainty that this will be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimations and assumptions regarding the behavior that entities operating in the market may choose, these estimations may not realize if the provisions are changed or updated, or implemented in a different manner.

27. Entry and exit barriers

27.1 Entry barriers

The main entry barriers of the Group's various areas of activity are set by the provisions of the relevant laws which require obtaining licenses and permits.

27.1.1 Licenses and permits

(a) **Insurance, pension funds and provident funds activity**
As per the Supervision Law, insurance activity (including holding a pension fund managing company) requires the granting of an insurer license as per the Supervision Law ("**insurer license**"), holding of more than five percent of a certain type of control means in an insurer, requires receiving a permit for holding means of control from the Commissioner ("**holding permit**"), and control of an insurer or a corporate agent, which is also conditioned on receiving a permit from the Commissioner ("**control permit**").

Among other discretions for granting an insurance license or a corporate agent license, a holding permit and a control permit, the Commissioner takes into consideration a large variety of matters, including presenting the action plans of the applicant, qualifications of Senior Officers and their ability to fill their positions, the financial means, the experience and business background of the entities requesting the license or the permits, the capital market competition, including the insurance market, and its service level, the government's economic policy, arrangements as to reinsurance, staff etc. The Commissioner may set conditions and restrictions as to granting the permits, including the existence of a fixed and stable control nucleus in an insurer, a prohibition on pledging the means of control included within the chain of control in an insurer, maintaining the controlling group's structure, including by setting provisions or restrictions as to the sale or transfer of the means of control to another.

As per the Provident Funds Law, engaging in the management of provident funds requires receiving a managing company license. Also, holding more than five percent of a certain type of control means in a managing company of provident funds, requires receiving a holding permit and/or a control permit, as the case may be. The aforementioned discretions as to granting licenses and permits in the insurer, also apply to provident funds, *mutatis mutandis*. Annuity provident funds have the same requirements as insurers.

Also, as per Clause 32 (c.1) to the Supervision Law, there is **a prohibition on having a material holding in the area of LTS**. A material holding was defined in the Supervision Law as holding a market share exceeding 15% of all LTS assets, as defined in the Supervision Law[59].

As per data published by the Commissioner, in a Circular dated December 2015, the total value of LTS assets, as of September 30th, 2015, is approx. NIS 832 billion. The maximal market share as of that date is approx. NIS 125 billion.

The Group holds, as of September 30th, 2015, on the basis of the data on which the value of the assets was calculated as set forth above, approx. 17.0% of total LTS assets, pursuant to the exclusion in the Supervision Law, that states that the holding rate may deviate from the materiality threshold, if there is a change in the value of assets managed by it or by the institutional entities controlled by it, or because insureds or members join insurance plans or provident funds or pension funds.

(b) **Permit for holding means of control in institutional entities in the Group**

The permit for holding means of control and for the control in institutional entities in the Group was given to Mr. Shlomo Eliahu and Ms. Haya Eliahu, on October 28th, 2012 ("**controlling shareholders**").

The control permit sets forth, *inter alia*, restrictions and limitations as to the way means of control in Eliahu Insurance, Migdal Holdings, Migdal Insurance, Migdal Makefet and Yozma are held, as to maintaining the control structure and the minimal holding rate in the entities mentioned above, regarding the sale or transfer or issuance of means of control in each of the above mentioned entities, including placing a lien[60] on them, regarding maintaining an equity ratio in all the institutional entities controlled by the controlling shareholders, as well as conditions pursuant to which the controlling shareholders and Eliahu Group may receive management fees from the institutional entities controlled by the Company, or provide services to institutional entities controlled by the Company.

At the same time, the Commissioner also gave Mr. Shlomo Eliahu a control permit for insurance agencies controlled by the Company.

Mr. Shlomo Eliahu gave the Commissioner of Capital Market, Insurance and Savings a letter of undertaking signed on October 16th, 2012. Pursuant to that letter of undertaking (obtaining the control permit was stipulated with giving this letter), Mr. Shlomo Eliahu, being the controlling shareholder in Eliahu Insurance, Migdal Insurance, Migdal Makefet and Yozma ("**the insurers**"), undertook to supplement Eliahu Insurance's and Migdal Insurance's equity to the amount set forth in the Regulations of Supervision on Insurance Businesses (Minimum Equity Required of Insurers) – 1998, or any other Regulation or Law that would supersede them, and supplement the equity of Migdal Makefet and Yozma to the amount set forth in the Regulations of Supervision of Financial Services (Provident Funds) (Minimum Equity Required of Managing Companies of

[59] Regarding material holdings in the area of LTS in order to receive the permit as set forth above, the following parameters shall be disregarded: (1) a change in the market value of managed LTS assets; (2) a change in the value of all LTS assets; (3) the joining of insureds / members to insurance plans/provident funds in a manner that increases the total assets, except following an engagement with another institutional entity or a merger therewith.

[60] For the lien on some shares held by Eliahu Insurance, see Note 1b to the Financial Statements.

Provident Funds or Pension Funds) – 2012, or any other Regulation or Law that would supersede them ("**Capital Regulations**"). This undertaking is irrevocable and will be in effect as long as Mr. Shlomo Eliahu controls, directly or indirectly, the insurers set forth above. For additional details see Note 38a to the Financial Statements. Also, regarding the minimum equity required of institutional organs, see Note 7c6 to the Financial Statements.

(c) **Permits/restrictions in authorities' permits following the transfer of control in the Company**

Bank of Israel permit – since Mr. Shlomo Eliahu, prior to the acquisition finalization date, held, directly and indirectly, including via Eliahu Insurance, means of control in Bank Leumi and Israel Union Bank Ltd. ("**the banking corporations**"), pursuant to permits for holding means of control given to him as per the Banking Law (Licensing) – 1981 in banking corporations, referring, *inter alia*, to his holdings in banking corporations via Eliahu Group as well as via the Company and its subsidiaries. Under these permits, Mr. Shlomo Eliahu's holding rate in each of the banking corporations, via the Company and its subsidiaries, shall not exceed 5%, similar to the regulatory restrictions that currently apply to the Company regarding holding means of control in banking corporations (as of the date of this Report, the holdings of the Company and its subsidiaries in Union Bank is approx. 0.5%, to the Company's best knowledge, as of the date of this Report, the holdings, Mr. Eliahu has no holdings in Bank Leumi)[61].

The Israel Antitrust Authority permit – on June 12th, 2012, the Israel Antitrust Authority General Director approved the merger between Mr. Shlomo Eliahu, Eliahu Insurance and the Company. The General Director's approval was amended on December 7th, 2014. As per the merger's conditions (including the Amendment dated December 7th, 2014): as of the transaction's finalization date, the Company shall not engage (directly and indirectly)[62], in an agreement with related trading companies[63] for the execution of transactions in members' assets in which the consideration in their respect is paid from the members' assets, unless via a tender in which all trading companies are given an equal opportunity to participate ("**the tender**"), and in which at least four trading companies participate.

An offer by a related trading company for the execution of certain transactions in members' assets may be selected in a tender only if offers for this certain transaction were given by at least four trading companies, and provided that the financial consideration to be paid by the Company as per this company's offer, is the lowest offered in the tender.

The Company shall not negotiate with related trading companies or anyone on their behalf, regarding the details of the tender and its conditions, before the publication of the tender documents and thereafter,

[61] In addition, to the Company's best knowledge, in the BoI permit that was given to Mr. Shlomo Eliahu and Ms. Haya Eliahu regarding the holding of banking corporations, there are restrictions that apply to them regarding the continued holding of the controlling interest in the above mentioned banking corporations, including mandating the transfer of means of control held by them to a trustee.

[62] Regarding this matter, the Company means the Company, including a related person, as per the definition of this term in the Restrictive Trade Practices Rules (General Provisions and Definitions) – 2006.

[63] A Related Trading Company's definition – a trading company in which at least five percent of the shares are held, directly and indirectly, by the controlling shareholder in Migdal, including a holding via a trustee, except a trading company whose entire shares, upon the date of transaction finalization, are held, directly and indirectly, by the Company.

until the selection of winners, except for receiving clarifications regarding the offers submitted by the tender participants.

At the time of the acquisition of control, the provision applied to engagements with Bank Leumi and Union Bank. As of the date of this Report, the aforesaid provision applies only to engagements with Union Bank, see Note 38a2 to the Financial Statements.

(d) **Financial services activity**

In order to perform various activities in the area of financial services, there is a need to receive control permits and licenses from the various State authorities, especially the ISA and the TASE, which take into account a wide variety of discretions when deciding to grant control permits and licenses. Also, the sale or transfer of means of control in a TASE member requires receiving the TASE approval. As set forth in Clause 16.2.4 above, as a result of the finalization of the merger between Migdal Stock Exchange Services and IBI Stock Exchange Services, Migdal Stock Exchange Services' membership in the TASE was cancelled.

Pursuant to the Joint Investments Trust Law – 1994, fund managers may not receive for their management a fund from another fund manager, if their market share after receiving the fund's management exceeds 20%. There is a prohibition to control fund managers, such that the total market share (the total market share of fund managers controlled by him/her) exceeds 20%, consequent to a fund manager controlled by him/her received control in a fund from another fund manager. It is not possible to receive a permit for the control and holding of means of control in a fund manager, if the total market share, after receiving the permit, exceeds 20%.

27.1.2 **Equity and restrictions on dividend distribution**

The activity of the Group’s institutional entities (insurance companies and managing companies of pension funds and provident funds) requires, as per the provisions of various laws, minimum equity. The capital requirements are tested according to the annual Financial Statements and interim reports of the institutional entities, and if the equity on the report date is less than required, the institutional entities must increase it or reduce their scope of business, on the dates as prescribed by law. As long as such required equity is not supplemented, the institutional entities may not distribute dividends.

For information regarding equity required from institutional entities in the Group, and restrictions regarding dividend distribution, including surplus amounts that may not be distributed, see Note 7c to the Financial Statements.

The equity requirements in insurance companies are also expected to be affected by the Solvency II Directive ("**the Directive**"), which constitutes a fundamental and comprehensive change in the regulation referring to securing solvency and capital adequacy of insurance companies.

In the reported period, the provisions presented below regarding the solvency governance and risk management were published:

For the Company's deployment towards the implementation of the Directive – see Clause 43 below. Also, see Note 7c6 to the Financial Statements.

The various companies operating in the area of financial services are required to have equity, and sometimes also a positive working capital and liquid assets, in amounts and rates set forth in the relevant Law provisions.

27.1.3 **Expertise, knowledge and experience**

The insurance and financial activity of the Group’s businesses requires specific professional knowledge, mainly in the area of actuary and risk management, and familiarity with the area’s markets, including the reinsurance market. Furthermore, experience in this activity, actuarial information and a rich database are very important for setting tariffs and underwriting new businesses. Besides, the Group's insurance and financial activity requires the existence of a technological and professional infrastructure that supports the Group's areas of activity and professional, skilled and sufficient manpower.

27.1.4 **Minimum size (critical mass)**

In order to cover the high fixed operational costs required for the operation of the insurance and investment systems, including the requirement to meet changing regulatory demands in the various areas, a minimum amount of revenues to cover operational costs is required.

27.2 **Exit barriers**

The main exit barriers of the Group’s activities are also set by the relevant laws.

27.2.1 **Insurance, pension and provident activity**

The liquidation or winding up of an insurer’s insurance businesses are subject to the supervision of the Commissioner of Insurance, who may instruct insurers to act in a certain way in the winding up of the business or ask the court to give an order stating that the liquidation should be made by the Court or under its supervision.

Mergers, spinoffs, management termination or voluntary liquidation, require the prior approval of the Commissioner. If an order application was made to appoint an official receiver or a temporary liquidator in a managing company, and such order was not cancelled within a certain period set in the Provident Funds Law, or if management was not transferred to another managing company within the period set under the law, the Commissioner may apply his/her authorities regarding anything related to maintaining the stability of the provident fund, including appointing an authorized manager in accordance with rules set as to insurance companies.

In life assurance and pension businesses and “long-tail” lines of general insurance businesses – the termination of activity involves setting up an arrangement for the continued handling of all of the insureds’ / members’ rights (Run-Off).

27.2.2 **Financial services**

During 3 years from the date the last prospectus was signed by an underwriting company, and upon meeting additional conditions, such as the non-filing of a claim against the Company in respect of its obligations under the prospectus as per the Securities Law, it is not allowed to withdraw monies from a deposit that was deposited with a trustee

In general, there are no significant exit barriers in this area. However, the liquidation of mutual funds managed by a fund manager is subject to arrangements under the **Joint Investments Trust Law – 1994**. As per this

Law, the liquidation of a mutual fund may be performed only pursuant to the conditions set forth in the fund's agreement or through a Court and subject to the Joint Investments Trust Law.

Any sale or transfer of means of control in some of the companies in the area of financial services mandates the buyer to receive the permits set forth in Clause 25, *mutatis mutandis*.

28. Critical success factors

The factors presented below affect success factors in the Group’s activities ("**success factors**").

General success factors:

Changes in the economy, employment and capital market condition; regulatory demands, including control of tariffs; competition in the area; customers' loyalty and portfolio persistency; quality of investment management, including the management of risks involved in all the Group's areas of activity; distribution channels, including their ability to increase demand and create new markets; a variety of products and the ability to adjust them to market conditions and customer needs, including providing integrated solutions for the customers in respect of the Group's variety of products; quality of service to insureds, members and other customers, as well as agents; positioning the Company as a leading company in the life assurance and LTS area, while creating a brand that will enhance its competitive status; preservation and employment of high-quality human capital; computerization and technology level; operational efficiency and operational, marketing and sales expenses level; operation of efficient control and constant examination and improvement of working processes; strength and stability.

Success factors unique to the insurance and pension areas

Level of the permitted management fees allowed under the law, and management fees actually collected; underwriting quality; actuary quality in pricing and reserves and their management; changes in life expectancy; frequency and severity of claims, including catastrophes; quality of claims management, including management of agreements with service providers and fraud control; protection and cost of reinsurance; scope of tax benefits for customers (in the area of life assurance and LTS); technological and other developments in medicine; changes in the health basket.

29. Investments[64]

29.1 Structure of investment management of the Group's institutional entities

The investments in institutional entities in the Group are carried out by the Investment Division that concentrates the information, expertise and personnel required for investment management, see Clause 31.1 below.

As per the legislative arrangement, there are two Investment Committees in Migdal Insurance.

One, for managing the investment portfolio of monies to cover yield dependent liabilities (“**Profit Participating Investment Committee**”), and another for investing the insurer’s equity, and investing monies to cover non-yield dependent insurance liabilities (“**Nostro Investment Committee**”).

In Migdal Makefet and Yozma there is an Investments Committee for the management of members' monies managed by Migdal Makefet and Yozma (the institutional entities' pension funds portfolio and provident funds portfolio).

[64] The Clause refers to investment management of institutional entities in the Group only.

Beginning from February 2016, the slate of the Profit Participating Investment Committee is identical to that of the Investment Committee for the management of members' monies managed by Migdal Makefet and Yozma.

(The profit participating investment committee for the management of members' monies managed by Migdal Makefet and Yozma shall be referred to as "**Members' Investment Committee**").

Pursuant to the legislative arrangement, in Investments Committees there is a majority of external representatives, who comply with the eligibility requirements for External Directors pursuant to the Law.

The Board of Directors of every subsidiary which is an institutional entity outlines the overall investment policy in its areas of activity. In its overall investment policy, the relevant institutional entity's Board of Directors sets the strategy, objectives and exposure framework for the various investment channels, in each of the portfolios managed by it. The Investments Committees which operate both in the insurer, as well as in the pension and provident funds' managing companies, determine the investment policy specifically for each of the above-mentioned entities in the Group, within the overall investment policy set forth by the Board of Directors.

Until the end of February 2016, when the new provisions published by the Commissioner regarding credit extended by institutional entities ("**credit regulation update**"), in the Group there was a joint Credit Committee for all institutional entities, i.e., for Migdal Insurance (Members' Monies and Nostro), Migdal Makefet and Yozma, whose main role was to discuss credit transactions as set forth regarding this issue in the legislative arrangement that applies to all institutional entities.

Upon the update of the credit regulation, a credit sub-committee was appointed in the Group (joint for all the institutional entities), and it is composed from members with proven expertise and experience in the area of credit, which meet the eligibility required by the Law for External Directors, and its main role is discussing credit transactions and bad debts, as set forth in this respect in the legislative arrangement that applies to institutional entities. Furthermore, an internal credit committee was appointed, and it includes members who are Group employees with proven expertise and experience in extending credit or approving it, and its main role is giving recommendations to the credit sub-committee and Investments Committees regarding adjusted loans.

The investments management in Migdal insurance subject to regulatory provisions, including the Investment Rules Regulations and the Circular regarding Investment Rules, the Consolidated Circular – Chapter 4 – Investment Assets' Management (Investments Codex), and other Circulars published by the Commissioner regarding investment management by institutional entities. The regulatory provisions, as mentioned above, set forth various restrictions and frameworks adjusted to the type and nature of various liabilities of institutional entities (members' monies and Nostro monies).

As aforementioned, the Investments Division in Migdal Group concentrates the investment management of the Nostro portfolio, the profit participating portfolio, the pension funds portfolio and the provident funds portfolio of institutional entities in the Group, and the members' portfolios (profit participating portfolio, pension funds portfolio and the provident funds portfolio of institutional entities) have a designated investment manager who is in charge of the overall investment management of these portfolios, and the Nostro portfolio has a designated investment manager for this portfolio.

29.2 Breakdown of assets under management

Presented below is the breakdown of managed assets of the Group's institutional entities, as of December 31st, 2015 and December 31st, 2014 (NIS million):

	31.12.2015		31.12.2014	
Institutional entity	**Nostro**	**Yield-dependent monies (1)**	**Nostro**	**Yield-dependent monies (1)**
Migdal Insurance (2)	37,479	83,256	34,988	77,771
Migdal Makefet – pension funds	217	48,350	217	43,491
Migdal Makefet – provident funds		15,416		15,736
Yozma	11	1,698	2	1,658
Total	37,697	148,720	35,216	138,656

(1) "Yield-dependent monies" are in insurers – assets against yield-dependent liabilities, and in managing companies – members' assets.

(2) As of December 31st, 2015 the total liabilities in respect of yield-dependent contracts in Migdal Insurance is approx. NIS 83,313 million, out of which: approx. NIS 81,592 million is in respect of yield-dependent insurance contracts and approx. NIS 1,721 million in respect of yield-dependent investment contracts, vs. the total liabilities in respect of yield-dependent contracts as of December 31st, 2014 of approx. NIS 78,047 million, out of which: approx. NIS 76,710 million in respect of yield-dependent insurance contracts and approx. NIS 1,337 million in respect of yield-dependent investment contracts.

(3) illion in respect of yield-dependent investment contracts.

(4) For additional details regarding the breakdown of investment channels see the Company's websites:
https://www.migdal.co.il/He/MigdalTeam/investments/Pages/nustro.aspx
https://www.migdal.co.il/He/MigdalMakefet/Investments/Nechasim/Pages/default.aspx

29.3 Declaration in advance regarding the investment policy

The Institutional Entities Circular 2009-9-13, Declaration in Advance by Institutional Entities regarding their Investment Policy ("**Circular regarding Declaration of Investment Policy**"), requires institutional entities to declare their investment policy, regarding non-specialized investment tracks and specialized investment tracks, as per the provisions set forth in the Circular regarding Declaration of Investment Policy, including reporting in the event of a change. For the links to the websites in which the institutional entities' declarations were published:
https://www.migdal.co.il/He/MigdalTeam/investments/Pages/InvestmentPolicy.aspx
https://www.migdal.co.il/He/MigdalMakefet/Investments/InvesPolicy/Pages/default.aspx
https://www.migdal.co.il/He/PensionarySavings/pensia/Yozma/Pages/InvestPlicty.aspx

29.4 Material investments in investees, partnerships and ventures that are not subsidiaries[65]

The balance of the Group's investments in affiliates is approx. NIS 700 million as of December 31st, 2015, vs. approx. NIS 644 million as of December 31st, 2014. The change is mostly due to the income of affiliates in the amount of approx. NIS 89 million, less dividends in the amount of approx. NIS 33 million, and the redemption of capital notes in Ramat Aviv Mall Ltd. in the amount of approx. NIS 15 million and

[65] For the definition of investees, subsidiaries, affiliates, see the definitions in Note 1 to the Financial Statements.

other investments in the amount of approx. NIS 15 million. For additional information regarding affiliates and the amount of investment in them, see also Notes 7b and 38h to the Financial Statements.

The key affiliates are:

29.4.1 **Ramat Aviv Mall Ltd.** (formerly Meqarqee Merkaz Ltd**.) ("Mall Company")**

This is a private company whose shares are held at approx. 73.4% by Melisron Ltd., a public company, and at approx. 26.6% by Migdal Real Estate Holdings Ltd. (which is a subsidiary fully held by Migdal Insurance). The Mall Company owns the Ramat Aviv Mall, which includes retail areas and an adjacent office building and office spaces for rent.

For the loans received from the Mall Company, see Note 38h to the Financial Statements. Regarding tax assessments issued for Migdal Real Estate Holdings Ltd, which holds the Mall Company, see Note 21d to the Financial Statements.

29.4.2 **Amot Investments Ltd. ("Amot")**

Amot is a public company, whose shares are traded on the TASE, engaged, directly and indirectly, via corporations controlled by it, in renting, managing and holding assets in Israel, as well in acquiring, initiating and developing real estate for rent for self-use. Amot is a subsidiary of Alony Hetz Properties and Investments Ltd., a public company whose securities are also traded on the TASE. As of December 31st, 2015 Migdal Insurance held approx. 13.3% of the Company's issued and paid up share capital.

It should be noted that on March 21st, 2016, Migdal Insurance engaged with a distributing entity for the sale of approx. 9.4% of its holdings in Amot, as detailed above. After the sale, Amot will cease being an affiliate of Migdal Insurance, Migdal Insurance's holdings in Amot's share will constitute about 3.8% of Amot's issued and paid up share capital, and they will be treated as financial assets revalued as per fair value in Migdal Insurance's Financial Statements. For additional details regarding said engagement, including regarding the expected income for Migdal Insurance in respect of the sale, see Note 40 to the Financial Statements, as well as the Company's Immediate Report dated March 22nd, 2016, Reference No. 2016-01-011502.

30 Reinsurance

30.1 General

As an integral part of its activity in insurance and risk management, the Group operates to cover some of the insurance risks it takes upon itself via foreign reinsurers. The balance of risk imposed on the insurance company after ceding part of the risk to reinsurers is called "**retention**".

The engagement with reinsurers has several advantages, mainly dispersing the insurance risks to which Migdal Insurance is exposed, as well as protecting Migdal Insurance's equity against high exposure risks and fluctuations in underwriting results. Reinsurance is adjusted to various risks according to the nature of risk and its level.

The acquisition of reinsurance is performed in policies or lines in which, in Migdal Insurance's estimation, it is more efficient to cede the risk than to use Migdal Insurance's equity. Internal actuarial estimations, various actuarial or statistical models and claims experience, help Migdal Insurance in assessing the required reinsurance level. It should be noted that reinsurance treaties do not derogate from insureds' rights towards the insurance company.

Reinsurance transactions are signed in Migdal Insurance's various areas of activity, life assurance, health insurance and general insurance (property and liability insurances).

Every year, the Board of Directors of Migdal Insurance approves the reinsurance array and the policy for exposure to reinsurers in the coming year.

In light of Migdal Insurance's deployment towards meeting the equity objectives as per Solvency II governance, Migdal Insurance also examines its reinsurance treaties. Regarding this issue, see Note 7c to the Financial Statements.

Usually there are two types of engagements in reinsurance:

30.1.1 **Contractual reinsurances**

They are signed within reinsurance treaties, and pursuant to them the reinsurer receives in advance an agreed-upon part of the risks that the direct insurer took upon itself, included in various insurance policies in a pre-defined line/area, during the treaty period and in the insurance scopes defined in the treaty ("**reinsurance treaty**"). Reinsurance treaties are signed and/or renewed, usually every year (usually in the beginning of a calendar year), and they cover, in the conditions set forth in them, a variety of risks included in the various insurance policies, sold by the Group during the activity period to which the treaty applies. Claims under the reinsurance treaties are paid both during that year and/or during the following years.

30.1.1 **Facultative reinsurances**

The engagement with the reinsurers is in order to cover risks in specific policies ("**facultative reinsurance**"). Usually businesses will have this type of insurance when the insurance amount exceeds the insurance amounts covered by the reinsurance treaties mentioned in the previous paragraph, and/or when the risk is excluded from the reinsurance treaty and/or due to specific underwriting discretions.

The customary structures of reinsurances are:

(a) **Proportional reinsurances** – the reinsurers participate in the pro rata share of the risk, and in return they receive the same pro rata share of premiums. There are mainly two types of proportional reinsurance:

(1) **Quota Share**, in which the reinsurers participate in a pre-determined rate, in premium, risk and claims.

(2) **Surplus treaty**, in which the reinsurers participation rate varies from one risk to another, depending on the insurance amount ceded to reinsurers beyond the retention. From the moment the rate of participation in risk is defined, the reinsurer participates in the same rate in premium, risk and claims.

(b) **Non-proportional reinsurances** – the share of the reinsurers is not proportional to their share in premium. Usually, reinsurers do not pay commissions in non-proportional treaties.

The main treaty in non-proportional reinsurance is **Excess of Loss**, in which reinsurers receive a payment deriving from the scope of the line to which the treaty refers, in return for which they cover damages exceeding a certain amount, per risk, claim or event, as they were set.

Reinsurance engagements in general insurance are usually conducted on an annual basis.

In life assurance and health insurance, in which policies are for the long term, reinsurance treaties usually cover the policies sold in the activity period to which the treaty refers, but they will be effective throughout the entire life of the sold policies issued until their cancellation, even if the reinsurance treaties are not renewed (in respect of new business) in the following years. In some reinsurance treaties in health insurance (LTC insurance, medications insurance etc.), reinsurers may interrupt the insurance coverage during the agreement period, such that the agreement may not cover all the lives of issued policies, under certain conditions in the agreements. In some reinsurance treaties in health insurance, reinsurers may request changes in the treaties also in respect of existing insureds, under certain conditions in the agreements.

In reinsurance transactions, Migdal Insurance pays reinsurers a premium. Reinsurers pay Migdal Insurance payments in respect of claims, as well as commissions, depending on the structure of the reinsurance transaction. As already mentioned, usually, in non-proportional reinsurances, no commissions are paid by reinsurers.

The commissions received from reinsurers are usually set as a share of the premium ceded to the reinsurers. Sometimes, the commission rate is fixed, regardless of the achieved results, and sometimes the commission rate depends on the underwriting results of the ceded businesses. Sometimes, Migdal Insurance receives a profit commission in addition to the fixed commission, this commission is calculated as part of the underwriting profit of the same risk.

Sometimes, when customers have a global activity (both in Israel and abroad), Migdal Insurance also executes more complex transactions, in which the insurance coverage is given not only to the Israeli activity but also to activity overseas ("**multi-national transaction**").

As set forth above, reinsurers' liabilities towards Migdal Insurance do not release Migdal Insurance from their liabilities towards their insureds, therefore reinsurers' financial strength affects Migdal Insurance – see Notes 37a3b and 37b 4.1 to the Financial Statements.

Presented below is a summary of reinsurance treaties at Migdal Insurance by areas of activity:

30.2 **Life assurance**

Migdal Insurance acquires reinsurance in respect of the risk component in life assurance policies (risks of death, disability and PHI). In 2015 the amount of reinsurance premiums in life assurance in Migdal Insurance was equal to approx. 2.0% of premium.

Reinsurance treaties covering risks of death, disability and PHI are signed in surplus or quota share treaties, or a combination thereof, as detailed below:

Death risks – the Company has a surplus treaty for death risk coverage.

PHI – the Company has a surplus treaty for PHI for Shalva policies (in which the definition of PHI is pursuant to the insureds' "education, training and experience"). In addition, Migdal Insurance has a reinsurance treaty for Migdal for Income policies (overage of professional PHI), which is a combination of surplus and quota share reinsurance:

(a) For a monthly compensation cap of NIS 18,000, reinsurance is quota share.
(b) For a monthly compensation exceeding NIS 18,000, reinsurance is surplus.

In addition, in 2015 Migdal Insurance had an Excess of Loss reinsurance treaty for covering death and permanent and total PHI in catastrophe events in the amount of approx. USD 150 million, beyond USD 40 million in the event of an earthquake and beyond USD 80 million in the event of any other catastrophe event, including war (including nuclear, biological and chemical war), but except plague. Migdal Insurance renewed this treaty for another two years, beginning from January 1st, 2016.

Also, Migdal Insurance has facultative reinsurance treaties, signed in order to cover risks embedded in specific policies.

For details regarding premiums paid to reinsurers, the share of reinsurers in claims and commissions paid by reinsurers, see Notes 3b, 3c and 3d to the Financial Statements.

Migdal Insurance has several reinsurers whose share of reinsurance premium in life assurance constitutes 10% or more, as detailed below:

		2015		2014	
Name of reinsurer	**Rating as per AM BEST[66]**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of life assurance in percent**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of life assurance in percent**
Swiss Re	A+	74.8	50	104.5	55
Munich Re	A+	29	19	36.8	19

30.2.1 **Pension** –

(a) **Migdal Makefet Ishit**: in 2015, Migdal Makefet Ishit Pension Fund had an Excess of Loss reinsurance treaty for the coverage of death and permanent disability in catastrophic events, including war (including nuclear, biological and chemical war) and earthquakes (but with no coverage of plagues). The total compensation is USD 70 million, over retention of USD 15 million. The coverage cap per member is approx. USD 1 million. The coverage cap for one member is USD 1 million. The cost of reinsurance premiums is paid from the fund assets.

This treaty was renewed for another two years, beginning from January 1st, 2016, with a compensation limit of USD 100 million over a retention of USD 20 million.

(b) **Migdal Makefet Comprehensive:** Migdal Makefet Comprehensive Pension Fund has a quota reinsurance treaty covering 90% in case of death and/or disability of the active fund members who are not in the basic old age track, paid as per the fund's Articles of Association ("**the insureds**"). Coverage is obligatory and is up to an amount at risk of approx. NIS 4.5 million in case of death and approx. NIS 7 million in case of disability, for each insured. The reinsurance premiums is paid from members' assets at a tariff of 90% of insurance fees paid by them pursuant to the fund's Articles of Association.

[66] The rating in the table was accurate just before the Report was published.

30.3 Health insurance

Migdal Insurance purchases reinsurance in respect of the risk element in health policies (transplant risks, dread diseases and LTC). In 2015, the amount of reinsurance premiums in Migdal Insurance's health insurance accounted for approx. 6.8% of premium.

Reinsurance coverage for transplants, dread diseases and LTC is by a quota share treaty, in which reinsurance coverage has no cap.

The reinsurance treaty for dread diseases is surplus reinsurance over NIS 150 thousand, and an additional layer of quota share reinsurance up to this amount.

In LTC insurance policies written in 2015, Migdal Insurance has a quota share reinsurance treaty, in which the monthly compensation cap is approx. NIS 20 thousand. In 22016, Migdal Insurance increased the rate of reinsurance rate in the quota share treaty in LTC insurance signed for policies written beginning from January 1st, 2016.

In most reinsurance treaties described above, Migdal Insurance is paid flat commissions from the premium ceded to reinsurers, and in addition, the Company receives a profit commission that is usually calculated as a rate out of the underwriting profit.

There are also facultative reinsurances, which are signed to cover risks embedded in specific policies.

Migdal Insurance has a number of reinsurers, whose share of reinsurance premiums in health insurance constitutes 10% or more, as follows:

		2015		2014	
Name of reinsurer	Rating as per AM BEST[67]	Reinsurance premium ceded to reinsurer (NIS million)	Share of total reinsurance premiums in the area of health insurance in percent	Reinsurance premium ceded to reinsurer (NIS million)	Share of total reinsurance premiums in the area of health insurance in percent
Hannover Re	A+	35.8	52	33.8	53
Swiss Re	A+	24.2	35	25.0	39

30.4 General insurance

30.4.1 CMBI

Migdal Insurance's liabilities in the CMBI line in 2015 are covered by Excess of Loss reinsurance, with unlimited liability if possible, or, alternately, up to a liability limit that is considered high enough.

In the CMBI line, Migdal Insurance did not reach the caps set forth in reinsurance treaties in the reported period, and it does not have outstanding claims in an amount close to the set limits.

67 The rating in the table was accurate just before the Report was published.

30.4.2 Casco

The line of casco is characterized by large dispersal and a relatively small variance in amounts of claims. In light of the above characteristics, Migdal Insurance does not purchase reinsurance in this line.

30.4.3 Other general insurance lines

The main lines in which Migdal Insurance purchases reinsurances in the area are for coverage of different types of property lines, including: fire and related risks, contractors, engineering and marine and also for covering liability lines. Migdal Insurance's reinsurance array and policy in the area are very important to its ability to insure large or special risks. As a result of the various reinsurance treaties, Migdal Insurance's exposure in respect of a single claim is usually limited, according to the amounts agreed-upon between Migdal Insurance and the reinsurers, including the retained amounts. The maximum exposure and retained amounts are determined according to Migdal Insurance's estimation of the expected damages or events.

In businesses in which insurance amounts exceed the capacity set forth in the relevant treaty, and/or when risk is excluded from the treaty with the reinsurer and/or because of specific underwriting discretions, with an adjustment to the frameworks and the treaties' conditions, facultative reinsurance is purchased.

In the property, contractors, engineering and marine insurance lines, Migdal Insurance purchases proportional reinsurances such as quota share and surplus insurances, in which the reinsurers’ participation is set as an equal percentage both in the premium and in the claim.

In proportional insurances, some of the reinsurers limited their participation in earthquake coverage to a rate (MPL) that exceeds the maximum estimated damage assessed by Migdal Insurance. In terror-related events there is a limitation of USD 20 million per event.

In this context, it should be noted that in 2015 there was a change, pursuant to which the reinsurance treaty signed by Migdal Insurance in the engineering insurance, some reinsurers limited their participation in earthquake coverage to a rate (MPL) that exceeds the maximum estimated damage assessed by Migdal Insurance. This change brought about an improvement in the rate of commissions received from reinsurers.

In the liabilities lines, Migdal Insurance assesses risk based on estimations and actuarial or statistical models and claims experience, and it purchases protection until the limitation, that is required, in its opinion, within the policies sold by Migdal Insurance.

In liability lines, Migdal Insurance purchases Excess of Loss reinsurance treaties, in which the retained amount is fixed and the reinsurer covers damage exceeding the set amount and up to the cap specified in the treaty. As customary in such reinsurances, there are no commissions received from reinsurers.

Migdal Insurance did not reach the caps set in the reinsurance treaties in the reported period, and has no outstanding claims in a scope which is close to the set limits.

30.4.4 **General**

Migdal Insurance has a few reinsurers, whose share of reinsurance premiums in general insurance in the reported year constitutes 10% or more, as follows:

		2015		2014	
Name of reinsurer	**Rating as per AM BEST**[68]	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of general insurance in percent**	**Reinsurance premium ceded to reinsurer (NIS million)**	**Share of total reinsurance premiums in the area of general insurance in percent**
Generali (1)	A	93	23	117	29
Swiss Re	A+	82	20	78	19

(1) Generali, which was the Company's controlling shareholder until October 29th, 2012, took a material share of Migdal Insurance's reinsurance in the past.
Including premiums in facultative reinsurance at 100%, which in 2015 amounted to approx. NIS 48 million in respect of one insured, vs. approx. NIS 35 million in 2014.

30.4.5 **Reinsurance treaty within the acquisition of the claims portfolio included in Eliahu Insurance's general insurance at Migdal Insurance**

Within an agreement signed with Eliahu Insurance for the absorption of Eliahu Insurance's general insurance portfolio at Migdal Insurance, a reinsurance treaty was signed between Migdal Insurance and Swiss Re ("**Swiss**"), pursuant to which Swiss will provide an insurance coverage to the insurance portfolio, covering all Migdal Insurance's insurance liabilities ("**Swiss reinsurance**"). The said engagement was approved by the Company's General Meeting on February 3rd, 2016, and its finalization is subject to the Court's approval. For additional details see the Company's corrective Immediate Report dated December 29th, 2015, reference No. 2015-01-081583, as well as Note 38 f2 to the Financial Statements.

30.5 **Exposure policy to reinsurers for 2015 as approved pursuant to Insurance Circular 2003/17**

30.5.1 **General**

The exposure policy to reinsurers is approved every year by Migdal Insurance's Board of Directors.

As stated above, Migdal Insurance purchases reinsurance under the framework of risk management policy. The reinsurance acquisition takes place in policies or lines in which, in Migdal Insurance's opinion, it is more efficient to transfer the risk to reinsurers. Internal actuarial estimations, various models and former experience with claims, assist Migdal Insurance in estimating the required reinsurance level.

68 The rating in the table was accurate just before the Report was published.

There are two types of exposure to reinsurers:

- Exposure to open balances, and the risk that the reinsurer may not be able to cover its current and future liabilities. This exposure is managed via ongoing follow-up on the reinsurer condition in the global market, and on the compliance with its financial liabilities.

- Exposure to a single large damage or accumulation of damages in respect of an especially large event. The accrual is estimated based on the Maximum Possible Loss ("**MP**L") rate. This exposure is managed via an individual estimation of each of the reinsurers separately.

In order to decrease the risk related to exposures to reinsurers, Migdal Insurance operates pursuant to the following principles:

The basic rule guiding Migdal Insurance in determining the policy is the maximum dispersion of risk among various reinsurers. In addition, Migdal Insurance examines reinsurers' financial strength as it is expressed in their rating, based on AM BEST, which specializes in rating in the insurance sector. If the reinsurer does not have an AM BEST rating, it will be examined as per another rating company[69].

There are also exposure caps for reinsurers in respect of a single risk, as well as exposure caps for reinsurers per treaty, depending on the reinsurer's equity. In addition, the policy includes a maximum comprehensive exposure for the reinsurer (including exposure to earthquake) in facultative businesses and contracts, expressed as a percentage of the reinsurer's equity or a financial cap, the lowest of the two, and it is derived from the reinsurer's rating. The policy also sets management and control mechanisms of exposure to reinsurers.

Under the reinsurance policy, Migdal Insurance distinguishes between the following types of businesses:

(a) "Short tail"[70] businesses

These businesses include various types of property insurance, in respect of which Migdal Insurance purchases mostly proportional reinsurance. The accrued retention is protected against catastrophe events in an Excess of Loss treaty.

In these types of businesses, the engagements are made with insurers rated B or higher as per AM BEST's rating. If the rating of a reinsurer decreases, it is possible, subject to the approval in advance by Migdal Insurance's Board of Directors, to expand the rating group depending on the circumstances, such that it will not be lower than B group as per S&P rating (or AM BEST rating – Marginal C+ or higher).

[69] Sometimes, within comprehensive insurance arrangements, there are reinsurance treaties with unrated companies.

[70] **Short Tail** – lines in which the time gap between the insurance event and the final determination and payment of the damage is relatively short.

(b) “Long tail” businesses[71]. – covered risks are mainly liabilities and CMBI. Many of these claims end up in court, and sometimes, setting the liability and the indemnification amount may take many years. In "long tail" business, since Migdal Insurance must engage with reinsurers which, according to its estimation, will be solvent in the long term, the number of reinsurers which may be relied upon is quite limited. Therefore, Migdal Insurance's policy in these types of businesses is to engage with reinsurers rated A and higher as per AM BEST's rating. If the rating of a reinsurer decreases, it is possible, subject to the approval in advance by Migdal Insurance's Board of Directors, to expand the rating group depending on the circumstances, such that it will not be lower than B group as per S&P rating (or AM BEST rating – fair B or higher). The selected type of reinsurance is mostly Excess of Loss.

For additional details regarding exposure to reinsurers, see also Note 37b1 4 to the Financial Statements.

30.6 **Exposure of reinsurers to catastrophe events - earthquake and natural hazards in general insurance**

30.6.1 **General insurance**

In respect of catastrophic events (earthquake and natural hazards), beyond coverage under proportional reinsurance agreements, Migdal Insurance acquired Excess ofLoss reinsurance for property, contractor, engineering and property lines in respect of the accrued retention, at an exposure–defined amount which shall derive from such event, based on Migdal Insurance estimation as to the expected damage or event due to catastrophe. In the risk estimation, as mentioned, Migdal Insurance used, *inter alia*, international designated software based on mathematic models for catastrophic risk estimations. If an event occurs, whose extent of damage exceeds such estimation, Migdal Insurance shall be exposed to losses that are not covered by reinsurance.

In 2015, the coverage under this treaty does not include exposures in respect of "land value" and casco. In light of this exclusion, the capital requirements were updated accordingly. For details regarding the increase in capital requirements in general insurance, see Note 7c to the Financial Statements. In 2016, this treaty also covers the retention's exposure to "additional insurance amount in homeowners", which, under the new standard policy, replaces the "land value".

As aforementioned, Migdal Insurance protects itself against earthquake events of an intensity which occurs once in about 400 years.

In 2015 Migdal Insurance purchased a non-proportional coverage of 1.8%, representing an MPL of 5.0% once every 400 years (before the insured’s deductible). In 2015, the insurance sums covered under proportional reinsurance against earthquake total approx. NIS 161 billion, while the insurance sums in retention which Migdal Insurance covers through non-proportional reinsurance, total approx. NIS 92 billion.

Exposure to earthquakes is mostly covered by reinsurers rated A- and higher as per AM BEST's rating, pursuant to the reinsurance policy detailed in Clause 30.5.1 above.

The three reinsurers participating in catastrophe reinsurance coverage, whose share of the total exposure exceeds 10%, are Swiss RE (approx. 25%), Generali (approx. 18%) and Hanover Re (approx. 10%).

[71] **Long Tail** - lines in which the time gap between the insurance event and the final determination and payment of the damage is long.

In 2015, Migdal Insurance purchased a treaty against catastrophe events for 24 months from several reinsurers.

30.7 Summary of reinsurance results in general insurance (NIS millions)

Areas of activity	CMBI (1) (2)			Casco (3)			Other property lines (see breakdown by premium types below) (4) (5)		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Premiums ceded to reinsurers	11.5	11.9	8.5	2.9	0.6	1.0	319.6	318.1	435.4
Reinsurers' results - income	23.0	0.6	8.9	0.5	0.5	1.0	(17.1)	108.1	206.4

	Other liability lines (6) (7)			Total		
	2015	2014	2013	2015	2014	2013
Premiums ceded to reinsurers	76.8	75.9	68.0	410.8	406.5	512.9
Reinsurers' results – income/(loss)	122.6	(0.5)	30.6	129.0	108.7	246.9

Breakdown of other property lines by premium types	2015	2014	2013
Reinsurance premiums – proportional (8)	226.5	225.2	286.4
Reinsurance premiums – non-proportional (9)	1.8	3.0	7.5
Reinsurance premiums – coverage for catastrophe events (10)	91.3	89.9	141.5
Total reinsurance premiums	319.6	318.1	435.4

(1) The increase in reinsurance premiums in CMBI in 2014 compared with 2013 was mainly affected by the absorption of Eliahu Insurance's new business in 2013.

(2) The reinsurance results in CMBI mainly reflect the aggregate profit/(loss) of the underwriting year which ended three years prior to the reported year, as well as changes mainly in reinsurers' outstanding claims in old underwriting years. The increase in reinsurers' results in 2015 compared with 2014 is due to an update to reinsurance claims estimation in old underwriting years. On the other hand, the decrease in reinsurers' results in 2014 vs. 2013 is mostly due to the decrease recorded in 2013 in the estimation of reinsurance claims attributed to old underwriting years.

(3) The increase in reinsurance premiums in casco in 2015 vs. 2014 was mainly affected by the increase in the scope of insurance for expensive cars.

(4) The decrease in reinsurance results in other property lines in 2014 vs. 2013 was mainly affected by a change in the structure of the proportional reinsurance treaty, in which retention in 2014 exceeds the weighted retention that was effective in the previous year, as well as due to a decrease in premiums attributed to large businesses.

(5) In 2015, the shift to loss for reinsurers in other property lines vs. an income in 2014 was mainly affected by a large claim fully covered by reinsurance. The decrease in reinsurers' results in 2014 vs. 2013 was mainly affected by several large claims attributed to one customer, which were fully covered by reinsurance. In addition, the decrease was affected by a change in the structure of the reinsurance treaty in property insurance that year.

(6) The increase in reinsurance premiums in other liability lines in 2015 vs. 2014 was mostly affected by an increase in the insured business scope.

(7) Reinsurance results in other liability lines mainly reflect the aggregate income/(loss) of the underwriting year that ended three years before the reported year, possible loss in respect of "open" underwriting years, as well as changes mainly in reinsurers' outstanding claims in old underwriting years. The significant increase in reinsurers' results in 2015 vs. 2014 is mainly due to an update to reinsurance claims estimation, including facultative reinsurance. The decrease in reinsurers' results in 2014 vs. 2013 was affected by an increase in reinsurers' outstanding claims.

(8) Regarding the decrease in proportional reinsurance premiums in 2014 vs. 2013, see Note (4) above.

(9) The decline in non-proportional reinsurance premiums in 2014 vs. 2013 is mainly due to a change in the reinsurance array.

(10) The premium includes all types of reinsurance arrangements for catastrophe risks coverage (proportional reinsurance, facultative reinsurance and Excess of Loss reinsurance in order to cover accrued retention). For the decrease in reinsurance premiums in 2014 vs. 2013, see Note (4) above.

31. Human capital

31.1 The Group’s organizational structure

As of just before the publication of this Report, the Group's organizational structure is as follows:

The Division of LTS, Health and Quality of Life – it centralizes the activity of life assurance, pension funds, provident funds and health insurance. This Division also centralizes the activity of institutional entities regarding the management of pension funds, provident funds and educational funds, the operation arrays of the area of LTS and health insurance, the handling of claims/rights payment in the areas of life assurance, pension, provident and health, as well as the activity of the Employers and Customers District.

Customers and Distribution Channels Division – it concentrates the activity vis-à-vis insurance agents/agencies/pensionary marketing agents of insurance and pensionary products via the regional districts and the national sales arrays of the Group's various distribution channels (except the Employers and Customers District), the activity of the service teams for agents, and the CRD and reinsurance unit.

Beginning from March 2016, the activity of the sales call center for LTS and health products "**Ihud Insurance Agencies Ltd.**" was absorbed into Migdal insurance and it is included under this Division by the name of "**Call Migdal**".

The **Area of General Insurance** – within the activity of the general insurance area, the following Divisions/Disciplines are included:

(a) The **General Insurance Division** – that centralizes all the areas of Headquarters, products, surveyors and marketing in the area of general insurance.
(b) The **General Insurance Claims Discipline** – that centralizes the claims activity in this area.

The **Investments Division** – it concentrates the know-how, the expertise and the manpower required to manage the Group's institutional entities' investments, which includes the members' investments, Nostro investments, real estate, credit, analysis, hedge funds, real investments and PE activity.

The **Finances and Actuarial Division** – it concentrates the issues of finances and actuary in the area of life assurance and health insurance, and actuarial issues in general insurance as well as risk management.

The **Technology and Resources Division** - it coordinates the IT Services Unit which provides the Group's IT services through Migdal Technologies Ltd. ("**Migdal Technologies**"), and also coordinates the areas of data security, procurement, and administration and logistics.

The **Headquarters Unit** – it is in charge of the activities of the internal enforcement and control units, service, the HR Discipline, O&M, marketing, and the Ombudsman Unit.

The **Company Secretariat and Legal Unit** report directly to the CEO.

The **Internal Audit Array** provides services to Group companies. The Internal Auditor reports directly to the Chairman of the Board.

The area of **Financial Services** is managed in the Group primarily through Migdal Capital Markets Group, which operates as a separate unit.

The **Group's insurance agencies**' activities are mainly concentrated in Migdal Agencies.

The other ancillary activities, mainly Migdal Management's and Migdal Health's activities, are carried out as separate units (in the employees' breakdown below, they are included under "**other**").

31.2 **The Group’s workforce**[72]

The Group does not have a clear distribution of employees by areas of activity mentioned in Part B to this Report, *inter alia*, since there are various Divisions/Units (such as employees of the Customers, Investments, Finances and Actuarial Divisions, the Headquarters Unit, the Technology Unit etc.) which provide services to more than one area of activity.

As of December 31st, 2015, the Group employs about 4,539 employees (out of whom about 28 are hired through manpower companies), vs. about 4,349 employees (out of whom about 24 employees were hired through manpower companies) as of December 31st, 2014[73].

As of the said date, the Group’s workforce (in terms of full-time positions, including employees hired through manpower companies) can be divided in accordance with the following breakdown and the aforementioned organizational structure:

[72] It is clarified that in this Clause the reference is to workers who are Group employees, or workers hired via manpower companies as detailed below, and does not include workers hired via other employment patterns, such as workers employed by service providers to the Company. Also, the Group's workforce includes employees in maternity leave and unpaid leave.

[73] The data regarding employee strength exclude employees who are employed by affiliates held at 50% or less, which are not material.

Division/Unit	No. of employees as of December 31st, 2015	No. of employees as of December 31st, 2014
Group management and HQ functions (1) (2)	121	86
Division of LTS, Health and Quality of Life (2) (3)	1,442	1,366
Customers and Distribution Channels Division (3) (4)	571	384
Reinsurance and Business Array Division (4)		222
General Insurance Division (5)	64	62
General Insurance Claims Discipline(4)	164	
Investments Division	84	80
Finances and Actuarial Division(5)	226	209
Technology and Resources Division	418	372
Internal Audit Array	25	23
Financial Services Discipline – Migdal Capital Markets Group	164	246
The Group's insurance agencies	1,046	1,093
Other (6)	214	204
Total	**4,539**	**4,349**

(1) The Group's management and HQ functions include the CEO of Migdal Insurance, the HQ Unit, the Company Secretariat and the Legal Unit.

(2) In January 2015, about 30 employees from the area of marketing were transferred from the Division of LTS, Health and Quality of Life to the HQ Unit.

(3) In February 2015, about 80 employees in the service team were transferred from the Division of LTS, Health and Quality of Life to the Customers and Distribution Channels Division.

(4) In 20144 the Division included the employees of the reinsurance and business array unit, as well as the employees of the general insurance claims. In the beginning of 2015, the area of general insurance claims was separated from the Division of Reinsurance, General Insurance Claims and Business Array, and within this separation, about 170 employees were transferred to it. In addition, in December 2015, about 60 employees from the reinsurance unit and the business array were transferred to the Customers and Distribution Channels Array.

(5) In June 2015 seven employees from the area of general insurance actuary moved from the General Insurance Division to the Finances and Actuarial Division.

(6) Other – including Migdal Management, subsidiaries of Migdal Health and Data Car.

Besides the changes in the organizational structure that were recorded in the reported year, as detailed in the notes attached to the table above, there was an increase in the workforce in the Division of LTS, Health and Quality of Life, that was reflected mainly in an expansion of activity in the operations arrays, the customers call centers and the distribution channels. Furthermore, there was an increase in the workforce in the Customers and distribution Channels Division, due to an expansion of sales and service activity. Also, in the Technology and Resources Division there was an increase in workforce due to the absorption of activities that were carried out in the past by service providers in the area of scanning and computerization to the Company.

On the other hand, there was a decrease in employee workforce in Migdal capital markets Group, pursuant to the merger agreement between Migdal Stock Exchange Services (a subsidiary of Migdal Capital Markets) with and into IBI Stock Exchange Services, which came into effect in October 2015, see Clause 16.2.4 above and Note 39.2.e.3 to the Financial Statements, and a decrease in employee workforce in insurance agencies.

31.3 Description of the Company's investments in training and organizational development

The Group invests in professional trainings for employees and agents, depending on the employees' position and the Division in which they work, and it follows a training and organizational development program that supports achieving the business objectives set by it in all organizational units on a regular basis, with flexibility and depending on the needs, and *inter alia*, it sends employees to professional trainings, conferences and relevant coaching.

The Group has designated training programs for the promotion of the managerial and professional channel, as well as professional trainings for new workers in the service and operations arrays, that match the Group's professional needs. In addition, from time to time the Group provides enrichment workshops for the Group employees, regarding various issues.

31.4 Benefits and the nature of employment agreements/signing a collective agreement

Most of Migdal Insurance and Migdal Makefet workers are employed under a collective agreement, signed in February 2015 as detailed in Clause 31.4.2 below. The other workers in the Group are employed under personal working agreements, as set forth in Clause 31.4.2 below.

31.4.1 The collective agreement

On February 17th, 2015 Migdal Insurance and Migdal Makefet signed a collective agreement with the New General Federation of Labor, which was recognized as the representative organization among the workers of Migdal Insurance and Migdal Makefet.

The collective agreement applies to most workers of Migdal Insurance and Migdal Makefet employed by them when the agreement was signed, as well as to workers who will begin working in Migdal Insurance and Migdal Makefet after signing the collective agreement, and it does not apply to workers in the rank of CEO, Deputy to CEO and Assistant to CEO, nor does it apply to workers serving in positions that were identified and detailed in the agreement. The collective agreement does not apply to other companies in Migdal Holdings Group (that are not Migdal Insurance or Migdal Makefet).

The collective agreement is effective from January 1st, 2015 until December 31st, 2017. While the agreement is in effect, the parties will maintain mutual temporary state of peace regarding the issues and subjects regulated by the agreement.

For more details regarding the conditions of wages and main ancillary conditions included in the collective agreement, as well as the estimated costs in respect of the agreement's implementation, see the Company's Immediate Report dated February 17th, 2015, Reference No. 2015-01-033544, as well as Note 32 to the Financial Statements.

31.4.2 Personal working agreements

The working relations between the Group and its workers (except workers who are subject to the collective agreement as detailed above) are based on personal working agreements.

The personal working agreements define the terms of employment, including basic salaries, social benefits and ancillaries.

The Group includes several employee groups who are remunerated beyond the basic salary, also by salary based on performance or meeting targets and subject to the Law (for example, some people employed in the sales array and some people working with investments in Migdal Capital Markets). For the remuneration of Senior Officers, see Clause 31.5 below.

31.5 Policy and principles of the remuneration for Senior Officers

31.5.1 Change and update in the Company's remuneration policy for Senior Officers for the years 2014-2016

On October 27th, 2014 the Company's General Meeting approved the change and update of the Company[74] 's remuneration policy, in order to adjust the Company's remuneration policy to the remuneration policy of Migdal Insurance, Migdal Makefet and Yozma ("**the institutional entities**") (see details in Clause 31.5.2 below) ("**the adjusted remuneration policy**").

The adjusted remuneration policy applies to all Senior Officers in the Company. It should be noted that all Senior Officers in the Company also serve, in addition to their office as Senior Officers in the Company, as Senior Officers in institutional entities in the Group and accordingly, they are also subject to the institutional entities' remuneration policy as well.

31.5.2 Institutional entities' remuneration policy

On June 30th, 2014 the Boards of Directors of the institutional entities approved the remuneration policy for the years 2014-2016, further to the Circular issued by the Commissioner of Insurance dated April 10th, 2014 ("**Original Commissioner's Circular**"). During December 2015 and February 2016 the Boards of Directors of the institutional entities approved an update to such remuneration policy pursuant to the provisions of the Commissioner's Circular issued on October 7th, 2015 regarding the Remuneration Policy in Institutional Entities ("**the updated Circular**"), in the remuneration policy of institutional entities there are details provisions regarding the salary components of "key position holders", who were determined as such in the Commissioner's Circular.

Within the adoption of the remuneration policy for institutional entities, it was decided to adopt the Commissioner's position from June 9th, 2014, and the Law Memorandum regarding the Remuneration for Senior Officers in Institutional Entities (Special Approval and Restriction of Expenses due to Extraordinary Remuneration) – 2014, and accordingly, no remuneration will be paid beyond the cap suggested in the Law Memorandum attached to the Commissioner's letter, except in special and extraordinary cases. The remuneration policy was re-validated by the institutional entities' Boards of Directors in December 2014 and in February 2016.

For details regarding the adjusted remuneration policy in the Company see the Company's Immediate Reports issued on September 22nd, 2014, Reference No. 2014-01-161913, and October 27th, 2014, Ref. No. 2014-01-181653.

Furthermore, for details regarding the key arrangements set forth in the remuneration policy, see also Note 38j3 to the Financial Statements.

The principles set forth in the remuneration policy are also published in the Company's website:

---

[74] The Company's remuneration policy was approved for the first time by the Company's General Meeting on September 12th, 2013, for details see Immediate Reports dated September 2nd, 2013, Reference No. 2013-01-134847 as well as September 12th, 2013, Reference No. 2013-01-144555.

https://www.migdal.co.il/He/MigdalTeam/Investorsconnection/Pages/RewardPolicy.aspx

For the Draft Financial Services Supervision Regulations (Restrictions on the Appointment and Office of Key Position Holders in Institutional Entities) – 2016, see Clause 26.3.3 (c) above.

31.6 **Executive Senior Officers' group**

As of the date of the Report, the group of Executive Senior Officers (who are not Directors) in the Group includes 18 workers, and it includes the Executive Senior Officers detailed in Regulation 26a in the Chapter of Additional Data on the Corporation ("**Executive Managers**").

The Senior Officers[75] are employed under personal agreements, detailing their terms of employment.

For details regarding wages and remunerations given in 2015, including the terms of employment of the persons receiving the highest wage among Executive Senior Officers in the Company and in Corporations controlled by it, see Regulation 21 in the Chapter of Additional Data on the Corporation.

31.7 **Changes in Executive Senior Officers**

31.7.1 In January 2016 Mr. Gil Yaniv, who serves as the Manager of the Division of LTS, Health and quality of Life and as the Head of the strategy Discipline in Migdal Insurance, announced his desire to resign from his offices in the Group. The date of resignation was set for April 4th, 2016. See also the Company's Immediate Report dated January 26th, 2016, Reference No. 2016-01-018058.

31.7.2 On January 6th, 2016 Migdal Insurance Board of Directors approved the appointment of Mr. Emil Vainshel as Head of Customers, Service and Distribution Channels Division in Migdal Insurance beginning from February 1st, 2016, see the Company's Immediate Reports dated January 6th and 7th, 2016, References No. 2016-01-004474 and 2016-01-005221, respectively.

31.7.3 On June 15th, 2015 Mr. Amos Rokach, the CEO of Mivtach Simon Insurance Agencies Ltd. ("**Mivtach Simon**"), a sub-subsidiary of Migdal Insurance, announced that he was leaving the Company, effective as of July 1st, 2015.

On July 1st, 2015 Ms. Mali Shaoul was appointed as the CEO of Mivtach Simon instead of Mr. Amos Rokach.

For details see the Company's Immediate Reports dated June 15th, 2015, Reference No. 2016-01-048099 and June 28th, 2015, Reference No. 2015-01-058140.

[75] Since 2010 the Group classifies managers in the Company and in the Group's institutional entities with the title "Assistant to CEO" and who report directly to the CEO as "Senior Officers" pursuant to the Companies Law. Also, the classification includes managers who fulfill roles that as per their content and essence, including regarding institutional entities in consolidated companies as per the legislative arrangement that applies to them, roles that require subordination to the CEO or regarding which there are regulatory provisions testifying that they hold a position who, from the material aspect, are "Senior Officers". On the other hand, managers with the title "Assistant to the CEO" but who do not actually report to the CEO, and whose position does not match the title in its content and essence, are no longer perceived as "Senior Officers" by the Company pursuant to the Companies Law, in light of the examination of the content and essence attached to the types of positions in which these managers serve. Such classification does not affect managers included under "Executive Senior Officers of the Corporation", as detailed in Regulation 26a in the Chapter of Additional Data on the Corporation.

31.7.4 On October 29th, 2015 Ms. Sigal Grinhaus, who serves as the Manager of the Reinsurance Division and Business Array of Migdal Insurance announced her desire to leave her office. On November 3rd, 2015 Ms. Grinhaus ceased serving as a Senior Officer in the Company.

See also the Company's Immediate Reports dated November 1st, 2015, Reference No. 2015-01-145503 and November 3rd, 2015, Reference No. 2015-01-147468.

On November 24th, 2015 Migdal Insurance Board of Directors decided to conduct an organizational change, in order to concentrate Migdal Insurance's Reinsurance Division and Business Array activity in a designated District in Migdal Insurance's Customers and Distribution Channels Division.

For additional changes in the Group's Senior Officers see Clause 2.4.5 in Part A to the Corporation Businesses Description Chapter.

32. Marketing and distribution

32.1 General

The Group's main marketing and distribution channels in the Company's areas of activity (excluding the area of financial services[76]) are as follows:

32.1.1 Insurance agents and agencies / pension marketing agents

Most of the Group's insurance plans are marketed via insurance agents and insurance agencies, including insurance agencies held by the Group.

The Group has business relations with about 2,700 insurance agencies (corporations[77]) and insurance agents ("**agents**") around the country. The Group is engaged with most agents in life, pension and provident insurance business, health and general insurance business, and they conduct most of the Group sales.

The channel of distribution via agents is the most significant distribution channel in the Group. Some of the marketing and distribution activity via agents is also performed via insurance agencies controlled by the Group via Migdal Agencies, and the most important ones are Mivtach Simon, Sagi Yogev and Shaham in the area of life assurance, LTS and health insurance in the Group, while Peltours Insurance Agency in the area of general insurance in the Group.

32.1.2 Direct distribution

In this framework, the marketing and distribution of the Group's products is carried out directly, through the Group's employees. Most of the activity within the direct distribution channel is in the pension and provident lines, through pensionary marketing agents.

Most of the marketing activity is through the direct distribution channel, in which, due to the mandatory pensionary insurance, there are direct engagements vis-à-vis employers, employees' organizations, for directly joining pension and provident funds managed by the Group, as well as participation in tenders published by employers/employees' organizations.

[76] For details regarding marketing and distribution in respect of the area of financial services, see Clause 20 in Part B above.
[77] Some insurance agents are corporations employing workers, who are not included in the figure stated above.

Some collective policies in life assurance and health insurance are marketed via direct sale by the Group, mostly by participating in tenders.

Most of the marketing and distribution activity in general insurance is with large customers such as companies dealing with vehicles, or having car fleets, mortgage banks, or participation in various customers' tenders.

32.1.3 **Banking corporations** – this distribution channel in pension and provident lines – distribution by pensionary advisors in bank branches (activity which is still non-material).

32.1.4 **Non-dependence on distribution channels**

In 2015 the Group does not have a single agent whose scope of sales exceeds 10% of the premiums in any relevant area of activity.

32.1.5 **Rate of distribution and marketing activity by various channels**

In the pension and provident lines, where most of the direct activity takes place, the share of distribution channels is as follows:

Pension – distribution via agents – approx. 69% of contributions in 2015, similar to 2014 (and approx. 66% in 2013), direct distribution – approx. 30% of contributions in 2015, similar to 2014 (and approx. 33% in 2013), and distribution via banking corporations – approx. 1% of contributions (similar to previous years).

Provident – distribution via agents – approx. 44% of contributions in 2015 (approx. 43% in 2014 and about 42% in 2013), direct distribution – approx. 43% (approx. 44% in 2014 and about 45% in 2013), and distribution via banking corporations – approx. 13% of contributions (similar to previous years).

The premiums and contributions received in 2015 from the agencies controlled by the Group (including data regarding these agencies' sub-agents) are as follows:

Approx. 27% of the total life assurance businesses in 2015 (vs. approx. 29% in 2014 and 2013), approx. 27% of the total pension businesses in 2015 (vs. approx. 29% in 2014 and about 30% in 2013), approx. 20% of provident businesses in 2015 (similar to previous years), approx. 25% of health businesses in 2015 (vs. approx. 28% in 2014 and about 27% in 2013), and approx. 8% of general insurance businesses in 2015 (vs. approx. 7% in 2014 and about 8% in 2013).

For details regarding the workforce of insurance agencies controlled by the Group, see the Table in Clause 31.2 above.

32.2 **Regulation of agents / pensionary marketing agents / pensionary advisors**

32.2.1 Agents' activity is supervised by the Commissioner of Insurance, and the provisions of the Insurance Contract Law, the Supervision Law and the Marketing and Advice Law (related to pensionary products), apply to their activity, including the licenses required for their activity and the way they operate.

The Regulations of the Supervision of Financial Services (Provident Funds) (Distribution Commissions) – 2006 set the maximal commission rates that will be paid to pensionary advisors for provident and pension products ("**the Distribution Regulations**"). It should be noted that a draft for the amendment of these Regulations is pending, proposing to also regulate the maximum commission for insurance products included under the definition of pensionary products.

32.2.2 Material changes in the Laws referring to distribution channels that were published in the reported period:

(a) The separation between commissions and management fees

In January 2015 the **Commissioner Position: Institutional Entities' Payment to License Holders** was published, pursuant to which institutional entities should strive towards changing their commission model, such that commissions would not be derived from the management fees rate. The Position Paper states that the Commissioner is of the opinion that paying brokerage fees that are derived from management fees paid by members or insureds encourages license holders to offer products with higher management fees to customers, and does not comply with the fiduciary duty imposed both on institutional entities and on license holders. The Position Paper was published, although the Draft Commissions Regulations set forth in paragraph (b) below, which has not yet been approved, is still pending.

In March 2015, a clarification to said Position Paper was published, stating that institutional entities and pensionary insurance agents should act immediately in order to amend the contracts that regulate the payment of commissions, and they should not sign new contracts that do not comply with the Position.

The clarification also states that the above-mentioned position does not change the Commissioner's opinion, pursuant to which managing companies of institutional entities may set differential management fees up to the maximum cap set forth by the Law.

Furthermore, the Commissioner stated that under these circumstances, and taking into account, *inter alia,* the scope of the current practice and the need to change the current contracts array, she does not intend to exercise her enforcement power regarding customers who joined institutional entities according to the current contracts array prior to the Position's publication, and in the time just afterwards.

On June 24th, 2015, an originating motion was filed by the Association of Life Assurance Companies to the Tel Aviv District Court, requesting the Court to state that a remuneration deriving from management fees is not prohibited per se pursuant to the law, and that the engagement of institutional entities in agreements that include a remuneration deriving from management fees was not and is not a breach of any duty as per the Law.

In response to the originating motion, the Commissioner asked to dismiss the originating motion in limine, claiming that the originating motion should not be discussed by the District Court as a civil proceeding.

On February 8th, 2016, the Tel Aviv District Court dismissed the originating motion in limine, claiming the lack of relevant jurisdiction. In its ruling, the Court stated that it is unauthorized to discuss issues included in the originating motion, and that the jurisdiction pertains to the High Court of Justice.

On March 22nd, 2016, the Association of Life Assurance Companies appealed to the Supreme Court regarding the District Court's ruling, which instructed to dismiss in limine the originating motion. In the appeal notice, the Supreme Court is requested to accept the appeal, to suspend the District Court's ruling, and give any remedy deemed fit under the circumstances.

In order to complete the picture, it should be noted that the Company is of the opinion that it is too early to assess, at this point, the overall implication that the aforementioned Position Paper and clarification may have, should they be implemented, regarding the institutional entities in the Group, and it depends on various parameters, including, *inter alia*, the whole regulation in this matter, the market's response and the implementation of coping tools in the Company, as well as its legal examination. As per the Company's estimation and in light of the above, should the Position Paper and clarification remain unchanged, this would require adjustments, both in engagements with agents, as well as regarding the pricing of LTS products, to which the Position Paper refers.

(b) Regarding the regularization between operating entities and marketing entities, see Clause 6.3.13 above

The information regarding the implementation and/or the Company's estimations regarding the implementation of the provisions is forward-looking information that relies on the provisions that are proposed now, and there is no certainty that this would be the final wording, and it is still unknown whether there will be additional amendments or not. Furthermore, the above is based on estimations and assumptions regarding the behavior that entities operating on the market may choose, these estimations may not realize if the provisions are changed or updated, or implemented in a different manner.

32.3 **Description of the structure of commissions and average commission rates by areas of activity**

32.3.1 **Area of life assurance and LTS**

(a) Agents

The Group pays variable commissions to insurance agents in respect of marketing its products, and the commission rate varies according to the plan sold and to individual agreements entered with the agents.

(1) The commission structure in life assurance:

- Current commissions - the commissions paid to agents are “flat commissions”, i.e. the same commission is paid for several years, after which, in most agreements, a collection fee usually lower than the flat commission is paid (in most of the Group-marketed insurance plans, the commission is paid for 15 years). However, in certain life assurance products the commission is paid at a fixed rate throughout the entire insurance period, and variable commission rates may be paid throughout the insurance period. In addition, in certain products a fixed commission out of the management fees from accruals and/or from management fees on premiums is paid throughout the entire insurance period.

- Commissions in respect of sales – usually a non-recurring commission, which is usually derived from the scopes of sales and from the agents' meeting the sales objective set for them, and in some cases it is derived from the agents' compliance with portfolio persistency rate. In some life assurance policies, commission is calculated as a function of parameters that affect the product's profitability, and it is paid subject to arrangements that refer to policy cancellations in the said period. In addition, the Group has sales campaigns within which it remunerates the agents with prizes and/or additional grants.

In certain insurance products – commissions deriving from the scope of transfer of savings monies from insurance funds and/or plans that are not of the Company and/or the scope of non-recurring premiums are paid.

(2) The structure of commissions in respect of pension products' marketing:

- Current commissions – commissions are paid from contributions at a fixed rate from the contribution actually paid, taking into account the product's profitability.

- Commissions in respect of sales – the Group pays a commission which is usually based on the amount of sales and the agents' meeting sales targets set for them, and in some cases the agents' meeting portfolio persistency targets as a function of parameters that affect the product profitability, and subject to cancellation of policies as described above regarding life assurance commissions. Furthermore, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants.

(3) The structure of commissions in respect of marketing provident funds:

- Commissions paid to insurance agents in respect of marketing **provident funds** are, usually, at a fixed rate of the management fees on accrual actually collected.

- Commissions deriving from the scope of transfer of savings monies from funds not owned by the Company.

Regarding the separation of commissions from management fees and the requested adjustments and changes if the Position Paper and the clarification thereof remain unchanged, see Clause 32.2.2 (a) above.

(b) **Pensionary marketing agents**

The Company remunerates the pensionary marketing agents in the lines of pension and provident, for complying with sales objectives that vary from time to time. The amount of commission paid to the marketing agent is composed of the marketing agents' compliance with the set objectives, multiplied by the NIS objective commission set for them.

(c) **Pensionary advisors**

Banking corporations are entitled to a distribution commission pursuant to the Distribution Regulations.

(d) **Average commission rate**s

Presented below are average commission rates (in percentage) in the area:

	2015	2014	2013
Life assurance			
Rate from premium	6.4	6.4	7.3
In the first year – rate from new annualized premium (1)	30.2	28.1	27.4
Pension funds			
Rate from contributions	2.6	2.7	2.8
Provident funds			
Rate from average AuM	0.2	0.2	0.2

(1) The rate of commission to premium is annualized in life assurance in life assurance in previous years were re-classified.

32.3.2 **Area of health insurance**

(a) In **individual health insurance** – the Group pays insurance agents variable commissions in respect of marketing products, and the commissions vary depending on the plan sold.

The commission structure is usually as follows:

(1) Current commissions – the commissions paid to agents are “flat commissions”, and there is a possibility to pay variable management fees throughout the insurance period, as per individual agreements with agents.

(2) Commissions in respect of sales – some of the agreements with agents include a non-recurring commission deriving from the amount of sales and the agents' meeting the sales objectives set for them, and in some cases from the agents' meeting portfolio persistency targets set for them.

(3) Furthermore, the Group holds sale campaigns under which it remunerates agents with additional prizes and/or grants.

(b) In **collective insurances** – commissions at a specific rate of premiums are paid.

Presented below are average commission rates (in percentage) in the area:

	2015	2014	2013
Rate from premium	30.1	30.1	25.8

32.3.3 **Area of general insurance**

The commissions paid to agents in the area of general insurance are calculated at predetermined percentages of premium, and the commission rate varies depending on the specific line.

Presented below are average commission rates from premium (in percentage) in the area:

	2015	2014	2013
CMBI line	4.8	4.7	5.5
Casco lines	17.7	17.9	19.5
Property lines (not motorcar)	15.9	15.8	15.9
Liability lines	14.2	14.8	14.9
Total	13.4	13.2	14.0

32.3.4 **Extending loans to agents**

Sometimes the Group extends loans to its agents, guaranteed by future commission flows or other guarantees. The loans are extended under commercial conditions within the rules set forth by the Commissioner. For details see Note 9 to the Financial Statements.

33. Suppliers and service providers

33.1 **General**

The Group acquires products and services from many suppliers and service providers[78], and they are selected based on the quality of service, availability, areas of expertise, commercial conditions, etc. Usually, such engagements are made for unlimited periods of time, and do not contain an exclusiveness arrangement. In general, the Group avoids "dependence on one supplier", as per the definition of this term in the Commissioner Circular regarding the update of instructions in insurance companies' Periodic Report, and acts towards creating diversification among its suppliers.

33.2 **Assistance services**

33.2.1 **Femi Premium Ltd. ("Femi")**

Migdal Insurance has agreements with Femi Premium Ltd., which provides assistance services granted to insureds under the riders/extensions to the policy sold mainly in the area of general insurance (casco, homeowners and mortgage), as well as in the area of health. In the homeowners line in the area of general insurance, the Company depends on the services provided by Femi for insureds. The purchases from Femi in 2015 amounted to approx. NIS 42 million, vs. approx. NIS 58 million in 2014.

The cost of services purchased from Femi is mostly imputed to the costs of insurance claims. For more details see also Note 39.2.e to the Financial Statements.

[78] It is hereby clarified that under suppliers and service providers, the Group does not include marketing agents/advisors, who are included in the distribution and marketing channel as described in Clause 32 above, and does not include reinsurers described in Clause 30 above.

33.2.2 For details regarding agreements between the Company and Infomed Medical Sites Ltd. ("Infomed") and B-Well Quality of Life Solutions Ltd. ("**B-Well**"), pursuant to which Infomed and B-Well provide assistance services to the Company, see Note 39.2.e to the Financial Statements.

In 2015 and 2014 Migdal Insurance paid to B-Well and/or Infomed approx. NIS 31 million and approx. NIS 2 million, respectively.

33.3 **Computerization and software providers**

The Group is engaged in various agreements with hardware, software and other computerization solutions suppliers, which provide it with diversified technological solutions for computerization equipment, including servers and end equipment, communications, o, various types of software, databases, monitoring and control tools, information security and other professional services, including expert services. Some of these suppliers are designated hardware and software companies, that the Company may need to collaborate with in the event of a crisis (including in the technological area). Ongoing payments to each of these suppliers are non-material. The suppliers included in this category are: Med-1, Microsoft, IBM, Oracle, SAP, SPL Software, Hilan Tech, Neoxan, Matrix Group and Hitachi data Siemens. For details regarding a designated software company in the area of financial services (FMR), see Clause 23 above.

33.4 **Operation services in provident activity**

Migdal Makefet receives operations services from Leumi Capital Markets Services Ltd. ("**Leumi Services**"). The operations services include services for the management of members' rights, IT systems, treasury management for funds etc.

The operations service agreement vis-à-vis Leumi Services began in 2007 between Migdal Provident Platinum Ltd. (which was merged into Makefet in 2011) and Leumi Provident Ltd. (which turned into Leumi Services). The original agreement was signed for five years with an option for automatic renewal, for 12 months, every year. The agreement includes the possibility of adding new tracks and additional funds. Beginning from 2013, all Migdal's provident funds and educational funds are operated through Leumi Services.

By the end of the first agreement period, Migdal Makefet exercised the option given to it for the agreement renewal as per its conditions for another three years ("**the second agreement period**"), and by the end of the second agreement period, the agreement will be renewed automatically for another 12 months, unless one party notifies that it would not like to renew it, up until the end of six months prior to the agreement's termination date or the end of the relevant extension. For additional details regarding the engagement with Leumi Services, see Note 39e1 to the Financial Statements

34. Fixed assets and information about investments in computerized systems

34.1 The main real estate assets owned or rented by the Company and included under fixed assets are presented below:

Location	Area in sq. m	Main use	Owned / rented
Petach Tikva	58,372	The main office buildings of the Group, including most of the activity of insurance agencies held by the Group	Owned
	4,572	Offices, warehouses / parking lots	Rented
	7,027	Not yet completed / not yet populated	Owned
Tel Aviv	5,828	Capital Markets Group's office buildings	Long term leasing
	1,164	Infomed and 50 Plus' office buildings	Rented
Jerusalem	1,000	The Group's agencies office buildings	Rented
	1,737	The Group's branch office in Jerusalem	Owned
Netanya	2,021	The Group's agencies office buildings	Rented
Haifa	2,527	The Group's branch office in Haifa	Owned
	2,139	The Group's agencies office buildings	Rented
	197	Capital Markets Group's office buildings	Rented

We would like to note that there are additional locations in which the Group rents buildings for its activity and for the activity of agencies held by it, in a non-material scope.

For details regarding the depreciated cost of land and office buildings and leasehold improvements and additional information regarding the Group's fixed assets, see Note 6 to the Financial Statements.

34.2 Data regarding the buildings that are part of Migdal Insurance's Nostro investments portfolio[79]':

Location	Sq. m as of December 31st, 2015	Sq. m as of December 31st, 2014
Dan area	50,651	37,769
Northern area	33,477	34,396
Southern area	15	15
Lowland and Jerusalem	3,343	3,604
Total	**87,486**	**75,784**

The buildings detailed above serve mostly as office buildings and for retail. Most of the buildings described above are held against insurance liabilities within the Company's Nostro portfolio.

[79] In addition, Migdal Insurance holds real estate assets managed for insureds, for details see Note 8 to the Financial Statements.

34.3 Information regarding the Company's investments in the computerized system

The Group's computerized and information systems are essential for managing its businesses, and it has a variety of computerized equipment, including servers, infrastructures, communication equipment, terminals, and other peripheral equipment, as well as a wide variety of ownership and/or usage rights in different software, including software in self-development.

The Group has a designated unit, Migdal Technologies, which serves as the internal information technologies unit that provides most of the computerization services to the Group's various units and uses, whenever needed, the services of various suppliers and software companies in order to provide the Group's computerization services. For the personnel employed in this unit, see Clause 31.2 above.

The institutional entities' main computer room is located in the Group's headquarters in Petach Tikva. Within the project for technological deployment towards crises (DRP – Disaster Recovery Plan) completed in 2013, the Group has a remote backup site in MED-1 at Tirat HaCarmel. The aforementioned DRP is a significant technological infrastructure regarding the Company's Business Continuity Plan (BCP) in crises.

The Group has IT systems that include hardware, software and additional equipment, whose amortized cost as of December 31st, 2015 totals approx. NIS 298 million, vs. approx. NIS 322 million as of December 31st, 2014.

In 2015, the Group invested approx. NIS 121 million in computers and information system development, vs. approx. NIS 135 million in 2014. See Notes 4 & 6 to the Financial Statements.

Investments in IT systems are designated both for supporting the Group's strategic objectives and supporting regulatory demands from time to time, including the pensionary clearing house and the Payments Regulations.

In the reported period, the Group's investments in computerized systems focused primarily on the following areas: Migdal Digital, improving service to the Group's customers (insureds, agents and employers), including via a cross-organization CRM system, supporting the implementation of the change in the LTS and health insurance operation array, improving systems in general insurance, supporting the development of products in life assurance, health insurance and general insurance, strengthening the ability to protect the Company's data, enriching the monitoring and control over the Company's technological assets, upgrading the storage array, archiving mail etc.

35. Seasonality

35.1 LTS

Revenues from life assurance (as well as in health insurance), and revenues from management fees from pension funds and provident funds are not characterized by seasonality. However, In December there is a certain increase in deposits of premiums/contributions to pensionary plans, compared with other months, in order to exhaust tax benefits embedded in deposits to pensionary savings.

Presented below is the breakdown of the quarterly gross premium earned in life assurance[80] in 2013, 2014 and 2015 (NIS million and percentage):

	2015		2014		2013	
	NIS million	%	NIS million	%	NIS million	%
First quarter	1,919	25.0	1,830	24.1	1,946	25.8
Second quarter	1,908	24.9	1,825	24.0	1,774	23.5
Third quarter	1,885	24.6	1,903	25.0	1,749	23.2
Fourth quarter	1,950	25.5	2,048	26.9	2,078	27.5
Total per year	**7,662**	**100.0**	**7,606**	**100.0**	**7,547**	**100.0**

Presented below is the breakdown of the quarterly contributions in pension funds in 2013, 2014 and 2015 (NIS million and percentage):

	2015		2014		2013	
	NIS million	%	NIS million	%	NIS million	%
First quarter	1,350	23.4	1,259	23.5	1,074	22.8
Second quarter	1,428	24.8	1,318	24.6	1,210	25.6
Third quarter	1,471	25.5	1,368	25.5	1,168	24.8
Fourth quarter	1,518	26.3	1,378	26.4	1,267	26.8
Total per year	**5,767**	**100.0**	**5,323**	**100.0**	**4,719**	**100.0**

Presented below is the breakdown of the quarterly contributions in provident funds in 2013, 2014 and 2015 (NIS million and percentage):

	2015		2014		2013	
	NIS million	%	NIS million	%	NIS million	%
First quarter	382	22.7	421	24.1	366	20.7
Second quarter	378	22.5	354	20.3	418	23.6
Third quarter	381	22.7	404	23.1	386	21.8
Fourth quarter	540	32.1	568	32.5	601	33.9
Total per year	**1,681**	**100.0**	**1,747**	**100.0**	**1,771**	**100.0**

35.2 **General insurance**

Revenue turnover from gross premium in general insurance is characterized by seasonality, which stems mainly from motorcar insurances of various employee groups and businesses' vehicle fleets, whose renewal dates usually fall in January, as well as various business policies, whose renewal dates usually fall in January or April. The impact of such seasonality on the income for the period before tax is mostly offset through the reserve for unexpired risks.

In the other expense categories, such as claims and other income categories, such as revenues from investments, there is no significant seasonality, which is why there is no income-significant seasonality. However, it should be mentioned that a harsh winter may bring about an increase in claims, mainly in the property line, during the first and fourth quarters of the year, which in turn, leads to a reduction in income before tax for the period.

[80] Excluding receipts in respect of investment contracts that totaled approx. NIS 846 million in 2015 vs. approx. NIS 808 million in 2014 and approx. NIS 575 million in 2013.

In this context, it should be noted that in 1Q15 and 4Q15 there were winter-related damages, estimated at approx. NIS 14 million in gross terms and approx. NIS 5 million in terms of retention in 1Q15, and approx. NIS 33 million in gross terms and approx. NIS 21 million in terms of retention in 4Q15.

Presented below is the breakdown of the quarterly gross premiums in general insurance in 2013, 2014 and 2015 (in NIS million and percentage):

	2015		2014		2013	
	NIS million	**%**	**NIS million**	**%**	**NIS million**	**%**
First quarter	653	31.9	635	32.2	782	38.7
Second quarter	514	25.1	515	26.2	472	23.3
Third quarter	458	22.4	422	21.5	418	20.7
Fourth quarter	425	20.7	397	20.1	350	17.3
Total per year	**2,050**	**100.0**	**1,969**	**100.0**	**2,022**	**100.0**

35.3 **Financial services**

As per the Company's estimation, the area of financial services is not characterized by seasonality.

36. Intangible assets

36.1 **General**

For its activity, the Group uses the companies' names and logos, some of which were registered as trademarks, such as: Migdal Holdings, Migdal Insurance, Migdal Makefet, etc.

36.2 **Data warehouses**

The institutional entities in the Group have various registered data warehouses, where the data submitted by the Group's customers are saved. The data stored in the warehouses, regarding customers, includes data submitted by them when acquiring one of the Group's products, as well as additional data submitted to the Group, or located by the Group in relation with services it provides (such as information about handling insurance claims etc.). Furthermore, the institutional entities in the Group have registered data warehouses regarding the Group's agents, suppliers, Group employees etc., whose storage and registration in a computerized repository are mandatory by law. The databases serve the Group in the ongoing operation of its businesses.

36.3 **Goodwill and initial difference**

The Company accumulated goodwill and initial difference, mainly upon the acquisition of insurance agencies, insurance portfolios, managing companies of pension funds, educational funds and activities of mutual funds.

In 2015, an impairment in respect of the balance of goodwill allocated to the mutual funds unit attributed to the financial services activity in the amount of approx. NIS 26 million was recognized.

In 2015 and 2014 there was a valuation allowance attributed to the provident fund activity, in the amount of approx. NIS 13 million in 2015 and approx. NIS 14 million in 2014 (value in the books of the provident unit exceeded the value of its the recoverable amount, therefore it was recognized as an impairment loss, fully attributed to goodwill).

In addition, in 2104 as well as a valuation allowance on goodwill of hedge fund attributed to the financial services activity in the amount of approx. NIS 7 million. For details see Note 4 to the Financial Statements.

37. Discussion on risk factors

37.1 **Presented below is the table of risk factors regarding insurance and LTS activity**:

		The effect of risk factors on the Group's activity		
	Risk factors	**Great effect**	**Medium effect**	**Little effect**
Macro risks	Economic and employment situation	V		
	Market risks	V		
	- Interest rate risk	V		
	- Market risks (capital instruments / real assets)	V		
	- Risks related to CPI		V	
	- Currency risk		V	
	Credit risks	V	V	
Sectorial risks	Insurance risks			
	- Longevity and annuity take-up rate	V		
	- Morbidity	V		
	- Earthquake risk		V	
	- Other insurance risks		V	
	Portfolio persistency level	V		
	Reinsurance		V	
	Competition and competitors	V		
	Public preferences	V		
	Regulatory changes	V		
	Legal precedents (class actions and Commissioner's authorities)	V		
Risks specific to the Group	Business mix		V	
	Liquidity risks			V
	Risks in adjusting assets to liabilities	V		
	Legal procedures including the Commissioner's authorities	V		
	Goodwill		V	
	Operational risks			
	- Dependence on IT	V		
	- Data security and cyber	V		
	- Other operation risks		V	
	Compliance risks		V	

The effect of risk factors on the Group is pursuant to the Group management's estimation, taking into account the scope and characteristics of its activity as of the date of this Report. The extent of effect may be different in reality, in light of changes in the characteristics of the Group's activity or market conditions and/or decisions made by regulators supervising the Group's activity.

37.2 The Company manages its areas of activity using risk management methodologies. In its activity, the Group focuses on managing the risks to which it is exposed, in order to identify and assess the impact of such potential risks on the Group, with reference to the correlation between risks. Also, the Company's Board of Directors approved risk appetite and risk tolerance to various risks. For the description of key risk factors in the Group's insurance activity and their management – see Note 37b3 to the Financial Statements.

37.3 **Key risk factors in the financial services activity**

The financial services area deals with various areas of the capital market, some of which are characterized by high volatility, *inter alia* due to the impact of political and economic events in Israel and abroad. The various risks to which the financial services area is exposed are related, *inter alia*, to trading activities in the accounts managed for the Group, to assets managed for various customers (mutual funds and portfolio management), to legal risks and additional risks related to operational exposures in activity.

It should be noted that as of the date of finalization of the merger between Migdal Stock Exchange Services with and into IBI Stock Exchange Services on October 28th, 2015 as detailed in Clause 16.2.4 above, the Group was exposed to risks related to Migdal Stock Exchange Services' activity, including to its activity for customers who receive brokerage services (including credit extended to them), such as: insolvency of Israeli and foreign financial institutions in respect of holding assets, credit risks for customers, custodian clearance risks, credit risks in respect of actions with derivatives and execution errors. For additional details regarding the risk factors that were relevant to Stock Exchange Services, see Clause 37.4.3 in the Company's Periodic Report for 2014. As already said, in light of the finalization of the merger, these risks are irrelevant as of the date of this Report.

For the description of exposure to market risks and the way they are managed, including reference to Migdal Stock Exchange Services, whose activity was merged with and into Stock Exchange Services and Investment IBI Ltd. ("**IBI Stock Exchange Services**"), see Clause 6 to the Board of Directors' Report.

The key risks in the financial services activity are:

37.4 **Macro risks**

37.4.1 **Market risks** - political and economic events in Israel and abroad affect the scope of activity on the capital market, and as a result, the activity of the financial services' area, its assets and business results.

Companies engaged in the financial services area perform their own transactions in negotiable assets in Nostro accounts. These transactions expose the financial services area to risks stemming from trading fluctuations in the various channels of the capital markets (share, bonds, currency, interest rates etc.), including due to changes in interest rates and exchange rates, political, security-related and economic events.

37.4.2 **Sectorial risks**

Decrease in the value of assets under management and scopes of activity – the results of the financial services area are directly affected by the total value of AuM managed by the financial services area. A decrease in the scope of AuM may materially affect the profitability of the financial services area. The volatility characterizing the primary market and changes in institutional entities' preferences may materially affect Migdal Underwriting's scope of activity.

Regulation – the area of financial services is subject to very broad regulation, which is changed and updated frequently. Additional regulatory changes and/or more stringent demands with regard to existing regulatory requirements and/or non-compliance of financial services companies with regulatory demands might have a material impact on the businesses and/or results of the financial services area, and certain regulatory instructions have financial implications.

37.4.3 **Risks unique to the area of financial services**

Legal risks – the financial services area is exposed to claims filed against it by customers, suppliers or third parties, claiming alleged incompliance with the provisions of the law and/or agreements and/or malpractice, including the exposure to class actions, and it is also exposed to fines and administrative enforcement measures that might be imposed by supervising authorities in case of a violation of legal provisions.

Liquidity risks – companies that manage assets may hold assets in respect of which there are liquidity problems or difficulties in paying debt in behalf of issuers.

Operational risks – the financial services area is exposed to risks related to the operation of its activity and to the functioning of various arrays under its responsibility, both computerized and human. Furthermore, the financial services area is exposed to negligence and embezzlements on the part of its employees, and to fraud on the part of customers. Flaws in trading systems and/or in communication lines along with human errors made by traders, may bring about non-execution or wrong execution of transactions, and expose the area to fluctuations in asset trade ordered by customers, and claims in material amounts. The area may be exposed to information security events, in which a third party tries to break into computer systems in order to perform unauthorized activity or to be exposed to unauthorized information.

Damage to goodwill – the goodwill of the financial services area and its reputation are an important factor in engaging with new customers and maintaining existing customers. Damage to reputation might affect the businesses of the financial services area.

37.5 **Presented below is the table of risk factors regarding the area of financial services**

		The effect of risk factor on the activity of financial services		
	Risk factors	**Great effect**	**Medium effect**	**Little effect**
Macro risks	Capital markets risks	V		
Sectorial risks	Decrease in the value of AuM and scopes of activity	V		
	Regulation	V		
Risks specific to the area	Legal risks		V	
	Operational risks	V		
	Liquidity risks		V	
	Execution errors			V
	Damage to goodwill		V	

37.6 The activities of Migdal Health and Migdal Management are non-material, therefore in the Company's estimation, the risk in their respect is non-material.

38. Material agreements and collaboration agreements

38.1 Collective agreement

For the description of collective agreement signed between Migdal Insurance and Migdal Makefet and the New General Federation of Labor - see Clause 31.4.1 above, Note 32 to the Financial Statements, as well as the Company's Immediate Report dated February 17th, 2015, Reference No. 2015-01-033544.

Part E – Corporate Governance Aspects[81]

[81] This Part and the description and data included thereof are brought pursuant to the Commissioner Circular regarding Corporation Businesses Description, Reference No. 2014-1-3.
For the attachment of the corporate governance questionnaire pursuant to the ISA's instruction as per Clause 36 a (b) to the Securities Law, see "Additional Data on the Corporation – corporate governance questionnaire".

39. External Directors

In Migdal Holdings and Migdal Insurance there are 3 External Directors. In the reported period there was no change in the office of these External Directors. For details regarding the External Directors in the Company see regulation 26 in the additional data on the Corporation chapter.

40. Disclosure regarding the Internal Auditor[82]

The Company's Chief Internal Auditor as of the date of this Report is Ms. Michal Leshem, who entered this office on February 1st, 2014. She also serves as Migdal Insurance's Chief Internal Auditor. Previously, Ms. Leshem served as the Strategy, Control and Compliance Discipline Manager. The Chief Internal Auditor reports to the Chairman of the Board of Directors.

To the best knowledge of the Corporation, the Chief Internal Auditor does not hold securities of the Corporation, except option warrants and shares included within remuneration plans for Senior Officers in the Company, as set forth in Note 33 to the Financial Statement, which may not affect the quality of work of the Internal Auditor[84].

Migdal Holdings' and Migdal Insurance's annual Work Plan regarding internal audit work is submitted by the Chief Internal Auditor, and is approved by the Audit Committee of the Company and of Migdal Insurance.

2015 Work Plan is derived from the multi-annual Work Plan for 2014-2018.

In 2013 there a risk survey was conducted in the Company, and the issues brought up in the risk survey constitute the basis for preparing the multi-annual Work Plan. In addition the Work Plan took into consideration the results of previous audits, changes and organizational and content-related events, laws and regulations and regulatory instructions. More issues are added to the Work Plan if they are deemed necessary by the Chief Internal auditor, and the Work Plan allows the Chief Internal Auditor to make changes thereof, taking into account needs that arise from time to time due to the scope of activity, after notifying the Audit Committee.

The Chairman of the Board of Directors, the Chairman of the Audit Committee and its members, the Corporation's CEO and the CPAs are involved in determining the Work Plan.

Transactions with interested parties are discussed and are submitted for approval by the authorized organs after they are examined by the professional departments. Within the Work Plan, the Audit Committee also examines transactions that were approved with interested parties. The examination of other material transactions is performed from time to time within Work Plan and as per generally accepted audit rules.

[82] The disclosure regarding the Chief auditor and the CPA as detailed herewith in this Part also refers to the area of financial services, and it is brought pursuant to the Commissioner Circular mentioned in the introduction above.

[84] For details regarding shares and other securities held by Ms. Michal Leshem, as of July 2015 (to the best knowledge of the Corporation), see the Company's Immediate Report dated July 1st, 2015, Reference No. 2015-01-061887.

The Chief Internal Auditor’s reports are submitted in writing. In general, upon the publication of audit reports by the Internal Audit Array, and as part of the ongoing work, discussions are held with the audited persons regarding the audit reports. The audit reports are submitted on a current basis to the Chairman of the Board of Directors, the CEO and the Heads of Divisions throughout the year. Audit reports submitted to subsidiaries are discussed in the subsidiaries’ Audit Committees.

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

Migdal Holdings’ Audit Committee held 16 meetings in 2015, and Migdal Insurance's Audit Committee held 18 meetings. Audit reports were discussed in 12 of these meetings.

The Chief Internal Auditor is employed full-time, in addition to a team of 31 Group employees who report to her. These include Auditors in the Group's subsidiaries, in which there is a duty to appoint an Auditor or in which it was decided to appoint an Auditor in light of the scope of activities and exposures. The Group's Chief Auditor gives professional instructions to these Auditors in order to maintain the general audit principles and professional standards implemented by him. In some of the tasks included in the Chief Internal Auditor’s Work Plan, the Internal Audit is also assisted by external experts depending on the type of activity and its complexity.

The table below presents details of the number of audit hours invested in the Group in 2015:

Overall scope of audit in the Group	Scope of audit in Migdal Insurance	Scope of audit in Migdal Makefet and Yozma	Scope of audit in Migdal Capital Markets	Scope of audit in agencies
52,869	29,614	12,395	5,200	5,660

The amount of internal audit hours is derived from the Company's Work Plan.

The Chief Internal Auditor is assisted by other entities in the Group that are not the audit unit or professionals working in it.

Remuneration

The Chief Internal Auditors is employed pursuant to a personal employment contract.

Total remuneration in respect of the employment of Ms. Michal Leshem as the Group's Chief Internal Auditor, as recognized in 2015 Financial Statements, amounts to approx. NIS 1.29 million. This amount includes the deferred amount in respect of the payment of a grant for 2013, after the deduction of the difference between the amount paid in respect of 2014 and the estimated amount in 2014. See details in the Regulation 21 regarding other Senior Officers in the Company.

In the Board of Directors' estimation, the Chief Internal Auditors' terms of remuneration as aforementioned comply with the Company's remuneration policy, and do not constitute a cause for concern regarding their impact on the Auditors' professional judgment.

41. Auditing CPA

41.1 The name of the Company's CPA office and the name of the partner handling the audit

The Company's CPAs are Kost, Forer, Gabbay & Kasierer and Somekh Chaikin, who are joint auditors in all the Group's material companies.

The partner who handles the audit on behalf of Kost, Forer, Gabbay & Kasierer is Mr. Moshe Shachaf, CPA, and the partner on behalf of Somekh Chaikin is Mr. Avraham Fruchtman, CPA.

The CPAs started serving as joint auditors in April 1998.

In August 2015 the Company's General Meeting decided to re-appoint the joint auditing CPAs Somekh Chaikin and Kost, Forer, Gabbay & Kasierer, and to empower the Company's Board of Directors to set their fees for 2015. See also the Company's Immediate Report dated August 18th, 2015, Reference No. 2015-01-099237.

The table below presents details of the CPAs fees (excluding VAT) for services provided by them for the years 2014-2015 and the number of hours invested:

	2015				
	Audit services (1)	**Audit-related services**	**Special tax services**	**Other services**	**Total (2)**
	Fees (NIS thousand)				
Migdal Insurance and investees	4,455	925	48	1,155	6,583
Migdal Capital Markets	484	11	18	98	611
The Company	160	6			166
Migdal Management Services and investees	80				80
Migdal Health and Quality of Life and investees	80				80
Total	**5,259**	**942**	**66**	**1,253**	**7,520**
	Hours				
Migdal Insurance and investees	20,466	4,158	121	5,769	30,514
Migdal Capital Markets	2,530	44	85	391	3,050
The Company	930	132			1,062
Migdal Management Services and investees	400				400
Migdal Health and Quality of Life and investees	623				623
Total	**24,949**	**4,334**	**206**	**6,160**	**35,649**

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

About 1.5% of fees in respect of audit services were paid to other CPAs.

	2014				
	Audit services (1)	**Audit-related services**	**Special tax services**	**Other services**	**Total (2)**
	Fees (NIS thousand)				
Migdal Insurance and investees	4,620	244	121	1,242	6,226
Migdal Capital Markets	447	-	15	211	673
The Company	160	10	-	-	170
Migdal Management Services and investees	110	-	-	-	110
Migdal Health and Quality of Life and investees	80	-	-	-	80
Total	**5,417**	**254**	**136**	**1,453**	**7,259**
	Hours				
Migdal Insurance and investees	20,753	1,141	403	4,584	26,881
Migdal Capital Markets	3,165	-	40	700	3,905
The Company	900	53	-	-	953
Migdal Management Services and investees	480	-	-	-	480
Migdal Health and Quality of Life and investees	664	-		-	664
Total	**25,962**	**1,194**	**443**	**5,284**	**32,883**

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

About 3.6% of fees in respect of audit services were paid to other CPAs.

42. Effectiveness of internal control over financial reporting and disclosure

Management, under the Board of Directors' supervision, conducted an examination and assessment of: Entity Level controls (ELC), controls on the closing and processing of reports, general controls over IT systems and controls over very critical processes (within Migdal Insurance).

In addition to the managers' statements and the Report regarding the Effectiveness of Internal Control requested pursuant to the Securities Regulations, attached are statements, reports and disclosures regarding the internal audit in the consolidated institutional entities, to which the Commissioner's instructions apply. These are attached in Chapter 6 to the Periodic Report.

Requested information pursuant to the Commissioner Circular

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

42.1 Controls and procedures regarding disclosure

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

42.2 Internal control over financial reporting

During the covered period ending on December 31st, 2015, there was no change in the Group's institutional entities' internal control over financial reporting, which materially affected, or is likely to materially affect, the institutional entity's internal control over financial reporting.

However, the institutional entities in the Group are developing, upgrading and/or replacing several information systems, inter alia, in order to improve and increase the efficiency of various processes and/or the internal control and/or service to customers.

Attached to the Group's institutional entities' Financial Statements are the required statements, reports and disclosures regarding the relevant processes, pursuant to the provisions of Management Responsibility Circulars and interim stages set forth in them for the Circulars' implementation.

At the same time, the Group's institutional entities continue to prepare for the implementation of the next stages included in the Management Responsibility Circular, regarding financial reports to members and insureds.

43. Preparation towards the implementation of the Solvency II Directive in Migdal Insurance

Since July 2008, the Commissioner has issued circulars and instructions regarding the preparation towards adopting the Solvency II provisions ("**the Directive**").

During the preparations period, instructions are issued as to the calculation of capital requirements as per the Quantitative Impact Study (QIS), which includes a quantification of the various insurance and financial risks that the insurance companies face, as per the requirements set forth in the relevant Commissioner Circulars.

Within the preparations towards the first pillar, Migdal Insurance is studying the results of the Quantitative Impact Study and their expected effect on its activity, and it is examining the computerized and procedural deployment involved in its implementation.

Below are details regarding the Company's progress as to preparations towards the Directive's implementation during 2015:

During 2015 the Company held discussions in the Committee next to the Board of Directors established as per the Commissioner's instructions in order to supervise and control the process of preparations towards the Directive's implementation ("**Committee next to the Board of Directors for the Accompaniment of the Directive Implementation**"), and in the Board of Directors, regarding the progress in the preparations towards the Directive's implementation.

During the year, the Company prepared for the implementation of the Directive in various matters:

(a) The execution of drill for the calculation of solvency ratio for 2014 (**IQIS4**).
(b) Developing tools for the execution of an optimization of its investments mix in Nostro.
(c) The Company built a model for the forecasting the future equity situation pursuant to its Work Plans.
(d) The Company studies possible protections for equity in the Solvency Ii model, through deliberations with reinsurers.
(e) The Company examines various financial hedges.
(f) The Company expanded its equity basis through a second and third tier capital raising in the amount of approx. NIS 2 billion. For details see Note 24e to the Financial Statements.

For additional details, see Note 7c6 to the Financial Statements.

Migdal Insurance and Financial Holdings Ltd.

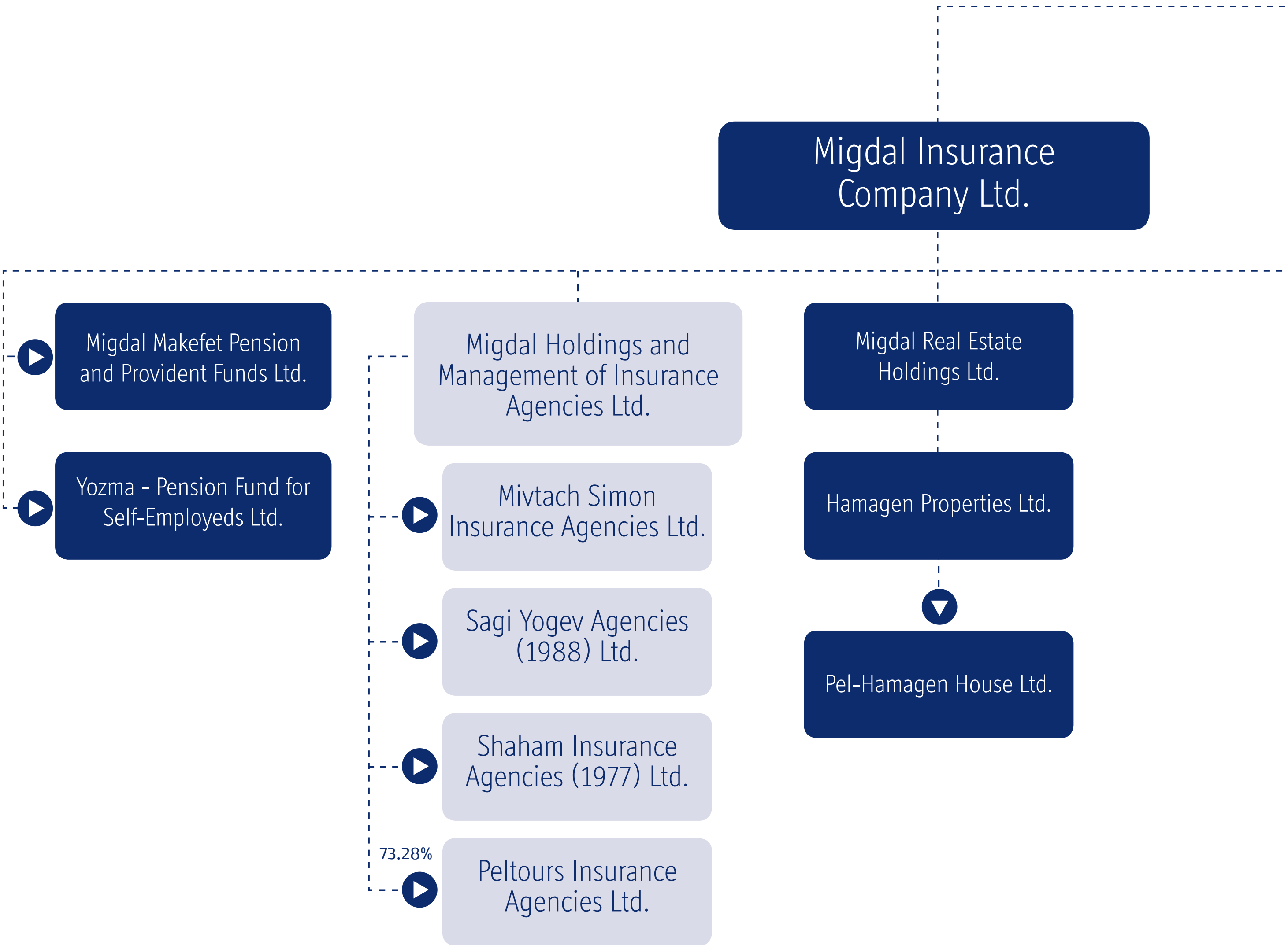
Yohanan Danino	**Eran Czerninski**
Chairman of the Board of Directors	CEO

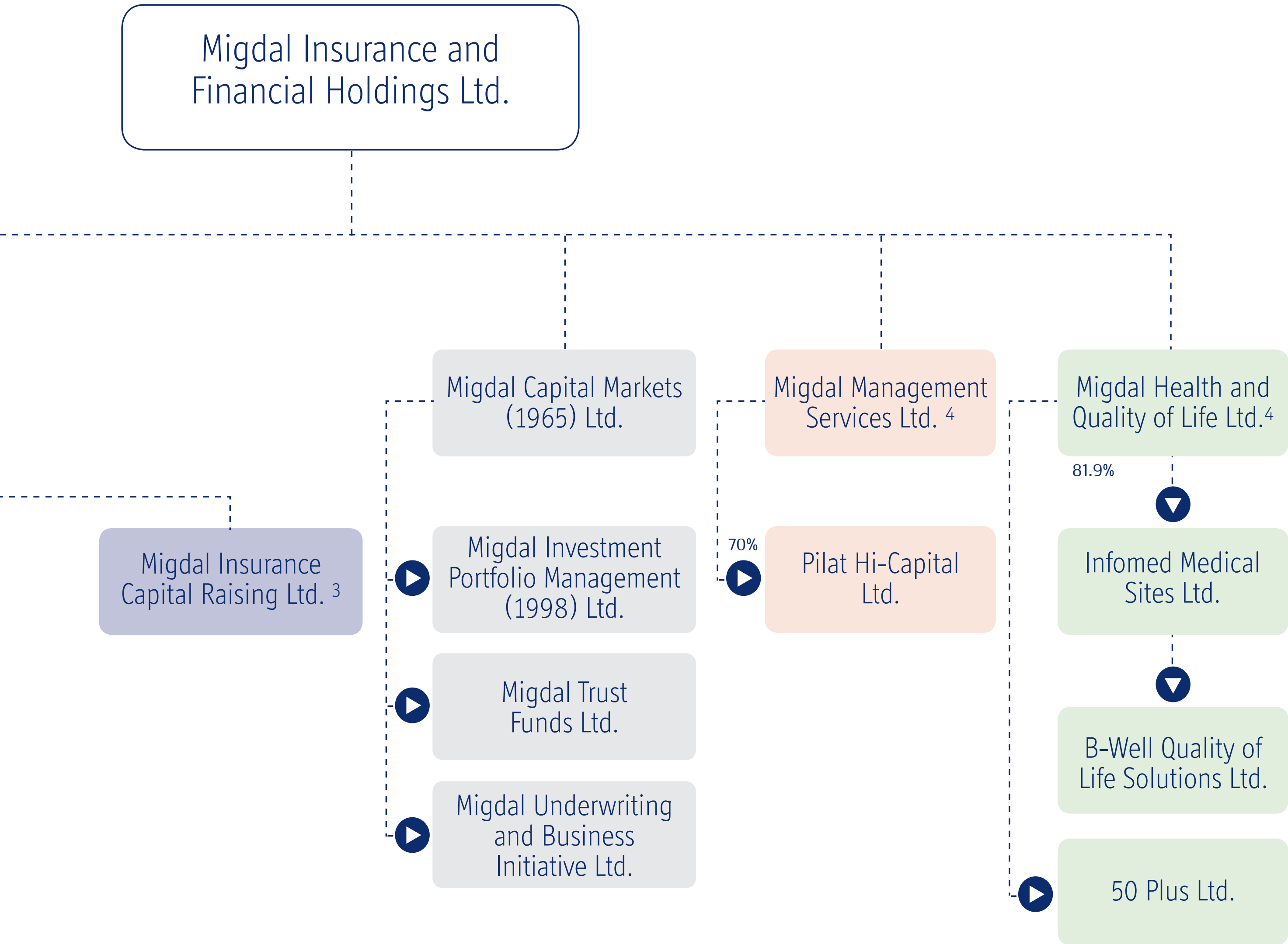
March 29th, 2016

Group Holdings **Structure**

Group Holdings Structure

As of March 29th, 2016

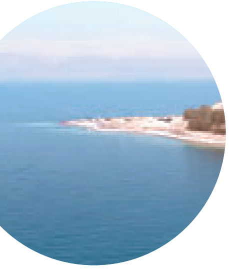




Notes:

1. The holdings structure includes the main active companies in the Group. For additional details regarding holdings in subsidiaries and affiliated companies, see also Regulation 11 to the Additional Data on the Corporation.
2. The companies described herewith are held at 100%, unless specified otherwise.
3. Most of the Company's activity is raising second-tier capital for Migdal Insurance.
4. The activity of these companies, as well as that of the companies held by them, is related/interfaces with the Group's activities.

MOUNTAIN GOATS | **RAMON CRATER**




BOD REPORT ON THE SITUATION OF THE CORPORATION BUSINESSES

DEAD SEA

Chapter 2 – Board of Directors Report on the Situation of the Corporation Businesses – Table of Contents

BOARD OF DIRECTORS' REPORT ON THE SITUATION OF THE CORPORATION BUSINESSES AS AT DECEMBER 31st, 2015

The Board of Directors' Report as at December 31st, 2015 reviews the main changes in the activities of Migdal Group in the reported period (hereinafter – "**the reported period**"). The Board of Directors' Report is an integral part of the Periodic Report including all its parts, and the Periodic Report should be read as a whole.

1. Company description

1.1 General

Migdal Insurance and Financial Holdings Ltd. ("**the Company**") is a public company whose shares are traded on the Tel Aviv Stock Exchange Ltd. The Company, via its subsidiaries ("**Migdal Group**", "**the Group**"), operates mainly in the area of insurance, pension, provident funds and financial services

The Group's insurance activity is carried out via Migdal Insurance Company Ltd. ("**Migdal Insurance**" or "**Migdal**") and its subsidiaries. The Group's pension and provident fund activity is carried out via Migdal Insurance's subsidiaries: Migdal Makefet Pension and Provident Funds Ltd. ("**Migdal Makefet**" or "**Makefet**") and Yozma Pension Fund for Self-Employeds Ltd. ("**Yozma for Self-Employeds**" or "**Yozma**").

Migdal Insurance is the largest and leading insurance company in the area of life assurance and Long Term Savings in Israel[1].

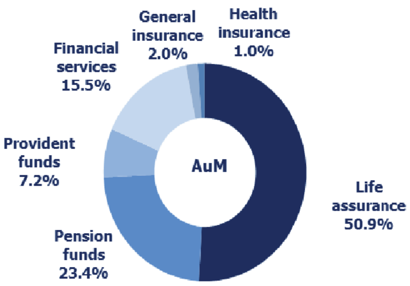
The Group also has holdings in insurance agencies, via Migdal Holdings and Management of Insurance Agencies Ltd., ("**Migdal Agencies**"), fully controlled by Migdal Insurance.

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

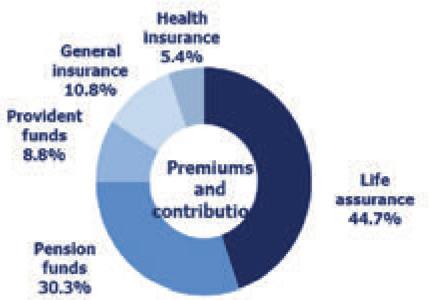
As of the date of the Report, Eliahu Insurance Company Ltd. ("**Eliahu Insurance**" or "**Eliahu**") holds approx. 69% of the Company's issued and paid-up capital.

For additional details regarding the controlling shareholders' holdings in the Company see Clause 2.2 to Part A in the Periodic Report – Corporation Businesses Description ("**Corporation Businesses Description**"). For the Group's main holdings structure and the description of the Group's areas of activity, see Clauses 2.3 and 3 in Part A to the Corporation Businesses Description.

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



As of December 31st, 2015



For 2015

[1] As of September 30th, 2015, based on insurance liabilities in life assurance and AuM in pension and provident funds.

The Company serves over 2 million private and business customers in the areas of insurance, pension and provident funds, it has business relations with approx. 2,700 insurance agencies and agents, and has over 4,500 employees.

1.2 Key developments since the last annual report

1.2.1 The impact of the economic environment – the decrease in risk-free interest curve

The Group operates in an economic environment that is affected, in recent years, *inter alia*, by a significant decline in the interest curve, including the risk-free interest curve. The low interest rates have a material impact both on the yield achieved for the Group's customers and on the Group's profits.

The year 2015 was characterized with fluctuations in the risk-free interest curve, which was mainly reflected in a sharp increase in yields to maturity in 2Q15, following a significant decline in 1Q15. These fluctuations affected the Company's provisions for SAR in 1H15, and in 1Q15 there was a significant increase in provisions to annuity, and on the other hand in 2Q15 the provisions decreased by a similar amount. In 2H15 there was a slight decrease in the risk-free interest curve in the relevant terms, such as by the end of the year, there was a certain decrease in the risk-free interest curve vs. the end of 2014.

For the sensitivity of insurance liabilities to the decrease in interest, see Note 37b1a) to the Financial Statements.

It should be noted that in 2015 there were also fluctuations in the price of bonds and shares in the capital market. In addition, there were changes in the fair value of non-negotiable debt assets, with affect yields achieved by the Group in the profit participating portfolio. Following significant price increases in 1Q15, there were decreases in 2Q15 and 3Q15 and price increases in 4Q15, so by the end of 2015 there was a decrease in investment income achieved by the Group compared with 2014.

For developments after the date of the balance sheet and until the reporting date, see Clause 4.1.3 and Note 40b to the Financial Statements.

In addition, in August 2015 the Commissioner of Capital Markets, Insurance & Savings Division at the Ministry of Finance ("**the Commissioner**") published a Circular regarding Liability Adequacy Test (LAT) in insurance companies' Financial Statements. Due to the first implementation of the Circular on June 30th, 2015, the provision for LAT increased by approx. NIS 192 million (before tax).

For the impact of these changes on reserves, see Clauses 3.2 and 3.3 below, as well as Note 37b3b(5) to the Financial Statements.

The examination of the reserves' adequacy, as well as the provisions for Supplementary Annuity Reserves (SAR) became components with the highest sensitivity to assessment, in the Company's Financial Statements. These calculations are mainly based on methodologies used by the Company also in assessing "the embedded value" in long term insurance policies.

The changes in the risk-free interest curve also affect actuarial deficit in the Group's pension funds as detailed below.

In new pension funds, for active and inactive members, there is a deficit due to new retirements of insureds. The deficit is due to the difference between the effective interest (which is higher) embedded in the pension conversion coefficient according to which the pension amounts to which the retiring insureds are calculated (the coefficient is calculated as per the Ministry of Finance's instructions) and the risk-free interest rate (that is lower), pursuant to which the fund's liability towards pensioners is discounted in the actuarial balance (interest rate is determined as per the MoF's instructions). The difference between the value of liability towards pensioned and the accrued balance in their account just before retiring is divided between all active insureds in the fund via the actuarial balance mechanism.

In addition, regarding the accounts of pensioners in new pension funds and regarding all the insureds in Yozma old pension fund, there was a deficit in 2015 and in 1Q15 due to a slight decline in the risk-free interest curve and to demographic changes, partly offset due to deviations in the yield assumptions (actual yield that exceeds forecasted yield).

1.2.2 **Other developments in the business environment**
In the area of pensionary insurance – The legislative arrangements that were carried out in recent years in general and last year in particular, brought about material changes in the area. *Inter alia*, the following arrangements were published in the reported year:

(a) Setting a mechanism for the election of a provident fund for employees who did not choose another provident fund (default provident fund), for details see Clause 6.3.8 in Part A to the Corporation Businesses Description.

(b) Allowing the marketing of life assurance policies that include annuity coefficients that embed a life expectancy guarantee for those who perform mobility, for details see Clauses 6.3.3(a) and 26.5.18 to the Corporation Businesses Description.

(c) The recommendation of the Team for the Increase of Certainty in Pensionary Savings' Report regarding the change in the way designated bonds are allocated to new funds, recommending to continue allocating designated funds in respect of 30% of new comprehensive funds' assets and of old funds' assets, along with an increase, throughout a defined period, of the scope of allocation of designated bonds to pensioners and savers about to retire, at the expense of allocating designated bonds to young savers, for details see Clauses 6.3.11 and 26.5.23 to the to the Corporation Businesses Description.

In the area of general insurance – An update of insurance fees for private vehicles in residual insurance ("**the Pool**"), for details see Clauses 12.2.2 and 26.7.1 to the Corporation Businesses Description.

For details see Clause 2.4.2 in Part A to the Corporation Businesses Description.

1.2.3 For the description of additional key developments in the Group that were recorded in the reported period and afterwards, see Clauses 2.4.2 to 2.4.9 in Part A in the Corporation Businesses Description chapter, as well as Note 40 to the Financial Statements.

2. Description of the business environment

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

3. Board of Directors explanations to the Corporation's situation

3.1 Analysis of the financial situation and activity results

NIS million	2015	2014	Change in %	2013	10-12/15	10-12/14	Change in %
Area of Long Term Savings							
Gross earned premium, receipts in respect of investment contracts and contributions (1)	15,955.9	15,483.7	3%	14,560.3	4,303.7	4,220.3	2%
Income (loss) for the period before tax	276.2	292.1		781.2	192.7	(60.5)	
Comprehensive income (loss) before tax	110.5	444.5		905.9	218.0	(42.3)	
Area of Health Insurance							
Gross earned premium	1,024.5	879.9	16%	770.2	268.5	232.7	15%
Income (loss) for the period before tax	(25.7)	75.3		71.3	(14.9)	22.9	
Comprehensive income (loss) before tax	(35.4)	82.3		77.2	(13.5)	22.8	
Area of General Insurance							
Gross earned premium	2,002.8	1,939.9	3%	1,755.9	506.8	474.2	7%
Gross premium	2,050.2	1,968.9	4%	2,021.5	424.9	397.4	7%
Premium in retention	1,639.4	1,562.5	5%	1,508.6	323.7	290.0	12%
Income for the period before tax	136.7	108.4		104.2	63.1	9.3	
Comprehensive income before tax	57.0	116.6		153.9	77.1	2.0	
Area of Financial Services							
Revenues	205.3	209.6	(2%)	200.7	61.7	54.1	14%
Income (loss) for the period before tax	(3.5)	0.5		(4.3)	6.7	2.3	
Comprehensive income (loss) before tax	(2.9)	2.1		(3.5)	6.8	3.8	
Total Areas of Activity							
Total gross earned premium, receipts in respect of investment contracts and contributions	18,983.1	18,303.5	4%	17,086.4	5,079.0	4,927.3	3%
Total gross premium, receipts in respect of investment contracts and contributions (2)	19,030.5	18,332.5	4%	17,352.1	4,997.1	4,850.4	3%
Total income (loss) for the period before tax	383.8	476.3		952.4	247.6	(26.0)	
Total comprehensive income (loss) before tax	129.2	645.5		1,133.5	288.4	(13.6)	
Other (3)							
Income (loss) for the period before tax	125.1	132.1		30.8	1.6	25.8	
Comprehensive income before tax	51.2	147.3		54.0	26.6	13.1	
Income (loss) for the period before tax	508.8	608.3		983.2	249.3	(0.2)	
Comprehensive income (loss) for the period before tax (4)	180.4	792.7		1,187.6	315.0	(0.6)	
Income tax							
Income tax – in terms of income for the period	155.8	185.5		366.5	84.3	(33.4)	
Income tax – in terms of comprehensive income	30.1	255.1		448.7	107.5	(34.1)	
Income for the period	**353.1**	**422.8**	**(17%)**	**616.7**	**165.0**	**33.1**	398%
Comprehensive income for the period	**150.3**	**537.6**	**(72%)**	**738.9**	**207.5**	**33.5**	519%
Return on equity (based on income for the period)period) (5)	**6.9%**	**8.5%**		**13.3%**	**3.3%**	**0.6%**	
Return on equity (based on comprehensive income) (5)	**2.9%**	**10.8%**		**15.9%**	**4.1%**	**0.6%**	

(1) Receipts in respect of investment contracts are not included in the premiums item, but are credited directly to liabilities in respect of insurance contracts and investment contracts. The data regarding contributions to pension and provident funds managed by the Group are not included in the consolidated Financial Statements.
It should be noted that the data regarding contributions to pension in respect of 2014 and 2013 were re-classified pursuant to the provisions of the Institutional Entities Circular 2016-9-3, stating that receipts from contributions shall not include the attribution of contributions in respect of disabled members and risk from accrual by the fund. As a result of the above, there was a decline in the classification of contributions in Makefet Ishit fund in the years 2014 and 2013, in the amount of approx. NIS 36 million and 38 million, respectively.
(2) In general insurance, including data of gross premiums, and in life assurance and health insurance, including gross earned premiums.
(3) The "Other" item mainly includes the results of activity of insurance agencies in the Group, activities related to the Group or interfacing with it, performed within Migdal Health and Migdal Management of an insignificant scope, as well as net investment income (including income from affiliates) not attributed to areas of activity, as well as adjustments within the reports consolidation.
(4) The comprehensive income for the period includes the results of investment activity of available for sale financial assets (Nostro portfolio) that have not yet been realized, on the other hand, the income for the period includes the results of investment activity of securities that were realized in the reported period beginning from the day of acquisition, therefore, the difference between the comprehensive income for the period and the income for the period is mainly affected by the timing of the realization of income or loss from securities, except in cases in which there is a provision for impairment that is recognized in the P & L report before the realization. The Company mainly utilizes comprehensive income for measuring its results.
(5) The calculation of return on equity was made after adjustment of the equity balance for dividend distribution during the reported period.

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

3.2 Description of the development of activity results in 4Q15

In 4Q15, there was an increase in the Group's comprehensive income vs. 4Q14, mostly affected by a marked increase in the yields achieved by the Group on capital markets, compared with 4Q14, in which lower yields were achieved.

In 4Q15, there was investment income[2] in the amount of approx. 2,017 million, compared with investment income in the amount of approx. NIS 635 in 1Q14. In the area of life assurance and LTS there was investment income in the amount of approx. NIS 1,867 million, vs. investment income in the amount of approx. NIS 583 million in 4Q14, in the area of general insurance there was investment income in the amount of approx. NIS 59 million, vs. investment income in the amount of approx. NIS 24 million in 4Q14, and in the area of health insurance there was investment income in the amount of approx. NIS 48 million, vs. investment income in the amount of approx. NIS 8 million in 4Q14.

The aforesaid, increase in investment income is in spite of a 0.7% decrease in CPI in the reported quarter, vs. a 0.2% decrease in 4Q14. Changes in inflation rate affect investment income in respect of CPI-linked assets in the Nostro portfolio.

Furthermore, inflation has an impact on the adjustment of CPI-linked insurance liabilities and financial liabilities, and an impact on variable management fees collected in profit participating policies written until 2004 due to the impact on real yields achieved in these policies.

As a result, the comprehensive financial spread from investments against guaranteed yield policies in life assurance increased compared with 4Q14, due to an increase in the real yields achieved in investments that are not designated bonds. In addition, income from investments in the area of general insurance and the area of health insurance and income from investments against capital increased, due to higher nominal yields achieved by the Group on capital markets in 4Q15, vs. 4Q14.

In 4Q15, variable management fees collected in life assurance totaled approx. NIS 222 million before tax, vs. approx. NIS 44 million before tax in 4Q14.

[2] Investment income (loss) includes net income (loss) and financing revenues as well as other comprehensive income (loss) before tax.

The Supplementary Annuity Reserve (SAR) increased due to updates in interest rate and annuity assumptions, by approx. NIS 175 million (before tax) (out of which approx. NIS 132 million in respect of the update of the interest rate assumption and approx. NIS 43 million due to the update of the annuity assumption), on the other hand, there was a decrease due to the Liability Adequacy Test (LAT) assumption, in the amount of approx. NIS 27 million. By the end of 4Q15, there was a net increase in these provisions, in the amount of approx. NIS 148 million (before tax), vs. an increase in the amount of approx. NIS 123 before tax in 4Q14, see also Clause 1.2.1 above.

Furthermore, in life assurance there was a decrease in income from risk, mainly due to an increase in the provision for PHI, based on a research conducted by the Company and by reinsurers regarding the survivability rate of insureds who receive PHI compensation, in the amount of approx. NIS 60 million (before tax), for details see Note 37b3b(5) to the Financial Statements. On the other hand, there was an increase in revenues from fixed management fees in profit participating policies, following an increase in the volume of the managed assets, as well as a decrease in G&A expenses.

In 4Q15 total new sales (excluding increases) in the area of life assurance and LTS increased compared with 4Q14, reflected both in life assurance and in pension.

In the area of health insurance, there was a decrease in underwriting results (excluding real investment income) in 4Q15 vs. 4Q14, due to a deterioration in the estimation of claims in LTC and personal accident insurance, as well as due to an increase in loss from collective insurance.

In the area of general insurance, underwriting results (excluding real investment income) increased vs. 4Q14, reflected mostly in the CMBI and liability lines, and on the other hand there was a decline in underwriting income in property lines.

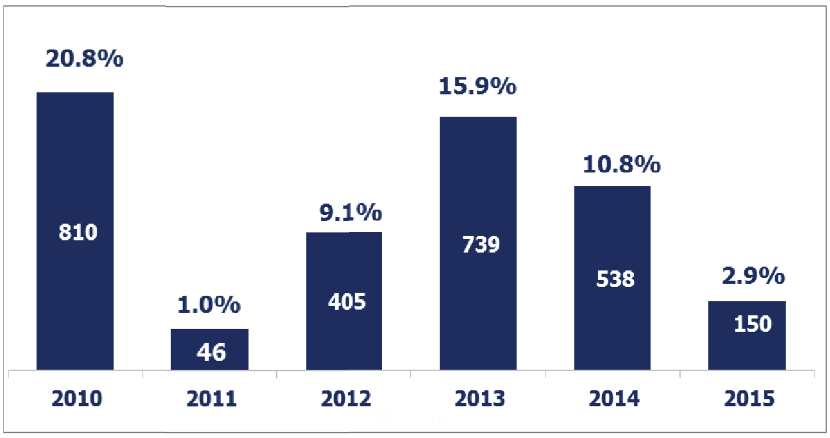
In the area of financial services, the increase in comprehensive income vs. 4Q14 was mainly due to an increase in come, mostly from investment banking activity, which was partly offset due to goodwill amortization attributed to mutual funds activity in the Group.

For additional details regarding the development of results in 4Q15, see within the areas of activity below.

For additional details regarding the development of premiums and income in quarters in 2015, see Regulation 10a to the Additional Data on the Corporation chapter.

3.3 Description of the development of activity results in the reported year

Presented below is the development of comprehensive income for the period (NIS million) and RoE in 2010-2015:



The Group's results in 2015 compared with 2013 and 2014 were mostly affected by the significant decrease in the yields achieved by the Group.

In 2015 the Group recorded investment income[3] in the amount of approx. NIS 3,157 million vs. investment income in the amount of approx. NIS 5,799 million in 2014. In the area of life assurance and LTS, there was investment income in the amount of approx. NIS 2,915 million, vs. investment income in the amount of approx. NIS 5,318 million in 2014. In the area of general insurance there was investment income in the amount of approx. NIS 103 million, vs. investment income in the amount of approx. NIS 189 million in 2014, and in the area of health insurance there was investment income in the amount of approx. NIS 60 million, vs. investment income in the amount of approx. NIS 113 million in 2014.

In 2015, CPI decreased by approx. 0.9%, vs. a 0.1% decrease in 2014. Changes in inflation affect revenues investment income in respect of CPI-linked assets in the Nostro portfolios.

Furthermore, inflation has an impact on the adjustment of CPI-linked insurance liabilities and financial liabilities, and an impact on variable management fees collected in profit participating policies written until 2004 due to the impact on real yields achieved in these policies.

As a result of the above, the comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased compared with 2014, due to a decrease in the real yields achieved in investments that are not designated bonds. In addition, income from investments in the area of general insurance and the area of health insurance and income from investments against capital decreased, due to higher nominal yields achieved by the Group on capital markets compared with 2014. This decline follows an increase in the comprehensive financial spread and in income from investments against capital in 2014 vs. 2013.

Furthermore, in 2015 variable management fees collected in life assurance decreased, totaling approx. NIS 232 million (before tax), vs. approx. NIS 384 million (before tax) in 2014, vs. approx. NIS 637 million (before tax) in 2013, in which the Company recorded especially high yields.

For additional details regarding the financial spread, including management fees, yields and management fees rates in the profit participating portfolio, see Note 18 to the Financial Statements, as well as Clause 3.4.6 below.

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

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

In addition, in 2015 there was an increase in G&A expenses in the Group, for details see Clause 3.8 below and Note 38 to the Financial Statements.

The Supplementary Annuity Reserve (SAR) increased due to updates in interest rate and annuity assumptions, by approx. NIS 258 million (before tax) (out of which approx. NIS 214 million in respect of the update of the interest rate assumption and approx. NIS 44 million due to the update of the annuity assumption). In addition, there was an increase due to the Liability Adequacy Test (LAT) assumption, in the amount of approx. NIS 105 million, due to the first implementation of the Circular regarding the Liability Adequacy Test, less other effects. By the end of 2015, these provisions increased by approx. NISG&A expenses 363 million (before tax), vs. an increase of approx. NIS 466 million before tax in 2014. For details see Note 37b3(b)(5) to the Financial Statements and clause 1.2.1 above.

In life assurance there was a decrease in income from risk, mainly due to an increase in the provision for PHI, in the amount of approx. NIS 60 million (before tax) as set forth above, for details see Note 37b3b(5) to the Financial Statements, after an increase in income from risk recorded in 2014 compared with 2013 due to a decrease in claims. On the other hand, there was an increase in revenues from fixed management fees in profit participating policies due to an increase in the scope of AuM in 2013-2015.

[3] Investment income (loss) includes net income (loss) and financing revenues as well as other comprehensive income (loss) before tax.

In the area of health insurance there was a deterioration in the underwriting results (excluding real investment income) in 2015, mainly reflected in LTC and personal accidents insurance due to a deterioration in the development of claims, a s well as due to an increase in the loss from collective insurances. The results, as set forth above, were also affected by an increase in G&A expenses. In 2014 underwriting income increased compared with 2013, mostly due to the impact of the estimated claims in LTC, which was partly offset due to an increase in claims in medical expenses insurance, *inter alia*, transplants.

In the area of general insurance, in 2015 there was a deterioration in underwriting results (excluding real investment income) in the casco and liability lines, partly offset by an increase in underwriting income in CMBI. In 2014, there was a deterioration in underwriting results compared with 2013, mainly reflected in the CMBI and liability lines, and on the other hand, there was an improvement in underwriting results in property lines.

In the area of financial services, a comprehensive loss was recorded in 2015, mostly affected by a amortization of goodwill attributed to mutual funds activity in the Group, for details see Note 4 to the Financial Statements. On the other hand, there was an increase in income, mainly from investment banking activity, as well as due to a decrease in general and administrative expenses.

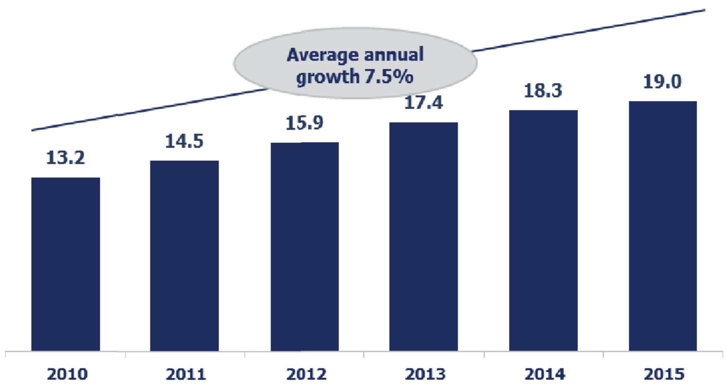
In 2014 the shift to income compared with loss in 2013 was mostly due to an increase in revenues in respect of mutual funds management, to Arxcis and financial and financing transactions, and it was partly offset due to amortization of goodwill attributed to one of Migdal Capital Markets' hedge funds, whose activity was discontinued during 2014.

In the results of other areas of activity, which mainly include the results of activity of insurance agencies in the Group, there was an increase in the comprehensive income vs. 2014, which was mostly due to a decrease in expenses, after the shift to comprehensive income in 2014 vs. a comprehensive loss in 2013, partly due to a special grant that was distributed mainly to the Group employees in 2013.

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

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

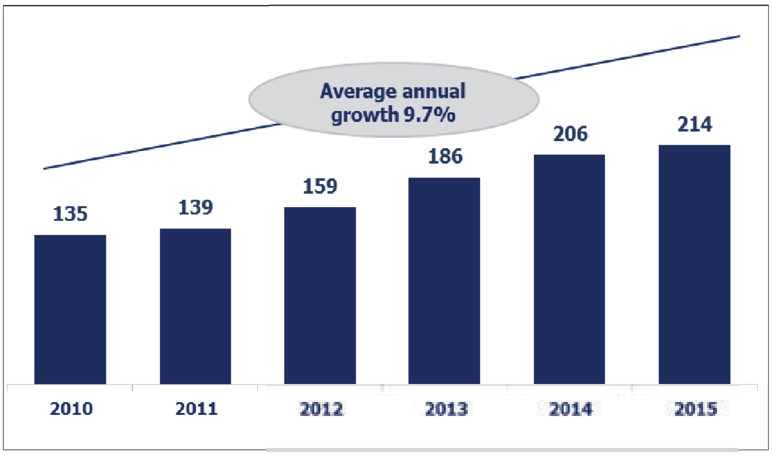
Presented below is the development in premiums, receipts in respect of investment contracts and contributions from insurance, pension funds and provident funds businesses, in 2010-2015 (NIS billion):



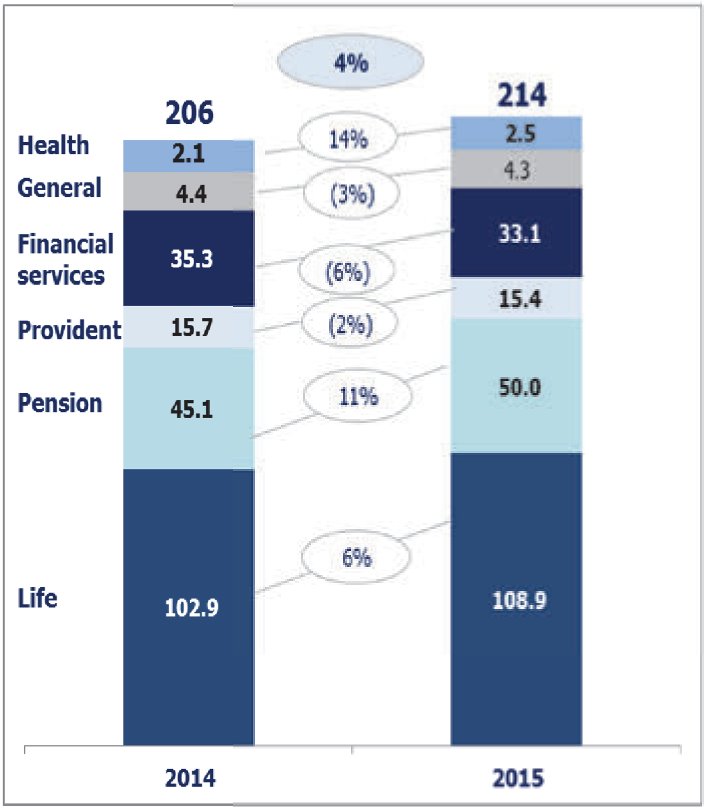
In 2015 the increase in premiums continued, including receipts in respect of investment contracts, and in contributions, reflected mainly in an increase in contributions in pension and in health insurance premiums, as well as in general insurance.

Pursuant to the reforms in the area, in recent years there was a decrease in the weight of life assurance new sales to total new sales of life assurance and LTS products in the Group (except provident funds), and on the other hand, there was an increase in the weight of new sales of pension funds. In 2015 there was a slight increase in total sales of pensionary savings products in the Group (except provident funds), following stability in 2014. For additional details see Clause 3.4 below.

Presented below is the development of total AuM[4] in 2010-2015 (NIS billion):



Presented below is the breakdown of AuM in the Group by area of activity as of the end of 2015, vs. the end of 2014 (NIS billion):



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

3.4 Area of life assurance and LTS

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

NIS million	2015	2014	Change in %	2013	10-12/15	10-12/14	Change in %
Life assurance							
Gross current earned premiums	6,828.5	6,817.5	0%	6,657.2	1,694.5	1,731.6	(2%)
Single premiums and receipts in respect of investment contracts	1,679.4	1,596.2	5%	1,414.1	551.2	542.8	2%
Gross earned premiums including investment contracts in life assurance	**8,507.9**	**8,413.7**	1%	**8,071.3**	**2,245.7**	**2,274.3**	(1%)
Management fees	857.9	946.1	(9%)	1,115.1	381.4	192.3	98%
Income (loss) for the period	196.3	192.4		686.3	186.1	(78.9)	
Comprehensive income (loss)	39.0	343.8		809.0	211.5	(60.1)	
Pension							
Contributions [(1)]	5,767.0	5,323.0	8%	4,718.0	1,518.0	1,378.0	10%
Management fees	348.6	340.6	2%	302.4	91.1	89.8	1%
Income for the period	70.5	83.4		69.9	15.3	20.4	
Comprehensive income	64.3	84.2		71.9	15.2	19.6	
Provident							
Contributions	1,681.0	1,747.0	(4%)	1,771.0	540.0	568.0	(5%)
Management fees	131.6	138.1	(5%)	138.7	31.8	34.6	(8%)
Income (loss) for the period	9.3	16.3		25.0	(8.7)	(2.0)	
Comprehensive income (loss)	7.2	16.4		25.0	(8.7)	(1.8)	
Total gross earned premiums, receipts in respect of investment contracts and contributions	**15,955.9**	**15,483.7**	**3%**	**14,560.3**	**4,303.7**	**4,220.3**	**2%**
Total management fees	**1,338.0**	**1,424.8**	**(6%)**	**1,556.1**	**504.3**	**316.7**	**59%**
Total income (loss) for the period	**276.2**	**292.1**		**781.2**	**192.7**	**(60.5)**	
Total comprehensive income (loss)	**110.5**	**444.5**		**905.9**	**218.0**	**(42.3)**	

(1) It should be noted that contributions in pension in respect of 2014 and 2013 were re-classified pursuant to the provisions of the Institutional Entities Circular 2016-9-3, stating that receipts from contributions shall not include the attribution of contributions in respect of disabled members and risk from accrual by the fund. As a result of the above, there was a decline in the classification of contributions in Makefet Ishit fund in the years 2014 and 2013, in the amount of approx. NIS 36 million and 38 million, respectively.

3.4.2 Presented below are data regarding insurance liabilities in life assurance and AuM in pension and provident funds in the Group as of the end of 2014 vs. the end of 2013, respectively:

NIS million	31.12.2015	31.12.2014	Change in %
Liabilities in respect of yield-dependent insurance and investment contracts	81,581	76,420	7%
Liabilities in respect of insurance and investment contracts that are not yield-dependent	27,342	26,500	3%
Total liabilities in respect of insurance and investment contracts – life assurance	108,923	102,920	6%
AuM in pension funds	50,048	45,149	11%
AuM in provident funds	15,416	15,736	(2%)
Total life assurance and LTS	**174,387**	**163,805**	**7%**

3.4.3 **Results of activity in the area of life assurance and LTS in 4Q15**

(a) Life assurance

Scope of activity

In 4Q15, there was a slight decrease in current premiums in respect of insurance contracts and in current receipts in respect of investment contracts, which was affected by new sales less cancellations. Single premiums in respect of insurance contracts and single receipts in respect of investment contracts recorded a slight increase vs. 4Q14.

The rate of surrenders to average reserve (in annual terms) in 4Q15 totaled approx. 1.8%, similar to 4Q14.

Comprehensive income before tax

The comprehensive financial spread from investments against guaranteed yield policies in life assurance increased significantly compared to 4Q14, due to an increase in the real yields achieved by the Company in investments that are not designated bonds.

In addition, there was an increase in variable management fees recorded in 4Q15, in profit participating policies marketed until 2004, totaling approx. NIS 222 million (before tax), vs. approx. NIS 44 million (before tax) in the same policies in 4Q14.

Following the update of interest rate and annuity assumptions, there was an increase in the Supplementary Annuity Reserve (SAR) and in the Liability Adequacy Test (LAT), in the amount of approx. NIS 148 million (before tax) vs. an increase in the amount of approx. NIS 123 million before tax in 4Q14. For details see Clause 3.2 above.

Furthermore, in life assurance there was a decrease in income from risk, mainly due to an increase in the provision for PHI, based on a research conducted by the Company and by reinsurers regarding the survivability rate of insureds who receive PHI compensation, in the amount of approx. NIS 60 million (before tax), for details see Note 37b3b(5) to the Financial Statements. On the other hand, there was an increase in revenues from fixed management fees in profit participating policies, following an increase in the volume of the managed assets, as well as a decrease in G&A expenses.

(b) Pension funds

Scope of activity

In 4Q15, there was an increase in contributions, which was affected by new sales and salary increases, less cancellations.

Comprehensive income before tax

The decrease in comprehensive income in pension in 4Q15 vs. 4Q14 was mainly affected by an increase in G&A expenses.

(c) Provident funds

Scope of activity

In 4Q15 there was a decrease in contributions.

Comprehensive income before tax

The increase in comprehensive loss in 4Q15 vs. 4Q14 was mainly due to a decrease in income from management fees, which was mainly affected by an erosion in management fees and an increase in G&A expenses.

In addition, in 4Q15 there was a goodwill valuation allowance in the amount of approx. NIS 13 million, attributed to provident activity, compared with a goodwill valuation allowance in the amount of approx. NIS 14 million that was recorded in 4Q14.

3.4.4 **Results of activity in reported year**

(a) Life assurance - scope of activity

In 2015, there was stability in current premiums in respect of insurance contracts and in current receipts in respect of investment contracts, which was affected by new sales less cancellations, after a slight increase in current premiums, that was recorded in 2014 compared with 2013, and was affected by a decrease in the cancellation rate. In single premiums in respect of insurance contracts and single receipts in respect of investment contracts the increase continued, following the increase that was recorded in 2014 compared with 2013.

In 2015 there was a slight decline of approx. 4% in new sales in life assurance plans (including investment contracts), following a significant decrease of approx. 21% in 2014, which was due to the regularization of annuity coefficients and the restrictions imposed regarding new insurance plans, as far as the inclusion of guaranteed annuity coefficients are concerned.

For additional details regarding the regularization of annuity coefficients, see also Clause 6.2.3 in Part B to the Corporation Businesses Description chapter.

The rate of surrenders to average reserve in life assurance (including outgoing transfer of funds) totaled approx. 1.7% in 2015, vs. approx. 1.9% in 2014 and approx. 2.0% in 2013.

As per the Ministry of Finance data[5], in the first nine months of 2015 there was an increase of approx. 3% in the aggregate amount of premiums in the life assurance line (excluding receipts in respect of investment contracts) compared with the same period in 2014, vs. a decrease of approx. 1% in the amount of premiums in the Group.

As a result, there was a decrease in the Group's market share in terms of premiums, for details see Clause 7.2 to the Corporation Businesses Description chapter.

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

As per the Ministry of Finance data[6], as of September 30th, 2015 there was an increase of approx. 4% in the scope of insurance liabilities in the life assurance line (excluding liabilities in respect of investment contracts) compared with September 30th, 2014, similar to the increase in the Group's insurance liabilities.

As per the Ministry of Finance data[7], as of December 31st, 2015, the scope of aggregate assets in profit participating life assurance totals approx. NIS 242 billion, an increase of approx. 9.5% vs. December 31st, 2014 (vs. approx. 6.8% in the Group).

Comprehensive income before tax

In 2015 there was a decrease in variable management fees collected in life assurance, which totaled approx. NIS 232 million (before tax), vs. approx. NIS 384 million (before tax) in 2014, and compared with approx. NIS 637 million (before tax) in 2013, in which especially high yields were achieved by the Company.

Furthermore, the comprehensive financial spread from investments against guaranteed yield policies in life assurance decreased, due to a decrease in the real yields achieved in investments that are not designated bonds. On the other hand, in 2014 the comprehensive financial spread from investments against guaranteed yield policies in life assurance increased compared with 2013, due to an increase in the real yields achieved by the Company in investments that are not designated bonds.

Following the update of interest rate and annuity assumptions, there was an increase in the Supplementary Annuity Reserve (SAR) and in the Liability Adequacy Test (LAT), in the amount of approx. NIS 363 million before tax vs. an increase in the amount of approx. NIS 466 million before tax in 4Q14 and a provision of approx. NIS 63 million (before tax) recorded in 2013. For details see Note 37b3b(5) to the Financial Statements.

Furthermore, in life assurance there was a decrease in income from risk, partly due to an increase in the provision for PHI in the amount of approx. NIS 60 million (before tax), for details see Note 37b3b(5) to the Financial Statements. In 2014 there was an increase in income from risk vs. 2013 due to a decrease in claims. On the other hand, there was an increase in revenues from fixed management fees in profit participating policies, following an increase in the volume of the managed assets in 2013-2015.

Pursuant to the regularization of management fees, there was a decrease in management fees in life assurance products sold as of January 2013. The average rate of management fees collected in these policies in 2015 by the Group is approx. 0.96% of accrual and approx. 2.26% of premium, vs. approx. 0.98% of accrual and approx. 2.49% of premium in 2014, and approx. 1.01% of accrual and approx. 2.61% of premium in 2013.

In life assurance plans marketed as of 2004 and until the end of 2012 there was a slight erosion in the rate of management fees due to the increased competition. The average of management fees collected in these policies in 2015 is approx. 1.21% of accrual and approx. 3.29% of premium, vs. approx. 1.22% of accrual and approx. 3.42% of premium in 2014, and approx. 1.22% of accrual and approx. 3.59% of premium in 2013.

For details regarding the regularization of management fees, see Clause 6.3.4 in Part B to the Corporation Businesses Description chapter.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 8.3% in 2015 vs. approx. 8.5% in 2014 and approx. 9.1% in 2013.

[6] The market data are based on the processing of the MoF reports published on the website ("**Managerial Reports**").
[7] Based on "Bituachnet" website and the MoF monthly Investments Report.

The rate of commissions to premiums totaled approx. 6.4% in 2015, similar to 2014, and approx. 7.3% in 2013. See also Clause 32.3.1 in Part D to the Corporation Businesses Description chapter.

G&A[8] expenses rate to gross earned premium totaled approx. 5.2% in 2015, vs. approx. 5.4% in 2014 and approx. 5.8% in 2013. In 2013, the increase in expense rate to premium was affected by a special grant that was distributed mainly to the Group employees.

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

(b) Pension - scope of activity

In the reported year there was an increase in pension contributions, following an increase in 2014, which was affected by an increase in new sales, as well as salary increases, less cancellations.

New pension sales increased in 2015 by approx. 5% compared with 2014, and compared with a significant increase of approx. 14% in 2014 vs. 2013, due to the regularization in annuity coefficients and the restrictions imposed as to new life assurance plans regarding the inclusion of guaranteed annuity coefficients, as set forth above.

Contributions in pension funds exclude money transfers in respect of the mobility of members from one fund to the other. Money transfers to the Group's new pension funds in 2015 totaled approx. NIS 657 million (vs. approx. NIS 397 million in 2014), and on the other hand, money transfers from the Group's new pension funds to other funds totaled about NIS 1,263 million (vs. approx. NIS 902 in 2014). Net money transfers to other institutional entities totaled approx. NIS 606 million in 2015 (vs. approx. NIS 505 million in 2014).

Surrender rates (including outgoing transfer of funds) increased in 2015, see Clause 8.4 in Part B to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[9], the aggregate amount of contributions in the line of new pension funds in 2015 totaled approx. NIS 28,366 million, vs. NIS 25,046 million in 2014, an increase of about 13% (vs. an increase of approx. 8% in the Group).

As per the Ministry of Finance data[10], as of December 31st, 2015, the aggregate scope of AuM in the pension funds line totals about NIS 220 billion, vs. approx. NIS 191 billion as of December 31st, 2014, an increase of approx. 15%.

The Group's AuM increased by approx. 11% in 2015, affected by increases in capital markets and an increase in net current accrual[11].

As a result of the above, in the reported year there was a decrease in the Group's market share in the pension funds line, for details see Clause 7.2 in Part B to the Corporation Businesses Description chapter.

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

[9] Based on data published on the "Pensyanet" website.

[10] Based on data published on the "Gemelnet" website.

[11] Current accrual, net, is defined as contributions plus the net transfer of members, less surrenders and pension payments.

Comprehensive income before tax

The decrease in comprehensive income in 2015 compared with 2014 was affected by an increase in expenses and a decrease in investment income in the Nostro portfolio. On the other hand, there was an increase in revenues from management fees, due to an increase in the scope of contributions and AuM, which was partly offset by a decrease in the average management fees.

The increase in total comprehensive income in 2014 vs. 2013 was affected mainly by an increase in revenues from management fees, due to an increase in the scope of contributions and AuM, as well as due to change in provision for the refund of management fees pursuant to the Commissioner's decision in principle regarding the increase of management fees without advance notice, and on the other hand, due to an increase in G&A expenses.

For the continued decrease in average management fees, in light of the increased competition in pension plans that became the main marketed product, see Clause 6.4 in Part B to the Corporation Businesses Description chapter.

The average commission fees to contributions decreased slightly in 2013-2015, see Clause 32.3.1 in Part D to the Corporation Businesses Description chapter.

The rate of expenses and acquisition costs to contributions of all activity in pension funds in the Group totaled approx. 5.0% in 2015, vs. approx. 4.9% in 2014 and approx. 5.1% in 2013.

For additional details regarding pension businesses' results, see Note 3c to the Financial Statements.

(c) Provident - scope of activity

Contributions in provident decreased in 2013-2015.

Contributions exclude money transfers in respect of the mobility of members from one fund to another. In 2015, money transfers to the Group's provident funds totaled approx. NIS 217 million (vs. approx. NIS 202 million in 2014), and on the other hand, money transfers from the Group's provident funds to other funds totaled approx. NIS 1,308 million (vs. approx. NIS 1,003 million in 2014). Net money transfers to other institutional entities, as aforesaid, totaled approx. NIS 1,091 million in 2015 (vs. approx. NIS 801 million in 2014).

Surrender rates (including outgoing transfer of funds) increased in 2015, see Clause 8.4 in Part B to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[12], as of December 31st, 2015, the aggregate scope of AuM in the line of provident funds totaled approx. NIS 382 billion, vs. approx. NIS 369 billion as of December 31st, 2014, an increase of approx. 4%.

The Group's AuM decreased by approx. 2% in 2015, affected mainly net money transfers in respect of members who transferred their monies to other institutional entities, less investment income.

As a result of the above, in the reported year there was a decrease in the Group's market share, for details see Clause 7.2 in Part B to the Corporation Businesses Description chapter.

Comprehensive income before tax

The decline in comprehensive income in provident in 2015 compared with 2014 is mainly due to a decrease in revenues from management fees, which was mostly affected by an erosion in the rate of average management fees, as well as from a

[12] Based on data published on the "Gemelnet" website.

certain decrease in revenues in the Nostro portfolio and an increase in G&A expenses.

In addition, in 2015 there was a provision for a goodwill valuation allowance, attributed to provident, in the amount of approx. NIS 13 million, compared with a provision for a goodwill valuation allowance in the amount of approx. NIS 14 million recorded in 2014.

In 2014 there was a decrease in comprehensive income vs. 2013, due to a provision for a goodwill valuation allowance attributed to provident, On the other hand, there was a certain increase in revenues in the Nostro portfolio.

For additional details regarding the development of average management fees in provident funds, see Clause 6.4 in Part B to the Corporation Businesses Description chapter.

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

The Note analyses the Group's life assurance businesses in cuts of products with a savings component as per layers based on different underwriting years, and products with no savings component, with a separation between individual policies and collective policies.

NIS million	2015	2014	2013
Comprehensive income (loss) as per policy types			
Policies with a savings component			
Until underwriting year 1990	(117)	(19)	154
Until underwriting year 2003	239	261	736
From underwriting year 2004	136)	(77)	(170)
Policies with no savings component			
Individual risk	79	160	112
Collective risk	(26)	19	(23)
Total comprehensive income	**39**	**344**	**809**
Out of which: financial spread including management fees [13]	1,213	1,417	1,447

The increase in comprehensive loss in 2015 compared with 2014 **in the policies written until 1990** (mainly guaranteed yield and backed by Hetz bonds), was mainly affected by a an increase in SAR due to the update of interest rate and annuity assumptions as well as an increase in LAT, in the total amount of approx. NIS 411 million, compared with an increase in provision in the amount of approx. NIS 350 million in 2014. Furthermore, there was a decrease in the comprehensive financial spread from investments against guaranteed-yield policies.

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

The shift to comprehensive loss in 2014 compared with income in 2013 was affected by an increase in the provision in the amount of approx. NIS 350 million as aforesaid, compared with an increase in the provision I n the amount of approx. NIS 42 million in 2013, and on the other hand there was an increase in the comprehensive financial spread from investments.

The slight decrease in income **in policies written until underwriting year 2003** (mainly profit participating policies) in 2015 vs. 2014 is mainly due to the decrease in the collection of variable management fees, which totaled approx. NIS 232 million vs. approx. NIS 384 million in 2014. On the other hand, there was a decrease in the provision for SAR due to the update of interest rate and annuity assumptions, as well as in the provision for LAT, in the total amount of approx. NIS 48 million in 2015, compared with an increase of approx. NIS 116 million in the provision in 2014, as well as an increase in fixed management fees.

The significant decrease in income in 2014 compared with 2013 was mostly affected by a decrease in collected management fees, from approx. NIS 637 million in 2013 to approx. NIS 384 million, as well as an increase in the amount of approx. NIS 116 million in the provision as aforesaid, compared with an increase in the amount of approx. NIS 21 million in 2013.

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

The increase in loss in 2015 compared with 2014 is partly due to a decrease in income from risk, as a result of the increase in the provision for PHI, based on the research conducted by the Company and by reinsurers, regarding the survivability rate of insureds, as set forth in Note 37b3b(5) to the Financial Statements.

On the other hand, in 2013-2015 there was an increase in fixed management fees due to the increase in the scope of average reserves.

The decrease in income from individual risk in 2015 vs. 2014 was affected by an increase in claims, following a decrease in claims recorded in 2014 vs. 2013. Furthermore, the results are affected by changes in income from investments in respect of assets held against reserves in these policies.

In the collective risk the shift from comprehensive income in 2014 to a comprehensive loss in 2015 was mainly affected by a deterioration in underwriting results, as well as by an increase in the provision tophi as set forth above, following an improvement recorded in 2014 compared to 2013,

The Note presents a breakdown of insurance liabilities from two aspects: a breakdown as per financial exposure (guaranteed-yield or participating in investment income) and a breakdown as per insurance exposure [the Company's undertaking at the end of the insurance period – a surrender in a lump amount (capital) or annuity]. Regarding the Company's financial exposure, see also Note 37b2 to the Financial Statements.

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

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

	Policies written in 1992-2003 (J Fund)		
	2015	**2014**	**2013**
Gross positive real yield	3.72	5.87	10.33
Net positive real yield	2.65	4.46	8.24
Gross positive nominal yield	2.79	5.77	12.44
Net positive nominal yield	1.73	4.36	10.31

	Policies written from 2004		
	2015	**2014**	**2013**
Gross positive real yield	2.65	5.23	9.61
Net positive real yield	1.43	3.95	8.26
Gross positive nominal yield	1.74	5.13	11.71
Net positive nominal yield	0.52	3.85	10.33

	Policies written in 1992-2003 (J Fund)				
	4Q15	**3Q15**	**2Q15**	**1Q15**	**4Q14**
Gross positive (negative) real yield	2.97	(3.09)	(2.05)	6.08	0.76
Net gross positive (negative) real yield	2.39	(2.77)	(1.89)	5.05	0.52
Gross positive (negative) nominal yield	2.25	(2.80)	(0.96)	4.39	0.57
Net positive (negative) nominal yield	1.68	(2.47)	(0.80)	3.38	0.33

	Policies written from 2004				
	4Q15	**3Q15**	**2Q15**	**1Q15**	**4Q14**
Gross positive (negative) real yield	2.80	(3.49)	(2.34)	5.95	0.40
Net positive (negative) real yield	2.49	(3.78)	(2.65)	5.63	0.10
Gross positive (negative) nominal yield	2.08	(3.21)	(1.27)	4.26	0.21
Net positive (negative) nominal yield	1.78	(3.49)	(1.55)	3.94	(0.10)

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

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

	2015	2014	2013
		NIS million	
Investment income credited to insureds after management fees	925	2,914	6,105
Management fees	858	946	1,115

	4Q15	3Q15	2Q15	1Q15	4Q14
			NIS million		
Investment income (loss) credited to insureds after management fees	1,228	(2,118)	(850)	2,665	128
Management fees (reimbursement of management fees)	382	(116)	(22)	614	192

(c) Weighted yields in pension funds (in %)

	Migdal Makefet (Ishit) – general track		
	2015	2014	2013
Gross nominal yield	2.42	5.61	11.51

	Migdal Makefet (Ishit) – general track				
	4Q15	3Q15	2Q15	1Q15	4Q14
Gross positive (negative) nominal yield	1.94	(2.58)	(0.21)	3.35	0.67

3.5 Area of health insurance

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

	2015	2014	Change in %	2013	10-12/2015	10-12/2014	Change in %
Gross earned premiums	1,024.5	879.9	16%	770.2	268.5	232.7	15%
Income (loss) for the period	(25.7)	75.3		71.3	(14.9)	22.9	
Comprehensive income (loss) for the period	(35.4)	82.3		77.2	(13.5)8	22.8	

Composition of premiums and income by the main insurance lines:

	2015	2014	Change in %	2013
LTC				
Gross premiums	276.7	244.7	13%	215.4
Income (loss) for the period	(37.4)	21.4		9.8
Comprehensive income (loss) for the period	(40.2)	22.9		10.7
Other				
Gross premiums	749.0	636.2	18	554.8
Income for the period	11.7	53.9		61.5
Comprehensive income for the period	4.8	59.4		66.5

3.5.2 **Results of activity in 4Q15**

The increase in premiums in 4Q15 vs. 4Q14 is mainly due to an increase in premiums from individual insurance, due to the continued growth in new sales. In addition, there was a certain increase in premiums from collective insurance.

The shift from comprehensive income to comprehensive loss in 4Q15 compared with 4Q14 is mostly due to a deterioration in claims in LTC and personal accidents insurance, as well as an increase in loss from collective insurance. On the other hand, there was an increase in real revenues from investments against insurance liabilities.

3.5.3 **Results of activity in 2015**

Scope of activity

The continued increase in gross earned premiums in 2015 and 2014 is mainly due to premiums from individual insurance, due to the continued increase in new sales, less cancellations. The upwards trend in premiums is evident in all health products marketed by the Group. In addition, there was a certain increase in premiums from collective insurance.

New sales of health insurances in the Group increased by approx. 12% in the reported year vs. 2014, following an increase of about 37% in 2014 compared with 2013.

New sales of LTC increased by approx. 8% in 2015 compared with 2014, following an increase of approx. 71% in 2014 compared with 2013. Other new sales in the area recorded an increase of about 13% compared with 2014, following an increase of approx. 29% in 2014 compared with 2013.

In 2015 there was an increase in the cancellation rates in LTC compared with 2014, and in 2014 there was an increase in cancellation rates compared with 2013, both in LTC and in other health insurances, for details see Clause 11 in Part B to the Corporation Businesses Description chapter.

As per the Ministry of Finance data[14], in the first nine months of 2015, there was an increase of approx. 10% in the aggregate amount of premiums in the health insurance line compared with the first nine months in 2014, compared with an increase of approx. 17% in the Group in this period.

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

As a result, the Group's market share in health insurance increased, for details see Clause 10.2 in Part B to the Corporation Businesses Description chapter.

For details regarding data concerning premiums and new sales, see Note 19 to the Financial Statements.

Comprehensive income before tax
The shift from comprehensive income in 2014 to comprehensive loss is mostly due to a deterioration underwriting results, reflected mainly in LTC and personal accidents insurance due to a deterioration in the development of claims, as well as an increase in loss from collective insurance. The results were also affected by an increase in G&A expenses, as well as a decrease in real revenues from investments against insurance liabilities.

The increase in comprehensive income in 2014 vs. 2013 was mainly due to the impact of the estimation of claims in LTC, which was partly offset due to an increase in claims in medical expenses insurance, *inter alia*, transplants, and a reduction in revenues from investments against insurance liabilities.

The rate of commissions, marketing expenses and other acquisition expenses to gross earned premium totaled approx. 28.6% in 2015, vs. approx. 28.8% in 2014 and approx. 26.3% in 2013.

The rate of commissions to premiums totaled approx. 30.1% in 2015, similar to 2014, and vs. approx. 25.8% in 2013. The increase in commission rate in 2014 compared with 2013 was affected by the significant increase in new sales in health insurance, see Clause 32.3.2 in Part D to the Corporation Businesses Description chapter.

The G&A[15] expenses to gross earned premium totaled approx. 5.7% in 2015, vs. about 4.9% in 2014 and approx. 5.1% in 2013.

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

3.6 Area of general insurance

3.6.1 CMBI and liability lines – recognition of income

In the area of CMBI and liability, in the first 3 years (“**the open years**”), the excess of income over expenses is not recorded as income, but is credited to outstanding claims (“**accrual**”)[16]. As a result, income in this area mainly reflects the profitability of an underwriting year which ended 3 years before the reported year, plus the accumulated investment income, adjustments in respect of underwriting years released in previous years (“**old years**”), income (loss) in respect of "the open years" stemming from the difference between the investment-based income actually achieved in respect of these years and real 3% interest credited to excess reserves as per the Commissioner regulations, as well as activity not included in the reserves calculation.

These lines are characterized by a relatively high reserve level stemming from the considerable time interval between receiving the premiums and completing the handling of claims and the accounting method of creating an accrual reserve which is included in outstanding claims as aforesaid, which is why the investment results considerably affect income.

Pursuant to the regularization as to the way reserves in general insurance are calculated, which came into effect beginning from the Financial Statements as of December 31st, 2015, the accrual in CMBI and liability lines was cancelled, and the Commissioner's position regarding the best estimation for actuaries for the calculation of reserves in

[15] G&A expenses are after the classification of expenses to the item of change in liabilities and payments in respect of insurance contracts and to the item of commissions, marketing expenses and other acquisition expenses.
[16] Following the IFRS standards, income from investments credited to accrual are calculated based on a real yield of 3% per year, regardless of the actual yield of investments.

general insurance was implemented. The impact of the change was credited, accordingly, to surpluses on December 31st, 2015 with no retrospective implementation, therefore the change did not affect activity results. For additional details see Note 2j2d)(3) and (4) to the Financial Statements and Note 37b3c)(5) to the Financial Statements.

3.6.2 **Presented below are details of the condensed results in the area of general insurance:**

NIS million	2015	2014	Change in %	2013	10-12/2015	10-12/2014	Change in %
CMBI							
Gross premiums	509.9	540.0	(6%)	538.6	98.9	93.4	6%
Premiums in retention	498.5	528.2	(6%)	530.1	94.7	89.5	6%
Income for the period	164.9	85.0		129.2	55.8	18.8	
Comprehensive income	122.0	89.4		155.9	62.7	15.1	
Casco							
Gross premiums	646.6	553.5	17%	579.9	135.7	110.5	23%
Premiums in retention	643.7	552.9	16%	578.9	135.1	110.3	22%
Income (loss) for the period	(46.0)	9.2		(0.9)	(6.0)	(7.1)	
Comprehensive income (loss)	(52.6)	9.9		2.4	(4.2)	(7.8)	
Other property							
Gross premiums	588.2	571.1	3%	620.2	123.8	135.7	(9%)
Premiums in retention	268.6	253.0	6%	184.8	56.7	54.9	3%
Income (loss) for the period	46.3	44.0		5.8	0.9	14.5	
Comprehensive income (loss)	42.7	44.4		7.3	1.7	14.2	
Liabilities							
Gross premiums	305.5	304.2	0%	282.8	66.4	57.8	15%
Premiums in retention	228.7	228.4	0%	214.8	37.2	35.4	5%
Income (loss) for the period	(28.5)	(29.8)		(29.9)	12.4	(16.9)	
Comprehensive income (loss)	(55.2)	(27.0)		(11.7)	16.9	(19.4)	
Total Area of general insurance							
Gross premiums	**2,050.2**	**1,968.9**	**4%**	**2,021.5**	**424.9**	**397.4**	**7%**
Premiums in retention	**1,639.4**	**1,562.5**	**5%**	**1,508.6**	**323.7**	**290.0**	**12%**
Income (loss) for the period	**136.7**	**108.4**	**26%**	**104.2**	**63.1**	**9.3**	
Comprehensive income (loss)	**57.0**	**116.6**	**(51%)**	**153.9**	**77.1**	**2.0**	

Below is information regarding underwriting profitability indices – Loss Ratio ("**LR**") and Combined Ratio ("**CR**") – in the property lines[17], [18]:

Casco line

	2015	2014	2013
Gross Loss Ratio	82.2%	72.7%	74.3%
Retention Loss Ratio	82.2%	72.8%	74.5%
Gross Combined Ratio	109.1%	99.8%	102.2%
Retention Combined Ratio	109.1%	99.9%	102.4%

Property lines (excluding motorcar)

	2015	2014	2013
Gross Loss Ratio	69.5%	47.4%	38.3%
Retention Loss Ratio	45.4%	42.2%	44.4%
Gross Combined Ratio	96.1%	73.8%	64.6%
Retention Combined Ratio	84.8%	81.1%	99.7%

3.6.3 Results of activity in 4Q15

Scope of activity
The increase in gross premiums in 4Q15 vs. 4Q14 was mainly affected by an increase in premiums from casco due to an increase in the number of policies, as well as an increase in premiums from CMBI, which was also affected by an increase in the number of policies, in spite of an erosion of tariffs due to the competition in the line.

In addition, there was an increase in premiums in the liability lines, partly due to the insurance of new businesses, and on the other hand, there was a decrease in premiums from other property, mainly due to the timing of renewal of policies, in which the insurance coverage exceeds one year in several large businesses.

Comprehensive income before tax
The increase in comprehensive income in 4Q15 vs. 4Q14 was mainly due to an increase in real revenues from investments and an improvement in underwriting results (excluding real investment income), which was mainly reflected in the CMBI and liability lines, and on the other hand, due to a decrease in underwriting income in property lines.

Presented below is a breakdown of underwriting results (excluding real investment income) by line:

In the CMBI line underwriting results (excluding real investment income) were affected by appositive development in the claims experience, which led to a reduction in the actuarial valuation attributed to "old" underwriting years in a larger scope than in 4Q14, for details see Note 37b3c)(5) to the Financial Statements.

[17] Loss ratio is defined as the ratio between payments and the change in liabilities in respect of insurance contracts and earned premiums. Combined Ratio is defined as the ratio between payments and the change in liabilities in respect of insurance contracts, commissions and acquisition costs less revenues from reinsurance commissions and G&A and between earned premiums.
[18] The data exclude a systematic amortization of non-tangible assets, recognized upon the acquisition of the Eliahu portfolio.

In the casco line there was a slight increase in underwriting loss (excluding real investment income) vs. 4Q14, affected by claims in respect of the winter storm that occurred in the fourth quarter of the reported year.

In the property lines (excluding motorcar) there was a deterioration in underwriting results (excluding real investment income), mainly due to the cost of damages caused by the winter storm that occurred in the fourth quarter of the reported year.

In the liability lines the underwriting loss (excluding real investment income) decreased compared with 4Q14, stemming from the upwards trend in the claims experience in the lines of professional liability and product liability, which brought about a decrease in the actuarial valuation in a scope that is larger than in 4Q14. On the other hand, in the lines of employers' liability and third party liability there was a deterioration in the rate of residual damages, which caused a negative development in actuarial valuations, the change in actuarial valuations in these lines was similar to 4Q14. For details see Note 37b3c)(5) to the Financial Statements.

3.6.4 **Results of activity in the reported year**

Scope of activity

The increase in gross premiums in 2015 vs. 2014 was reflected in casco insurance due to an increase in the number of policies, both in individual and collective insurances, as well as in other property insurances. On the other hand, in CMBI there was a decrease in premiums, in spite of an increase in the number of policies, which was affected by an erosion in tariffs due to the competition in the line.

The decrease in gross premiums in 2014 compared to 2013 was due to a decrease in the number of policies in motorcar insurance that were sold by the Company, as well as due to a decrease in premiums in other property lines, which was partly due to the renewal dates of policies in which the insurance coverage exceeds one year in several large businesses and due to a reduction in the number of homeowners policies sold by the Company.

As per the Ministry of Finance data[19], in the first nine months of 2015, there was an increase of approx. 3% in the aggregate amount of gross premiums in the general insurance line compared with the first nine months in 2014 (similar to the increase in the Group). In CMBI there was a decrease of approx. 1% in the market (vs. a decrease of 8% in the Group), in casco insurance there was an increase of approx. 5% in the market (vs. an increase of approx. 15% in the Group), in property insurance (excluding motorcar) there was an increase of about 4% in the market (vs. an increase of approx. 7% in the Group), and in liability insurances there was an increase of approx. 5% in the market (vs. a decrease of approx. 3% in the Group).

As a result, in the first nine months of 2015, the Group's market share remained unchanged compared with the same period in 2014, along with an increase in the Group's market share in the casco and other property lines, and on the other hand, a decline in the CMBI and liability lines, following a decrease in the Group's market shares in most lines, recorded in 2014 compared with 2013. For details regarding the Group's market shares, see Clause 13.2 in Part B to the Corporation Businesses Description chapter.

For details regarding the breakdown of activity in general insurance by type of costumer, and regarding the increase in renewal rates in casco and homeowners insurance compared with a decrease in renewal rates in CMBI in 2015, see Clause 13.2 in Part B to the Corporation Businesses Description chapter.

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

Comprehensive income before tax

The decrease in comprehensive income in 2015 compared with 2014 was mainly affected by a significant decrease in real investment income as well as by a deterioration in underwriting results (excluding real investment income) in CMBI and liability insurances, which was partly offset by an increase in underwriting income in CMBI.

The decrease in comprehensive income in 2014 vs. 2013 was mainly reflected in underwriting results in the CMBI and liability lines. On the other hand, there was an improvement in underwriting results in the property lines, as well as a certain increase in real investment income, partly offset due to an increase in financing expenses in respect of deposits from reinsurers.

Presented below is an analysis of underwriting results (excluding real investment income) by line:

In the CMBI line

Underwriting results (excluding real investment income) in 2015 were affected by a positive development in the claims experience, which led to a decrease in the actuarial valuation attributed to "old" underwriting years in a larger scope than in 2014. For details see Note 37b3c)(5) to the Financial Statements.

In 2014, results were affected, as aforementioned, by the improvement trend in the claims experience, however, the decrease in the actuarial valuation recorded in 2014 was lower than the decrease in the actuarial valuation recorded in 2013.

It should be noted that residual insurance ("**Pool**") losses decreased the Group's income in CMBI by approx. NIS 21 million in 2015, by approx. NIS 14 million in 2014 and by approx. NIS 13 million in 2013.

For details regarding the composition of income and the development of income by underwriting year in the CMBI line – see Note 17c5 and Note 17c7 to the Financial Statements.

In the casco line

Underwriting loss (excluding real investment income) was recorded in 2015 compared with underwriting income in 2014, which was affected by an increase in the provision to premium deficiency in the amount of approx. NIS 11 million due to a deterioration in claims experience, as well as the cost of the damages of the winter storms that occurred in 2015.

It should be noted that the deterioration in claims experience was partly due to an increase in the number of vehicles considered as total loss, due to the expansion of the list of safety damages to vehicles, which prevent using them, pursuant to Amendment 5 to the Traffic Regulations – 1961, which came into effect on April 2014.

In 2014 there was an improvement in underwriting results, due to an improvement in the cost of claims, *inter alia*, due to the damages of the winter storms that occurred in 2013.

For the changes in underwriting profitability rates, see LR and CR data above.

In the property lines (excluding motorcar)

Underwriting results (excluding real investment income) remained similar to 2014, in spite of the cost of claims due to the winter storms which occurred in 2015.

In 2014 there was an increase in underwriting results, due to a decrease in claims in retention, which was partly affected by the damages of the winter storms that occurred in 2013, as well as a decrease in the cost of reinsurance.

For the changes in underwriting profitability rates, see LR and CR data above.

In the liability lines
In 2015 there was an increase in underwriting results (excluding real investment income) compared with 2014, mostly reflected in the employers' and third party liabilities due to a trend of deterioration in in the rate of damages in retention, which brought about a negative development in actuarial valuations.

On the other hand, in the professional and product liability lines there was an improvement trend in the claims experience, which led to a decrease in the actuarial valuation I n a larger scope than in 2014. For details see Note 37b3c)(5) to the Financial Statements.

The deterioration in underwriting results in 2014 compared with 2013 is mainly due to the trend of deterioration in the claims experience, which led to an increase in the actuarial valuation of outstanding claims in the lines of third party liability and employers' liability. The increase in these valuations in 2014 was higher than the increase in 2013's actuarial valuations. This deterioration, as aforementioned, is partly offset due to an improvement in the lines of professional liability and product liability.

For information regarding the composition of income and the development of income by underwriting years in liability lines – see Notes 17c6 and 17c8 to the Financial Statements.

The rate of commissions, marketing expenses and other acquisition expenses to gross premium totaled approx. 20.8% in 2015 vs. approx. 20.5% in 2014 and approx. 21.2% in 2013.

The rate of commissions to gross premium totaled approx. 13.4% in 2015, compared with 13.2% in 2014 and 14.0% in 2013. For details see Clause 32.3.3 to the Corporation Businesses Description chapter.

The rate of G&A[20] to gross premium totaled approx. 2.4% in 2015, vs. about 2.3% in 2014 and approx. 2.5% in 2013.

3.7 **Area of financial services**[21]

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

	2015	**2014**	**Change in %**	**2013**	**10-12/2015**	**10-12/2014**	**Change in %**
Revenues	205.3	209.6	(2%)	200.7	61.7	54.1	14%
Income (loss) for the period	(3.5)	0.5		(4.3)	6.7	2.3	
Comprehensive income (loss) for the period	(2.9)	209.6		200.7	6.8	54.1	

[20] G&A expenses are after the allocation of expenses to the item of change in liabilities and payments in respect of insurance contracts and the item of commissions, marketing expenses and other acquisition expenses.
[21] The data regarding revenues, expenses and income before tax include the results of activity in financial services performed within Migdal Capital Markets, as well as the activity of Arxcis Global Wealth Management Ltd, held by Mivtach Management, and other revenues/expenses.

Presented below is a breakdown of AuM and total assets in the balance sheet in the area of financial services as of the end of 2015 and 2014, respectively (NIS million):

	31.12.2015	31.12.2014	Change in %
AuM	33,101	35,354	(6%)
Total assets in the balance sheet	636	789	(19%)

AuM – the decrease in the scope of AuM in the Group in the area of financial services was mainly affected by a decrease in the scope of mutual funds managed by the Group, as well as by a certain decrease in the scope of managed portfolios. For details see Clause 21 in Part B to the Corporation Businesses Description chapter.

Total assets in the balance sheet – in 2015 there was a decrease in current assets, due to a decrease in the balance of customers due to the discontinuation of brokerage activity in Migdal capital markets, after the completion of the merger of Migdal Stock Exchange (previously a subsidiary of Migdal Capital Markets) into Stock Exchange Services and Investment IBI Ltd. in October 2015, for details see Clause 16.2.4 in Part B to the Corporation Businesses Description chapter, and Note 39.2e3) to the Financial Statements.

In addition, there was a decrease in total assets in the balance sheet due to the discontinuation of the activity of MGT Hedge Fund L.P ("**MGT**") which was established in January 2014, in which the Nostro activity that relies on certain models of investment, with an emphasis on activity abroad, was concentrated. The general partner in MGT was a subsidiary of Migdal Capital Markets. The investors in the fund, in equal parts, were Migdal Capital Markets and Eliahu Insurance, with NIS 35 million each. During 1205 Migdal Capital Markets and Eliahu Insurance withdrew all their investments in the fund, and its activity was discontinued.

On the other hand, in the reported period MRS Hedge Fund, L.P, that Migdal Capital Markets is the controlling shareholder in the general partner who manages its investments, began its activity. The fund focuses on investing in bond funds in Europe, and the investment model and asset allocation are provided by an external company. In the reported period Migdal Capital Markets invested approx. USD 10 million in the fund.

It should be noted that the scope of investments in securities, cash balances and cash equivalent of the area, vary significantly depending on the situation in the capital markets.

3.7.1 **Results of activity in 4Q15**

In 4Q15 there was an increase in revenues, mainly due to the investment banking activity as well as to revenues from the area of distribution in respect of bond issuances by Migdal Insurance Capital Raising, which was partly offset by a decrease in revenues from extending brokerage services following the discontinuation of this activity in Migdal Capital Markets, as aforementioned.

The increase in comprehensive income in 4Q15 compared with 4Q14 was mainly affected by an increase because of the discontinuation of brokerage activity. On the other hand, in 4Q15 a goodwill amortization attributed to the activity of hedge funds in the Company was recorded.

3.7.2 **Results of activity in 2015**

Revenues

In 2015, there was a certain decrease in the scope of revenues, mainly affected by a decrease in revenues from extending brokerage services by Migdal Stock Exchange Services that was merged as aforementioned, by a decrease in the revenues of Arxcis[22] and a certain decrease in revenues from management fees from mutual funds, due to a decrease in average management fees. On the other hand, there was an increase in revenues in respect of investment banking activity as aforementioned, as well as an increase in revenues from the area of distribution, mainly in respect of bond issuances by Migdal Insurance Capital Raising, as set forth in Note 24e to the Financial Statements.

The increase in the scope of revenues in 2014 vs. 2013 was mostly affected by an increase in revenues from the management of mutual funds, following an increase in the scope of AuM, which was partly offset by a decline in the average rate of management fees, *inter alia*, due to the continued raising in the tracking funds track, in which almost no management fees were collected, and on the other had due to a decrease in revenues from portfolio management fees[23]. Furthermore, the increase in revenues was affected by an increase in revenues from Arxcis and by an increase in revenues from financial and financing transactions.

Comprehensive income before tax

The shift from comprehensive income to comprehensive loss in 2015 was mainly affected by a goodwill amortization attributed to mutual funds' activity in the amount of approx. NIS 26 million, compared with the goodwill amortization that was performed in 2014, attributed to one of Migdal Capital Markets Group hedge funds, whose activity was discontinued in 2014, in the amount of approx. NIS 7 million, see also Note 4 to the Financial Statements. In addition, there was a certain decrease in the Company's revenues as aforementioned.

On the other hand, there was a decrease in expenses, mainly due to the discontinuation of brokerage activity as aforementioned.

The increase in comprehensive income in 2014 vs. 2013 was affected by an increase in revenues as aforementioned, partly offset by a goodwill amortization attributed to the hedge fund as aforementioned, as well as due to a certain decrease in expenses that is due to a special grant that was distributed mainly to the Group employees in 4Q13, and on the other hand due to an increase in variable expenses.

3.8 **G&A expenses**

In 2015 the Group's G&A expenses[24] totaled approx. NIS 1,721 million vs. NIS 1,663 million in 2014 and approx. NIS 1,762 million in 2013.

The increase in expenses in 2015 compared with 2014 was affected mainly by an increase in the slate of employees as detailed in Clause 31.2 in Part D to the Corporation Businesses Description chapter, as well as the coming into effect of a collective agreement for the employees of Migdal insurance and Migdal Makefet, which increased the Group's expenses by approx. NIS 60 million in 2015, and was partly offset due to a decrease in the variable salary component.

The decrease in expenses in 2014 vs. 2013 was mainly affected by a special grant that was given mostly to the Group employees in 2013, in the amount of approx. NIS 97 million.

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

[22] Arxcis was sold on March 31st, 2015, and as a result of the sale a capital loss in a non-material amount was recorded.

[23] Until June 30th, 2013 Migdal Capital Markets Group extended investment management services to some provident funds in Migdal Makefet.

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

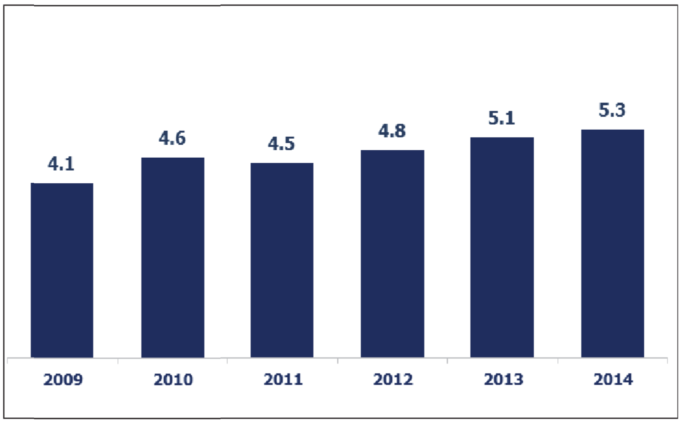
3.9 **Key balance sheet data from the Financial Statements**

NIS million	31.12.2015	31.12.2014	Change in %
Total balance sheet	126,342	119,052	6%
Total assets for yield-dependent contracts	83,644	78,708	6%
Total equity	5,229	5,278	(1%)
Total liabilities in respect of insurance and investment contracts	115,639	109,450	6%
Out of which:			
Liabilities in respect of yield-dependent insurance and investment contracts	83,313	78,046	7%
Liabilities in respect of insurance and investment contracts that are not yield dependent	32,326	31,404	3%

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

The change in cash and cash equivalent balances from approx. NIS 4.9 billion as of December 31st, 2014 to approx. NIS 10.1 billion as of December 31st, 2015 is mostly due to an increase in net cash flows from current activity, and financing activity, following an issuance of bonds as set forth below, for details see the cash flow report in the Company's Financial Statements.

Presented below is the development in equity as of the end of the year, in 2010-2015 (NIS billion):



In 2015 Migdal Capital Raising Ltd. ("**Migdal Capital Raising**"), a subsidiary fully owned by Migdal Insurance, issued Series C in the total par value of approx. NIS 1,191 million, which serve Migdal Insurance as hybrid second tier capital and Series D in the total par value of approx. NIS 711 million, which serve Migdal Insurance as hybrid third tier capital, in addition to two private issuances of Migdal Capital Raising bonds performed in 2012, in the total par value of approx. NIS 825 million and which serve Migdal Insurance as hybrid second tier capital. For details see Note 24e to the Financial Statements.

The decrease in equity compared with December 31st, 2014 is mainly due to a comprehensive income of approx. NIS 150 million in the reported year, less dividend in the amount of approx. NIS 200 million, which was approved by the Company's General Meeting in April 2015.

Equity in Migdal Insurance as of December 31st, 2015, pursuant to the Commissioner's Regulations and instructions, calculated as per the capital requirements is approx. NIS 7,395 million, including hybrid second and third tier capital of approx. NIS 2,716 million. Migdal Insurance has an equity surplus of about NIS 3,078 million over the required minimal equity as per the current capital requirements.

For additional details regarding equity requirements, see Note 7c to the Financial Statements.

For details regarding the preparation towards the implementation of Solvency II governance, see Note 7c6 to the Financial Statements.

3.10 Financing sources

NIS million	31.12.2015	31.12.2014	31.12.2013
Financial liabilities	**3,018**	**1,588**	**1,220**
Long term loans (1)	2,730	851	865
Short term loans (2)	4	40	108
Derivatives(3)	284	697	113
Out of which:			
Short sales(4)		13	134
Derivatives in respect of liabilities for yield-dependent policies	237	641	97

(1) The balance of long-term loans as of December 31st, 2015 is composed mainly from issuances of Migdal Capital Issuance performed in 2015, as set forth in Clause 3.9 above, whose balance in the Financial Statements (excluding payable interest) is approx. NIS 1,884 million, in addition to two private issuances of Migdal Capital Issuance bonds performed in 2012, whose balance in the Financial Statements is approx. NIS 837 million. These bonds serve in Migdal Insurance as hybrid second and third tier capital.
(2) In short term credit there are fluctuations pursuant to Migdal Capital Markets' current activity.
(3) The balance of derivatives included in the financial liabilities reflects the liability that was created as of the date of the balance sheet due to activity in derivatives, mainly regarding exposure to foreign exchange.
(4) The balance of short sales by the end of 2013 and by the end of 2014 is attributed to Migdal Capital Markets activities in the management of Nostro accounts, which were discontinued.

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

4.1 Macro-economic environment

Below is a concise description of trends, events and developments in the Group's macro-economic environment, which have or may have an impact on the Group[25].

4.1.1 Developments in the economy and employment

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

Global environment – in 2015 the global activity continued to record moderate growth, be restrained. Key central banks continued taking measures of expansionary monetary policy, mainly the European Central Bank. Developed economies continued growing at a

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

moderate pace, while emerging economies, and mainly China, recorded a deterioration in growth rate, mainly in 2H15.

The American economy continued growing at a moderate pace. In European economies an improvement trend in growth started, in spite of the "Greek crisis" threat, that decreased in 2H15. Towards the end of 2015, a process of separation began in the monetary policy of the large blocs: the Fed began raising interest rate, for the first time in 7 years, while the Central European Bank deepened the monetary expansion.

The Israeli economy - in 2015 the moderate growth in the economic activity level continued., and private consumption supports the continued growth in GDP, while on the other hand export and fixed assets decreased. In 4Q15 there was a certain improvement in the domestic activity, mainly an increase in export.

As per the estimations of the Central Bureau of Statistics for 2015[26]., in 2015 the GDP increased by approx. 2.5%, following an increase of approx. 2.6% in 2014 and approx. 3.3% in 2013. GDP per capita increased by approx. 0.5% in 2015, following an increase of approx. 0.6% in 2014 and an increase of approx. 1.3% in 2013. In 2015 the business GDP increased by approx. 2.3%, following an increase of approx. 3.4% in 2014 and in 2013.

The increase in GDP in 2015 reflects by an increase of approx. 4.9% in expense for private consumption (vs. an increase of approx. 3.7% in 2014), an increase of about 3.1% in expense for public consumption (approx. 3.3% in 2014). On the other hand, there was a decrease of about 1.4% in investments in fixed assets (following a decrease of approx. 2.0% in 2014) and a decrease of about 3.1% in the export of goods and services (vs. an increase of approx. 1.5% in 2014). In the import of goods and services there was an increase of approx. 0.6% (vs. an increase of approx. 3.0% in 2014).

The analysis of development according to quarters indicates that in 4Q15 GDP increased by approx. 3.9% in annual terms, following an increase of 2.4% in 3Q15, an increase of approx. 0.3% in 2Q15 and an increase of approx. 2.5% in 1Q15. The increase in 4Q15 reflects significant increases in expense for public and private consumption, as well as increases in the export of goods and services and in investment in fixed assets.

Job market – during 2015 there was an improvement in the employment market. Unemployment rate decreased to approx. 5.3% on average in 2015 compared with approx. 5.9% on average in 2014.

Furthermore, in 2015 there was an increase of approx. 3.0% in the average real wage compared with the average in 2014, along with an increase of approx. 2.4% in the average number of positions.

4.1.2 **Capital market**

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

During 2015 there was high volatility in capital markets in Israel and abroad. By the end of the year, there were price increases in most share indices in Israel, and price decreases in most share indices abroad. State bonds market abroad an in Israel also recorded significant volatility, mainly reflected in a sharp increase in yields to maturity in 2Q15, following a significant decrease in 1Q15

Presented below are the main trends recorded in 2015 in the key investment channels, and their impact:

[26] As per the estimation of Israel National Accounts for 2015, published on March 10th, 2016.

Inflation – in 2015 there was a decrease of approx. 0.9% in the CPI as per the known index at the end of the month and approx. 1.0% as per the index in respect of the month. In 4Q15 the CPI decreased by approx. 0.7% as per the known index at the end of the month, and by approx. 0.4% as per the index in respect of the month.

Interest rate – the Bank of Israel cut the interest rate for March 2015 by approx. 0.15% due to the increased rate of NIS appreciation and its possible implications on activity and inflation. After this cut and until the end of the year, interest rate remained unchanged. By the end of the reported year, the monetary interest rate for December 2015 was 0.1%, vs. 0.25% in December 2014.

By the end of 2015 inflation expectations[27] (for the next 12 months) decreased to approx. 0.1%, compared with inflation expectations of 0.6% at the end of 2014. As a result, the real monetary interest rate as of the end of 2015 was zero, vs. a real negative interest rate of approx. 0.4% at the end of 2014.

Government bonds – in 2015 there was significant volatility in yield to maturity of State bonds, along with the changes in the global bond market. The significant volatility was mainly recorded marked decreases in yield to maturity, while in 2Q15 there were marked increases.

In 4Q15 yields to maturity of unlinked and linked bonds in the short and medium range recorded slight increases in yield to maturity, compared with decreases in yields to maturity in long-term bonds, and by the end of 2015 there were slight decreases in yields to maturity in most ranges.

As a result, YTD non-linked bonds with fixed interest rate recorded a real yield of approx. 4.2% on average, and CPI-linked bonds recorded a real yield of approx. 0.7%.

In 4Q15 non-linked bonds with fixed interest rate recorded a real yield of approx. 1.2%, and CPI-linked bonds recorded a real yield of approx. 0.7%.

Corporate bonds – in 2015 there were fluctuations in yields to maturity in corporate bonds, along with changes in yields to maturity in State bonds, as well as volatility in yield gaps between corporate bonds and State bonds.

In 4Q15 there was a decrease in yields to maturity in corporate CPI-linked bonds, and stability in non-linked bonds with fixed interest rate, along with a decrease in the risk spread against State bonds. By the end of the year, there was a mixed trend, with a decrease in risk spread.

As a result, by the end of 2015, the corporate bonds index increased by approx. 3.1% in real terms, and in 4Q15 it increased by approx. 1.3% in real terms.

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

The low interest rate levels decrease future yields when refinancing assets against liabilities and decrease the life assurance portfolio EV, as well as future yield on members' monies. For the effect of interest rate on reserves in life assurance, see Clauses 1.2.1, 3.2 and 3.3 above.

Shares (domestic market) – in 2015 there was high volatility on the domestic share market. Following significant price increases in 1Q15 and marked price decreases in 3Q15, similar to the global trend, in 4Q15 share indices in Israel recovered, along with the increases recorded in share indices abroad.

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

By the end of 2015, TA-100 index increased by approx. 3.0% in real terms, TA-25 index increased by approx. 5.3% in real terms, TA-75 index decreased by approx. 4.6% in real terms and the Yeter index increased by approx. 27.4% in real terms.

In 4Q15, TA-100 index increased by approx. 1.8% in real terms, TA-25 index increased by approx. 3.3% in real terms, TA-75 index decreased by approx. 2.9% in real terms and the Yeter index increased by approx. 9.9% in real terms.

Shares (foreign markets) – in 2015, there was a mixed trend in share indices worldwide, with a significant volatility throughout the year, which was reflected, *inter alia*, in price decreases in 3Q15 due to sharp decreases in the Chinese share market, and price increases in 4Q15. In particular, marked volatility characterized the European share market, which recorded price increases in 1Q15 following the monetary expansion, while in 2Q15 it recorded price decreases due to the financial crisis in Greece.

In 2015, the MSCI worldwide share index produced a negative nominal yield of approx. 4.3% (negative yield of approx. 3.9%, including exchange rate effect), the NASDAQ-100 index increased by approx. 9.8% (10.2% including exchange rate effect) and the Dow Jones index recorded a negative nominal yield of approx. 2.2% (negative yield of approx. 1.9% including exchange rate effect).

In 4Q15, the MSCI worldwide share index produced a nominal yield of approx. 4.6% (nominal yield of approx. 4.1% including exchange rate effect), the NASDAQ-100 index increased by approx. 11.3% in nominal terms (an increase of approx. 10.7% including exchange rate effect) and the Dow Jones index recorded a nominal yield of approx. 7.0% (a nominal yield of approx. 6.4% including exchange rate effect).

Foreign exchange – by the end of 2015 there was a moderate depreciation in the rate of the NIS against the USD, along with the USD's strengthening worldwide. Against the Euro, the NIS appreciated during the year, mainly due to the monetary expansion performed by the European Central Bank.

By the end of 2015, the NIS weakened by a nominal rate of approx. 0.3% against the USD, strengthened by approx. 11.2% against the Euro, against the GBP it strengthened by approx. 4.9%, and against the Yen it strengthened by approx. 0.5%.

These changes include changes in exchange rates recorded in 4Q15, as follows: the NIS strengthened against the USD at a nominal rate of approx. 0.5%, against the Euro it strengthened by approx. 3.7%, against the GBP it strengthened by approx. 3.0%, and against the Yen it strengthened by approx. 0.7%.

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

After the date of the balance sheet and until just before the publication of the report, the volatility in financial markets continued, such that by the end of the period, there were price decreases in most share indices in Israel and abroad, and there was a decrease in the risk-free interest curve. For the implications on the Company, see Note 40b to the Financial Statements.

In Israel, CPI in respect of January and February 2016 decreased by an aggregate rate of 0.9%.

The World Bank and the International Monetary Fund decreased the growth forecasts: the International Monetary Fund's forecast for global growth in 2016 (from January 2016) was decreased from 3.6% to 3.4%, and the forecast for global trade growth in 2016 was decreased from 4.1% to 3.4%, mainly due to the situation on emerging markets.

According to the BoI estimations as of December 2015, in 2016 we expect an increase of 2.8% in GPD, compared with a growth estimation of 2.4% in 2015. The forecast for 2016 was decreased by 0.5% percentage points due to a decrease in forecasts for global trade, however, growth rate is expected to increase compared with 2015, due to an expected improvement in export.

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

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

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

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

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

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

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

4.2 **Area of life assurance and LTS**

4.2.1 **Changes in the scope of activity in the market**

Based on life assurance premium data in the years 2013 till September 2015 and contributions and net accruals[28] in 2013-2015, we see an upward trend in the aggregate activity of the life assurance and LTS[29] area, along with an accelerated growth in pension.

In life assurance, in the first nine months of 2015 the scope of premiums in the market increased by approx. 3% compared with the same period last year, and in the first nine months of 2014 the scope of premiums in the market remained similar to that in 2013[30].

[28] Net accruals are defined as contributions plus net transfers of members.
[29] Based on the data published on the Ministry of Finances website, including "Bituachnet", "Pensyanet" and "Gemelnet".
[30] Based on the Commissioner's Report for 2014.

In life assurance there was an increase of approx. 11% in the scope of premium (including receipts in respect of investment contracts) in 2014 compared with 2013.

In the pension line activity, in the last two years there was accelerated growth in the terms of contributions (approx. 13% in 2015 and approx. 16% in 2014). In provident funds (including educational funds activity), there was an increase of approx. 15% in contributions, compared with approx. 7% in 2014.

Also in the aggregate scope of activity in terms of AuM, in the first nine months of 2015 there was an increase of approx. 5% in the area's products compared with the same period in 2014, affected by increases on capital markets and net current accrual, compared with an increase of approx. 12% in the first nine months in 2014, compared with the same period in the previous year.

The weight of the life assurance line, in terms of AuM, maintained its stability in 2014 vs. 2013 and was approx. 34%, the weight of the new pension funds line increased from approx. 21% as of December 31st, 2013 to approx. 22% as of December 31st, 2014, and the weight of the provident line decreased from about 45% as of December 31st, 2013 to approx. 43% as of December 31st, 2014[31].

5. The Company's objectives and business strategy

The business environment and the increasing competition require the Company to examine, from time to time, its thinking and deployment as to its objectives and business strategy. In light of material developments in the Company's business environment, including the increased competition, the change in pensionary products' mix and the increasing demand for pension products, the cut in interest rate and the change in customers' preferences, the Company carried out a validation and update of its business strategy, including addressing the following key issues: the products mix marketed by the Company, pricing and conduction of business, the mix of distribution channels, the way investments are managed and the issue of the Company's equity.

Although the Group strives towards implementing its strategy, the exercise of the aforesaid strategic planning depends on many changing factors, including the economic and employment situation, capital markets, competition level, as well as regulatory developments in the Group's areas of activity.

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

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

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

(3) Constant improvement in customers' loyalty and satisfaction and distribution channels.

The Group's business strategy as of the date of the Report is as follows:

From the Group's viewpoint, in order to maintain good profitability overtime, the Group will strive towards diversifying profit sources, adjusting the insurance sales mix in order to improve profitability, improving operational efficiency and resource management along with improving service, as well as investment management that allows providing yields along with adjustment to the risk level.

In the area of life assurance and LTS, the Company acts towards changing the sales mix along with deepening the sales of the pension product that has become the leading product in the area. In addition, the Company focuses on the sale of risk and individual products, as well as the recruitment of accruals for savings purposes, including the development of new products that will be adjusted to the changing regulatory and competitive reality in the area. In addition, the Group strives towards adjusting the distribution systems to the changing needs in the market, in order to leverage sales abilities and

[31] Based on the Commissioner's Report for 2014.

assimilating sales instruments. Furthermore, the Group strives towards expanding sales to existing customers along with preserving the life assurance and LTS portfolio and preventing surrenders and policy cancellations.

In order to diversify the sources of profit, the Company strives towards expanding its activity in **the area of general insurance**, while trying to improve profitability in this area.

In the area of health insurance, the Company wants to expand the basis of its business activity and target populations. In the recent years the Company decided to increase its market share, including by developing new products, advertising, and expanding services to its customers.

In addition, the Company will strive towards developing additional activities that interface with its activity in the areas of insurance, in areas that are related to quality of life, health services and services for insureds after retirement - Third Age, including all their aspects. The Company considers the Third Age population a developing market, and it will exercise the Group synergetic potential in respect of this developing market segment.

In light of the regulatory changes and the increased competition in the area, the Group strives towards improving the operational efficiency and service to customers and the Group's distribution channels, *inter alia*, by implementing advanced IT systems, including the development of various digital tools, as well as via organizational changes.

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

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

The objectives mentioned above shall be examined in light of the Company's deployment towards equity objectives pursuant to Solvency II governance, including adjusting the mix of investments and the execution of hedging activities in the Nostro portfolio, acquiring reinsurance, etc.

The information included in this Part above regarding the strategic plan includes forward-looking information that reflects the Group's estimations and plans as of the date of the Report publication, and it includes forecasts, estimations and other information about the Company regarding future events whose realization is uncertain and does not depend on the Company only. The Group's estimations are based, *inter alia*, on all the facts and data detailed in this Part. Actual results may be different from estimations in a material way due to changes that may occur in any of the aforesaid facts and data, and/or as a result of changes that may occur in the risk factors applicable to the Group in general, detailed in Note 37 to the Financial Statements and in Clause 37 in Part D to the Corporation Businesses Description chapter.

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

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

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

6.1 Persons in charge of market risks management in the Corporation

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

In Migdal Capital Markets Group there is Risk Management and Control Department, headed by a Chief Risk and Control Manager, who operates a plan of independent controls over Migdal Capital Markets' activities, including investment management and compliance with the risk policy and risk appetite as set forth. Regarding Nostro risks, there is also a market risk management software in order to assess the exposures stemming from these activities.

6.2 Market risks description

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

6.2.1 **The Company (Migdal Holdings)**

As of December 31st, 2015, the Company's scope of financial assets is non-material, therefore the Company has no material exposure to market risks.

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

6.2.2 **Migdal Capital Markets**

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

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

Market factor – Foreign exchange

	Income (loss) from changes			Income (loss) from changes	
Sensitive instrument	**10% increase in market factor**	**5% increase in market factor**	**Fair value**	**10% decrease in market factor**	**5% decrease in market factor**
Cash and cash equivalent	71	35	707	(71)	(35)
Short-term investments	1,867	933	18,663	(1,867)	(933)
Total	**1,938**	**968**	**19,370**	**(1,938)**	**(968)**

Market factor – CPI

Sensitive instrument	Income (loss) from changes: 10% increase in market factor	Income (loss) from changes: 5% increase in market factor	Fair value	Income (loss) from changes: 10% decrease in market factor	Income (loss) from changes: 5% decrease in market factor
Receivables	599	299	5,986	(599)	(299)
Payable current taxes	109	55	1,086	(109)	(55)
Receivable current taxes	(403)	(201)	(4,029)	403	201
Total	**305**	**153**	**3,043**	**(305)**	**(153)**

Market factor – interest rate (*)

Sensitive instrument	Income (loss) from changes: 10% increase in market factor (multiplicative)	Income (loss) from changes: 5% increase in market factor (multiplicative)	Income (loss) from changes: 2% (**) increase in market factor (additional)	Fair value	Income (loss) from changes: 10% decrease in market factor (multiplicative)	Income (loss) from changes: 5% decrease in market factor (multiplicative)	Income (loss) from changes: 2% decrease in market factor (additional)
Short Term Loans	(0.16)	(0.08)	(12)	1,513	0.16	0.08	12
Total	**(0.16)**	**(0.08)**	**(12)**	**1,513**	**0.16**	**0.08**	**12**

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

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

Market factor – shares (***)

Sensitive instrument	Income (loss) from changes				Income (loss) from changes		
	Maximum increase in market factor (17%)	10% increase in market factor	5% increase in market factor	Fair value	Maximum decrease in market factor (17%)	10% decrease in market factor	5% decrease in market factor
Shares	2,151	1,854	927	18,542	(2,151)	(1,854)	(927)
Total	**2,151**	**1,854**	**927**	**18,542**	**(2,151)**	**(1,854)**	**(927)**

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

Risk factor	Maximum change rate	Date of change
TA-75 Index	17.0%	21.9.2008
TA-100 Index	10.3%	21.9.2008
S&P - 500	11.6%	13.10.2008
S&P - 500	11.2%	13.10.2008
NASDAQ-100	12.6%	13.10.2008

6.2.3 **Assumptions used for sensitivity calculations**

Derivatives calculation methodology

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

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

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

Extreme scenarios

Extreme values in the volatility of risk factors were examined as the maximum daily changes in the last 10 years. The extreme scenario for interest rates as of December 31st, 2015 is an absolute (additional) change of 2% in interest rate, pursuant to the Securities provisions regarding minimal extreme scenarios. This scenario was set after examining the databases of interest rate curves, which indicated that during the last 10 years there were no absolute changes exceeding 2% for a day horizon.

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

6.2.4 **Other activity**

As of December 31st, 2015, the activity of Migdal Health and Migdal Management is not material, therefore according to the Company's assessment, the risk in their respect is not material.

6.3 **Fair value at risk**

As per the Securities Regulations (Periodic and Immediate Reports – 1970) the value at risk (VaR) for Migdal Capital Markets' Nostro portfolios is measured at a significance level of 95% as of December 31st, 2015.

The measurements of VaR results as of December 31st, 2015: NIS 286 thousand.

The VaR presents a maximum loss at probability of 95% for the existing position as of the measurement date.

The VaR measurement was based on 500 observations.

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

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

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

6.4 **Corporate policy in market risk management**

6.4.1 **Migdal Holdings**

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

6.4.2 **Migdal Capital Markets**

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

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

Capital market risks stemming from distribution activity – during December 2014 a subsidiary of Migdal Capital Markets announced that its classification has been changed to "non-active underwriter" in the underwriters' register in the ISA, therefore market risks resulting from underwriting activity do not apply to it. Regarding activity in distribution activity – the market risk, due to issuances' failure, does not apply to Migdal Capital Markets.

Capital market risks (Nostro and brokerage accounts) –

Hedge funds activity – in hedge funds managed by Migdal Capital Markets (via companies owned and fully controlled by it), Migdal Capital Markets invests money as a general partner pursuant to their investment policy. These monies constitute most of MCM's self investments, in order to present track record on these investments, such that it would help in bringing external investors as general partners to the hedge funds in the future. Some hedge funds will act following to investment models developed by external entities specializing in investment consulting via models as set forth above. Migdal Capital Markets' investments in hedge funds must comply with restrictions, such as the size of maximal position size, the leverage level, the exposure limit to single issuers, a limit on the total exposure in the account, limits as to the issuers rating, limits of maximum loss allowed in every trading day, as well as an independent control for the examination of the compliance with the investment policy and in order to calculate the expected potential loss via VaR.

Cases of insolvency to Israeli and foreign financial institutions due to holding assets – as of the date of the Report, Migdal Trust Funds' activity in foreign securities ("**the assets**"), for the mutual funds managed by it, is performed in banks in Israel, which hold the assets, for their customers, at foreign custodians. Migdal Trust Funds received from Israeli banks letters attesting that the assets are registered by the custodian in an account managed in the name of the Israeli bank for its customers, separately from the Israeli bank's Nostro account, and separately from the custodian's assets. Furthermore, these letters include details regarding how the custodian was chosen and various controls performed by the Israeli bank over the custodian's activity.

For banks in Israel, indeed in Israel there is no deposits' insurance, but on the other hand, the assumption based on past experience is that the State of Israel shall back the banks in Israel.

Past risks that were related with the Group's TASE member's activity – as set forth in Clause 16.2.4 to the Corporation Businesses Description chapter, on October 28th, 2015 the merger of Migdal Stock Exchange Services with and into Stock Exchange Services and Investment IBI Ltd. ("**the merger**") was completed.

Until the merger's completion, the Company was exposed to risks in respect of Migdal Stock Exchange Services' activity, including in relation to its activity for customers who receive brokerage services (including credit extended to customers), such as: insolvency of Israeli and foreign financial institutions due to holding assets, credit risks to customers, custodian clearance risks, credit risks in respect of activities in derivatives and execution errors.

Pursuant to the merger, and as of the date of the Report, the Company is not exposed to these risks, but it is exposed to legal claims that may originate from these risks, or part thereof, in respect of past activity, due to causes preceding the merger date, if the indemnification undertaking given by Migdal Capital Markets' towards the merged company applies to them, pursuant to and subject to the provisions of the merger agreement. For details regarding the indemnification and insurance undertaking signed by Migdal Capital Markets regarding past activity – see Clause 37.3 to the Corporation Businesses Description chapter in the Company's Periodic Report for 2014 (Reference No. 2014-01-017448).

MRS Hedge Fund

MRS Hedge Fund was established by Migdal Capital Markets in January 1st, 2015.

The management of the fund's investments is based on an investment model that was developed by an international consulting company in 1987, and it manages over USD 12 billion, with the help of investment models for the leading investment institutions worldwide. The activity focuses on foreign bond funds under European regulation (UCITS). The strategy scans hundreds of mutual funds on a daily basis, and it invests in those with the highest momentum (positive trend). After the funds are selected, there is an optimization of the funds portfolio, whose aim is including funds with low correlations and minimal volatility 9risk).

In the beginning of June 2015, all the holdings in the Fund were sold, and as of December 31st, 2015 there is cash in USD forex in the fund.

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

6.5.1 **Migdal Holdings**

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

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

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

The Company Board of Directors receives a report regarding market risks once a year.

6.5.2 **Migdal Capital Markets**
Migdal Capital Markets' Board of Directors receives a report regarding market risks once every quarter. Migdal Capital Markets' CEO and the CEOs of its subsidiaries receive an ongoing report regarding risks in the various areas from the Chief Risk and Control Manager.

6.6 **Linkage bases report as of December 31st, 2015**
For data regarding linkage bases, see Note 37c to the Financial Statements.

6.7 **Derivative data as of December 31st, 2015**
As of December 31st, 2015 and throughout the year, the Company did not hold derivatives in significant amounts.

As of December 31st, 2015 Migdal Capital Markets has an investment as liability balance in respect of derivatives in the amount of approx. NIS 460 million, net. The liability balance is in respect of a hedging of investment as a limited partner in the amount of approx. NIS 39 million in a hedge fund managed by a subsidiary owned and fully controlled by Migdal Capital Markets.

7 Corporate governance aspects

7.1 Group companies' involvement in the community and donations

Migdal, as a leading company in the Israeli economy, strives towards improving the social condition in Israel and accelerating significant social changes, while integrating them in its core business activity, along with social involvement by its employees. In 2015 the Group donated and helped associations and organizations that increase the well-being of people in the Third and Fourth Age, as well as various social organizations that operate for the community. In 2015 the scope of donations totaled approx. NIS 7 million.

Pursuant to Regulation 10 (b)(6) to the Securities Regulations (Periodic and Immediate Reports) – 1970, the donations exceeding NIS 50 thousand to entities related to the Company, to a Director, to the CEO, to the controlling shareholder or a relative thereof, as well as the type of relations, are presented below

Donation recipient	Amount of donation in NIS thousand	Relation with the donation's recipient	Position in the Company
Vehadarta - the National Council for the Promotion of Senior Citizens' Status, a registered association	200	Israel Eliahu, the son of the Company's controlling shareholder, who serves in various positions in the Group, is a member of the Executive Board/Public Board, as the case may be	Chairman of the Board of Directors in Migdal Capital Markets
Nova Project – Professionalism at the Service of the Community, a registered association	270		
Lev Ohev Association next to Maccabi World Union, a registered association	250		
The Hebrew University of Jerusalem	200	A relative of a Director is a member of the Board of Trustees	Ronit Abramson, a Director in Migdal holdings, Migdal Insurance and Migdal Capital Markets

7.2 Report regarding Directors with accounting and financial expertise and independent Directors

For details regarding Directors with accounting and financial expertise, including their education, experience, expertise and knowledge, based on which the Board of Directors perceives them as Directors with accounting and financial expertise, see Regulation 26 and Clause 9 to the Corporate Governance Questionnaire in the Additional Data on the Corporation chapter. The Company's Articles of Association do not include a provision regarding the rate of independent Directors.

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

For details regarding the remunerations given to Executive Senior Officers – see Regulation 21 in Part D - Additional Data on the Corporation chapter ("**Regulation 21**").

Regarding the approval of the remuneration policy in the institutional entities of the Group, see Note 38j3 to the Financial Statements.

In the Board of Directors meeting that was held on March 29th, 2016 within the procedure for the approval of the Financial Statements for 2015, the Company's Board of Directors deliberated the terms of employment and office of each person receiving remunerations detailed in Regulation 21, and discussed, *inter alia*, the relation of the amount of remuneration given in 2015 to each one of them separately, and their contribution to the Group in the reported period, as well as the reasonability and fairness of such remuneration conditions as set forth above, as required in regulation 10 (b)(4) to the Reports Regulations, and determined regarding Messrs. Ofer Eliahu, Eran Czerninski, Ilana Bar and Tali Cassif that the salary components paid to each of these Senior Officers in the reported year comply with the Company's and/or the institutional entities' remuneration policy, should it apply to them, as the case may be.

Regarding Messrs. Roy Eizenman, Sharon Hinkis, Zvi Weinstein and Yossi Ben Baruch – these Senior Officers do not serve as Senior Officers in Migdal Holdings, and are not part of Senior Officers in institutional entities, therefore the remuneration policy of the Company and/or its institutional entities does not apply to them. For their terms of employment, see regulation 21. The Board of Directors examined the compliance of every Senior Officer with the requirements of their positions, and decided whether the conditions and consideration are fair and reasonable, se detailed below:

Mr. Roy Eizenman – CEO of Migdal Underwriting and Business Initiative: the Board of Directors decided that the remuneration paid to Mr. Roy Eizenman is reasonable and fair taking into account his office as the CEO of Migdal Underwriting, *inter alia* due to the fact that Mr. Roy Eizenman's total remuneration is limited by a cap set forth in his employment agreement and his annual grant in respect of 2015 is based on a rate of Migdal Underwriting's income before tax, pursuant to his employment agreement. Furthermore, after examining the comparison data to the remuneration paid to CEOs of similar companies that publish Financial Statements, the Board of Directors is of the opinion that the total remuneration to which Mr. Eizenman is entitled does not exceed what is common among CEOs of such companies.

Mr. Sharon Hinkis - Investments Manager in Migdal Funds, Investments Manager in the portfolio management company and as the person in charge of handling debt arrangements and bad debt: the Board of Directors found that the remuneration paid to Mr. Hinkis is fair and reasonable taking into consideration the scope of assets managed by him, the average management fees rate collected in mutual funds managed by him, which is relatively high compared with other funds managed by Migdal Funds and in the sector, the fact that Mr. Hinkis manages, *inter alia*, very complex mutual funds in a unique manner in the area of derivatives and bad debt, Mr. Hinkis' handling of debt arrangements, his help in branding Migdal Capital Markets Group, the fact that he has known the customers of what was Afikim Investment House, who became customers of MCM Group. Also, the fact that Mr. Hinkis was entitled to a persistency grant and an annual grant, that is calculated pursuant to the rate of spreads in the funds managed by him, and the fact that Mr. Hinkis' comprehensive remuneration is limited by a cap set forth in his employment agreement, were taken into account. Mr. Sharon Hinkis does not have peers on the capital market, therefore there was no comparison between the remuneration paid to him and to others.

Mr. Zvi Weinstein - CEO of Shaham: the Board of Directors found that the remuneration paid to Mr. Weinstein is reasonable and fair taking into account his relevant skills. On December 1st, 2015 Shaham Board of Directors notified Mr. Weinstein about the termination of his employment pursuant to the provisions of his agreement, and thanked him for his dedicated work. Out of the total payment in respect of 2015, approx. NIS 955 thousand were due to the terms regarding retirement in Mr. Weinstein's agreement

Mr. Yossi Ben Baruch - CEO of Migdal Capital Markets and also serves as the Chairman of the Board of Directors and/or a Director in its subsidiaries: the Board of Directors found that the remuneration paid to Mr. Ben Baruch is reasonable and fair taking into account office as the CEO of Migdal Capital Markets Group and office as the Chairman of the Board of Directors or Director in its subsidiaries. Also, the fact that Mr. Ben Baruch's total remuneration is limited by a cap set forth in his employment agreement was taken into account. Mr. Ben Baruch's annual grant in respect of 2015 is based on a rate of income before tax pursuant to his employment agreement, and he also received as special grant of 3 salaries, gross. Pursuant to the examination of comparison data to remunerations paid to CEOs of other investment houses that publish Financial Statements, the Board of Directors is of the opinion that the total remuneration to which Migdal Capital Markets' CEO is entitled is within the range of what is common among CEOs of such investment houses.

7.4 Company policy regarding negligible transactions

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

7.5 The Company's Internal Auditor

For details regarding the Company's Internal Auditor, see Clause 40 in Part E to the Corporation Businesses Description chapter.

7.6 The Auditing CPA

For details regarding the auditing CPA, see Clause 40 in Part E to the Corporation Businesses Description chapter.

7.7 The procedure for the approval of Financial Statements

For details regarding the procedure for the approval of Financial Statements, see Clause 11 to the Corporate Governance questionnaire.

8. Developments after the date of the balance sheet

For details regarding the developments after the date of the balance sheet, see Clause 41 in Part E to the Corporation Businesses Description chapter.

For details regarding the developments in the macro-economic environment after the date of the balance sheet, see Clause 4.1.3 above.

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

Yohanan Danino	**Eran Czerninski**
Chairman of the Board	**CEO**

March 29th, 2016

CONSOLIDATED FINANCIAL STATEMENTS

JORDAN RIVER

Translated from the Hebrew original

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

INDEX

Details of Notes

INDEX (Cont.)

- - - - - - - - - -

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

INDEPENDENT AUDITORS' REPORT

to the Shareholders of

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

Regarding the Audit of Components of Internal Control 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 (collectively, "the Company") as of December 31, 2015. 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 the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls ("ITGCs"); (2) controls over critical financial reporting and disclosure processes of Migdal Insurance and Financial Holdings Ltd. and other material subsidiaries (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained 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 the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit and the reports of the other auditors provide 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 specifically the components therein, may not prevent or detect misstatements. Also, projections of any 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 effectively fulfilled, in all material aspects, the audited control components as of December 31, 2015.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 and our report dated March 29, 2016 expressed an unqualified opinion thereon based on our audit and the reports of the other auditors and also draws attention to the matter discussed in Note 39(1) to the consolidated financial statements regarding the exposure to contingent liabilities.

Tel-Aviv, Israel	SOMEKH CHAIKIN	KOST FORER GABBAY & KASIERER
March 29, 2016	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Building a better working world

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

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. ("the Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years the latest of which ended on December 31, 2015. The Company's board of directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain investees accounted for at equity, the investment in which amounted to about NIS 698,104 thousand and NIS 643,162 thousand as of December 31, 2015 and 2014, respectively, and the Group's share of their earnings amounted to about NIS 91,270 thousand, NIS 80,009 thousand and NIS 70,752 thousand for each of the three years the latest of which ended on December 31, 2015. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the 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, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations, changes in their equity and cash flows for each of the three years the latest of which ended on December 31, 2015, in conformity with International Financial Reporting Standards ("IFRS") and with the disclosure requirements of the Commissioner of Insurance according to the Control of Financial Services (Insurance) Law, 1981.

Moreover, 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 above opinion, we draw attention to Note 39(1) to the financial statements regarding exposure to contingent liabilities.

We have also audited, pursuant to Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2015, and our report dated March 29, 2016 includes an unqualified opinion as to the effective maintenance of those components.

Tel-Aviv, Israel	SOMEKH CHAIKIN	KOST FORER GABBAY & KASIERER
March 29, 2016	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2015	2014
Assets	**Note**	NIS in thousands	
Intangible assets	4	1,271,303	1,359,895
Deferred tax assets	21g	19,358	27,017
Deferred acquisition costs	5	1,833,422	1,769,316
Fixed assets	6	723,235	717,456
Investments in affiliates	7	700,214	644,466
Investment property for yield dependent contracts	8	5,328,453	4,898,057
Investment property - other	8	718,315	630,890
Reinsurance assets	15-16	754,293	1,013,707
Current tax assets		467,473	215,259
Debtors and receivables	9	481,420	988,508
Outstanding premiums	10	569,423	579,335
Financial investments for yield dependent contracts	11	70,126,455	69,582,999
Other financial investments:	12		
Quoted debt assets	12a	7,615,216	6,140,242
Unquoted debt assets	12b	22,037,200	22,053,636
Shares	12d	1,180,943	1,113,352
Others	12e	2,511,307	2,385,203
Total other financial investments		33,344,666	31,692,433
Cash and cash equivalents for yield dependent contracts	13	7,801,126	3,289,969
Cash and cash equivalents - other	13a	2,202,744	1,642,651
Total assets		126,341,900	119,051,958
Total assets for yield dependent contracts in an insurance subsidiary	11	83,643,694	78,708,064

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2015	2014
Equity and liabilities	**Note**	NIS in thousands	
Equity	14		
Share capital		110,629	110,629
Share premium		273,735	273,735
Capital reserves		291,564	489,110
Retained earnings		4,550,144	4,402,316
Total equity attributable to equity holders of the Company		5,226,072	5,275,790
Non-controlling interests		2,482	2,283
Total equity		5,228,554	5,278,073
Liabilities			
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	15	32,326,206	31,403,731
Liabilities in respect of yield dependent insurance contracts and investment contracts	16	83,312,486	78,046,216
Liabilities in respect of deferred taxes	21g	566,332	722,985
Liabilities in respect of employee benefits, net	22	312,637	249,104
Liabilities in respect of current taxes		34,287	40,836
Creditors and payables	23	1,543,660	1,723,413
Financial liabilities	24	3,017,738	1,587,600
Total liabilities		121,113,346	113,773,885
Total equity and liabilities		126,341,900	119,051,958

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

March 29, 2015			
Date of approval of the financial statements	Yohanan Danino Chairman of the Board	Eran Czerninski CEO	Eran Czerninski CFO

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

		Year ended December 31,		
		2015	2014	2013
	Note	NIS in thousands		
Gross premiums earned		10,688,814	10,425,571 *)	10,072,574
Premiums earned by reinsurers		623,156	687,673	717,337
Premiums earned on retention	25	10,065,658	9,737,898	9,355,237
Net investment gains and finance income	26	3,485,333	5,614,282	9,385,427
Income from management fees	27	1,479,574	1,569,068	1,696,798
Income from commissions	28	342,596	368,529	360,110
Other income	29	41,732	42,956	35,446
Total income		15,414,893	17,332,733	20,833,018
Payments and change in liabilities in respect of gross insurance contracts and investment contracts		12,561,742	14,495,922 *)	17,577,089
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts		347,310	383,737	334,669
Payments and change in liabilities in respect of insurance contracts and investment contracts on retention	30	12,214,432	14,112,185	17,242,420
Commissions, marketing expenses and other acquisition expenses	31	1,585,267	1,523,055	1,480,839
General and administrative expenses	32	1,038,443	1,041,169	1,094,319
Other expenses	34	101,801	76,628	50,672
Finance expenses	35	57,731	51,479	52,323
Total expenses		14,997,674	16,804,516	19,920,573
Share earnings of investees accounted for at equity	7b	91,598	80,112	70,774
Income before taxes on income		508,817	608,329	983,219
Taxes on income	21f	155,766	185,494	366,506
Profit for the period		353,051	422,835	616,713
Attributable to:				
Equity holders of the Company		351,869	422,031	617,770
Non-controlling interests		1,182	804	(1,057)
Profit for the period		353,051	422,835	616,713
Basic and diluted net earnings per share attributable to equity holders of the Company (in NIS)	36	0.33	0.40	0.59

*) Reclassified, see Note 2.d.1.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2015	2014	2013
		NIS in thousands		
Income for the period		353,051	422,835	616,713
Other comprehensive income (loss):				
Items of other comprehensive income (loss) that have been or will be reclassified from comprehensive income to profit and loss after initial recognition:				
Net change in fair value of available-for-sale financial assets allocated to other comprehensive income		143,120	587,082	369,456
Net change in fair value of available-for-sale financial assets transferred to profit and loss		(544,996)	(448,933)	(209,219)
Impairment loss of available-for-sale financial assets allocated to profit and loss		84,887	42,875	35,483
Group's share of earnings (losses) of other comprehensive income of investee accounted for at equity		(1,755)	(183)	2,409
Foreign currency translation adjustment of foreign operation		(844)	(89)	(7)
Tax effect		122,042	(68,709)	(80,688)
Total other comprehensive income (loss) for the period that has been or will be reclassified from comprehensive income to profit and loss after initial recognition, net of tax		(197,546)	112,043	117,434
Other items of other comprehensive income (loss) that will not be carried to profit and loss:				
Actuarial gain from defined benefit plan		(8,831)	3,659	1,674
Revaluation of fixed assets carried to investment property		-	-	4,561
Tax effect	21	3,656	(911)	(1,498)
Total other comprehensive income (loss) for the period that will not be carried to profit and loss, net of tax		(5,175)	2,748	4,737
Total other comprehensive income (loss)		(202,721)	114,791	122,171
Total comprehensive income for the period		150,330	537,626	738,884
Attributable to:				
Equity holders of the Company		149,060	536,765	739,894
Non-controlling interests		1,270	861	(1,010)
Comprehensive income for the period		150,330	537,626	738,884

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2015	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790	2,283	5,278,073
Income for the period	-	-	-	-	-	-	-	351,869	351,869	1,182	353,051
Other comprehensive income (loss), net of tax	-	-	(197,007)	-	-	(539)	-	(5,263)	(202,809)	88	(202,721)
Total comprehensive income (loss)	-	-	(197,007)	-	-	(539)	-	346,606	149,060	1,270	150,330
Net cumulative effect of changes in insurance reserves for general insurance	-	-	-	-	-	-	-	1,082	1,082	-	1,082
Benefit in respect of options to employees	-	-	-	-	-	-	-	140	140	-	140
Dividend	-	-	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Dividend to non-controlling interests								-	-	(1,155)	(1,155)
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	84	84
Balance at December 31, 2015	110,629	273,735	283,079	6,989	(1,252)	(604)	3,352	4,550,144	5,226,072	2,482	5,228,554

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2014	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017	1,384	5,140,401
Income for the period	-	-	-	-	-	-	-	422,031	422,031	804	422,835
Other comprehensive income (loss), net of tax	-	-	112,101	-	-	(58)	-	2,691	114,734	57	114,791
Total comprehensive income (loss)	-	-	112,101	-	-	(58)	-	424,722	536,765	861	537,626
Realization of employee options into shares	1	-	-	-	-	-	-	-	1	-	1
Benefit in respect of employees options	-	-	-	-	-	-	-	110	110	-	110
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Transactions with non-controlling interests	-	-	-	-	(103)	-	-	-	(103)	38	(65)
Balance at December 31, 2014	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790	2,283	5,278,073

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2013	110,607	273,735	250,544	6,989	-	-	-	4,152,835	4,794,710	777	4,795,487
Profit (loss) for the period	-	-	-	-	-	-	-	617,770	617,770	(1,057)	616,713
Other comprehensive income (loss), net of tax	-	-	117,441	-	-	(7)	3,352	1,338	122,124	47	122,171
Total other comprehensive income (loss)	-	-	117,441	-	-	(7)	3,352	619,108	739,894	(1,010)	738,884
Realization of employee options into shares	21	-	-	-	-	-	-	-	21	-	21
Benefit in respect of employees options	-	-	-	-	-	-	-	311	311	-	311
Classification of share based payment from liabilities in respect of employee benefits to equity	-	-	-	-	-	-	-	5,230	5,230	-	5,230
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Transactions with non-controlling interests	-	-	-	-	(1,149)	-	-	-	(1,149)	1,617	468
Balance at December 31, 2013	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017	1,384	5,140,401

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

3-12

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,		
		2015	2014	2013
	Sch.	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES	A	3,575,245	(1,020,944)	2,670,733
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment in investees		(15,227)	(1,627)	(20,164)
Proceeds from the realization of investment in affiliate net transaction costs		(857)	-	-
Cash derecognized due to acquisitions in business combinations, net	D	-	-	(224,826)
Cash derecognized due to realization of subsidiaries, net	E	(9,624)	-	-
Investment in fixed assets		(60,187)	(33,460)	(66,450)
Investment in intangible assets		(116,375)	(115,916)	(99,763)
Repayment of loans granted to subsidiaries		7,879	2,002	317
Dividend received from subsidiaries		33,887	25,095	40,905
Proceeds from sale of fixed assets		870	1,300	7,144
Net cash used in investment activities		(159,634)	(122,606)	(362,837)
CASH FLOWS FROM FINANCE ACTIVITIES				
Realizations of employee options into shares		-	1	21
Receipt of loans from banks and others		3,682	8,253	79,548
Proceeds from issue of debentures		1,902,809	-	-
Less issue expenses		(19,006)	-	-
Repayment of loans from banks and others		(2,007)	(46,039)	(52,115)
Change in short-term credit from banking institutions and others, net		(15,748)	13,151	(12,789)
Dividend to non-controlling interest		(1,155)	-	-
Dividend		(200,000)	(400,000)	(400,000)
Net cash provided by (used in) finance activities		1,668,575	(424,634)	(385,335)
Effect of exchange rate fluctuation on balances of cash and cash equivalents		(12,936)	43,522	(103,371)
Increase (decrease) in cash and cash equivalents		5,071,250	(1,524,662)	1,819,190
Balance of cash and cash equivalents at beginning of period	B	4,932,620	6,457,282	4,638,092
Balance of cash and cash equivalents at end of period (Schedule C)	C	10,003,870	4,932,620	6,457,282

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
SCHEDULE A - CASH FLOWS FROM CURRENT ACTIVITIES BEFORE TAXES ON INCOME (1)			
Net income for the period	353,051	422,835	616,713
Items not involving cash flows:			
Company's share in results of subsidiaries, net	(91,598)	(80,112)	(70,774)
Net gains from financial investments for yield dependent insurance and investment contracts	(1,379,469)	(3,564,378)	(7,283,001)
Net losses (gains) from other financial investments:			
Quoted debt assets	(236,141)	(407,412)	(345,832)
Unquoted debt assets	(967,300)	(1,112,419)	(1,455,417)
Shares	(149,333)	(116,861)	(34,075)
Other investments	(218,351)	46,511	(100,295)
Finance expenses in respect of financial liabilities and others	(5,993)	26,762	48,301
Loss (profit) from realization:			
Intangible assets	-	-	250
Fixed assets	5	257	326
Subsidiaries	(2,966)	-	2,356
Change in fair value of investment property for yield dependent contracts	(104,572)	(75,285)	(86,129)
Change in fair value of other investment property	(48,898)	(13,799)	(4,900)
Impairment of intangible assets	38,927	24,478	3,181
Depreciation and amortization:			
Fixed assets	71,656	67,891	69,650
Intangible assets	163,838	176,673	171,376
Change in liabilities for yield dependent insurance and investment contracts	5,266,270	7,487,808	10,496,134
Change in liabilities for non-yield dependent insurance and investment contracts	1,034,871	1,276,172	1,578,322
Change in share-based payment transactions	140	110	311
Change in reinsurance assets	148,753	(22,589)	58,951
Change in deferred acquisition costs	(64,106)	(33,107)	(111,537)
Taxes on income	155,766	185,494	366,506
C/forward	3,611,499	3,866,194	3,303,704

(1) The cash flows from current activities include net acquisitions and sales of financial investments and investment property, 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,		
	2015	2014	2013
	NIS in thousands		
B/forward	3,611,499	3,866,194	3,303,704
SCHEDULE A - CASH FLOWS FROM CURRENT ACTIVITIES BEFORE TAXES ON INCOME (Cont.)			
Changes in other balance sheet items:			
Financial investments and investment property for yield dependent insurance and investment contracts			
Acquisition of investment property	(325,824)	(124,888)	(695,269)
Net acquisitions of financial investments	(1,654,610)	(6,458,675)	(1,239,717)
Other financial investments and investment property:			
Acquisition of investment property	(52,275)	(9,301)	(56,400)
Proceeds from sale of investment property	-	2,414	-
Net acquisitions of financial investments	(1,861,592)	(1,045,916)	(2,081,380)
Outstanding premiums	9,912	(62,813)	(70,192)
Debtors and receivables	497,464	(668,257)	(49,483)
Creditors and payables	(121,888)	(28,127)	106,146
Liabilities for employee benefits, net	55,777	(998)	(17,450)
Total adjustments required for presenting cash flows from current activities	158,463	(4,530,367)	(800,041)
Cash paid and received during the period for:			
Interest paid	(35,246)	(33,667)	(33,302)
Interest received	2,552,077	2,479,849	2,361,118
Taxes paid, net	(442,129)	(287,273)	(316,832)
Dividend received from financial investments	989,029	927,679	843,077
Net cash provided by (used in) current activities	3,575,245	(1,020,944)	2,670,733

(1) The cash flows from current activities include net acquisitions and sales of financial investments and investment property, 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,		
	2015	2014	2013
	NIS in thousands		
SCHEDULE B - CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash and cash equivalents for yield dependent contracts	3,289,969	4,907,015	2,376,263
Other cash and cash equivalents	1,642,651	1,550,267	2,261,829
	4,932,620	6,457,282	4,638,092
SCHEDULE C – CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash and cash equivalents for yield dependent contracts	7,801,126	3,289,969	4,907,015
Other cash and cash equivalents	2,202,744	1,642,651	1,550,267
	10,003,870	4,932,620	6,457,282
SCHEDULE D – CASH DERECOGNIZED DUE TO ACQUISITIONS IN BUSINESS COMBINATIONS, NET			
Intangible assets	-	-	(264,661)
Fixed assets	-	-	(25)
Investments in affiliates	-	-	591
Debtors and receivables	-	-	(10,836)
Other financial investments	-	-	27,646
Liabilities for employee benefits, net	-	-	8
Creditors and payables	-	-	17,656
Financial liabilities	-	-	4,795
	-	-	(224,826)
SCHEDULE E – CASH DERECOGNIZED DUE TO REALIZATION OF SUBSIDIARIES, NET			
Intangible assets	129	-	-
Fixed assets	1,018	-	-
Current tax assets	3,651	-	-
Debtors and receivables	9,310	-	-
Other financial investments	17,086	-	-
Liabilities for employee benefits, net	(1,075)	-	-
Creditors and payables	(26,016)	-	-
Financial liabilities	(13,081)	-	-
Capital loss	(646)	-	-
	(9,624)	-	-
SCHEDULE F – SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS			
Acquisition of fixed assets and intangible assets against creditors	23,782	5,414	19,290
Dividend not in cash received from affiliate	4,006	-	-
Dividend declared but not yet received from affiliates	-	5,149	-
Repayment of capital notes against loans in affiliate	7,581	58,956	-
Proceeds not yet received in the sale of affiliate	4,832	-	-

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. ("the Company") is a company incorporated and resident in Israel whose formal address is 4 Efal St., Kiryat Arie, Petach Tikva. The Company's consolidated financial statements as of December 31, 2015 include the financial statements of the Company and its subsidiaries (collectively - "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 ("the TASE").

b. Control of the Company:

The Company is controlled by Eliahu Insurance Company Ltd. ("Eliahu Insurance"). Up to October 29, 2012, the Company was controlled by Assicurazioni Generali S.p.A ("Generali"), which held about 69% of the Company's share capital.

Mr. Shlomo Eliahu and Mrs. Chaya Eliahu are the ultimate owners of the shares of Eliahu Insurance, among others, through Shlomo Eliahu Holdings Ltd. and Eliahu Brothers Trust and Investment Company Ltd., which are wholly owned by them. Mr. Shlomo Eliahu is the controlling shareholder of the Company ("the controlling shareholder").

The Company was informed by Eliahu Insurance that Eliahu Insurance has pledged in favor of Bank Leumi Le Israel ("Bank Leumi") about 30% of the Company's share capital ("the pledged shares") as security for liabilities assumed by Eliahu Insurance towards Bank Leumi. On January 22, 2014, Eliahu Insurance informed the Company that it had agreed with Bank Leumi to terminate the trusteeship as a result of which the pledged shares were transferred from the trustee to Eliahu Insurance. Eliahu Insurance also informed the Company that the pledging of the shares as security for Eliahu Insurance's liabilities towards Bank Leumi remains unchanged.

c. Definitions:

The Company	- Migdal Insurance and Financial Holdings Ltd.
The Group	- Migdal Insurance and Financial Holdings Ltd. and its subsidiaries.
Subsidiaries	- Companies controlled by the Company whose financial statements are consolidated with those of the Company.
Affiliates	- Companies in which the Company has significant influence and that are not subsidiaries. The Company's investment therein is accounted for in the consolidated financial statements of the Company using the equity method.
Investees	- Subsidiaries and affiliates.

NOTE 1: - GENERAL (Cont.)

The parent company	- Eliahu Insurance Company Ltd. ("Eliahu Insurance").
The former parent company	- Assicurazioni Generali S.p.A ("Generali").
Migdal Insurance	- Migdal Insurance Company Ltd.
Makefet	- Migdal Makefet Pension and Provident Funds Ltd.
Yozma	- Yozma Pension Fund For the Self Employed Ltd.
The institutional entities	- The institutional entities in the Group pursuant to the Control Law which include Migdal Insurance, Makefet and Yozma.
Related parties	- As defined in IAS 24 (2009) regarding related parties.
Interested parties	- As defined in paragraph (1) to the definition of "an interested party" in a corporation, under Section 1 to the Securities Law, 1968.
The Commissioner	- Commissioner of the Capital Market, Insurance and Savings Division.
Control Law	- The Control of Financial Services Law (Insurance), 1981.
Capital Regulations	- Control of Insurance Business Regulations (Minimum Shareholders' Equity required from an Insurer), 1998, as amended.
Ways of Investment Regulations	- Control of Financial Services (Provident Funds) (Investment Regulations Applying to Institutional Entities), 2012 and the Institutional Entities Circular "Investment Rules applying to Institutional Entities" issued by the Commissioner.
Report Regulations	- Control of Insurance Business Regulations (Details of Report) 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.
Investment contracts	- Policies which are not considered to be insurance contracts.
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).

NOTE 1: - GENERAL (Cont.)

Assets in respect of yield dependent contracts	-	Total assets held against liabilities derived from yield dependent contracts.
Reinsurance assets	-	Reinsurers' share in insurance reserves and outstanding claims
Liabilities for insurance contracts and investment 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 reporting period.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of measurement of the financial statements:

The consolidated financial statements have been prepared on a cost basis, with the exception of the following assets and liabilities: insurance liabilities, financial instruments at fair value through profit or loss, available-for-sale financial instruments and investment property, liability for employee severance benefits, deferred taxes and investments in affiliates.

For additional information regarding the measurement of these assets and liabilities see paragraphs i, j, k, m, r and v below.

b. Basis of preparation of the financial statements:

The consolidated financial statements have been prepared by the Group in accordance with IFRS.

Furthermore, the financial statements have been prepared in accordance with the disclosure requirements of the Control of Financial Services (Insurance) Law, 1981 and the regulations enacted thereunder, and in accordance with the provisions of the Securities Regulations (Annual Financial Statements), 2010, insofar as these regulations apply to insurance companies.

The accounting policies adopted in the financial statements were applied consistently for all the reported periods, unless stated otherwise.

Regarding initial recording of the accumulation and initial implementation of best practice in general insurance, see paragraph j.2.d)(4).

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. The significant judgments, estimates and assumptions used in the preparation of the financial statements:

The judgments

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 financial investments:

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

   See k(6) below.

2. 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 a group of contracts involve taking a significant insurance risk and, therefore, whether 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 policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates, among others, partly in view of extensive regulatory changes found in the insurance branch and long-term savings are likely to have significant implications that cannot be estimated at this stage.

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. Changes in accounting estimates are recognized in the period in which the estimates are changed.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Critical estimates

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

- Liabilities in respect of insurance contracts and investment 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 37b.2 below.

  Regarding changes in main assumptions and estimates used in calculation of life assurance reserves, including supplementary reserve for annuity, see Note 37b(3)(b)(5) below.

  Regarding the reserve adequacy test see paragraph j.1.g. below.

- 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 stage reached in the legal proceedings and the legal experience gained in various issues. Since the outcome of the claims will be determined in court, 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, among others, from the complexity of the services that the Group renders to its policyholders. Inherent in the complexity of these arrangements is, among others, the potential for disagreements regarding interpretations and other differences due to information gaps between the Group and third parties to insurance contracts pertaining to a long Series of commercial conditions and regulatory changes.

  For additional information see Note 39(1) below.

- Fair value estimates of unquoted 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 and price quotas used are determined by a company that provides them to institutional entities.

  For additional information see Note 12f below.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

- Impairment of goodwill – the Group examines impairment of goodwill at least annually. The examination requires management to make an estimate of the future cash flows expected to be derived from continuing use of the 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 4b below.

- 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 that the value of available for sale financial assets is impaired and there is 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 objective evidence exists.

  For additional information see Note 12.

- 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 appropriate discount rate for 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 are required to use certain assumptions regarding the rate of return required for Group assets, future rental prices, occupancy rates, contract renewals, the probability of renting vacant space, the costs of operating the properties, the financial health of the tenants 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 below.

d. Change in classification

1. Reclassification for insurance policies issued to policyholders aged 60 years which include a conversion factor was executed. Accordingly sections "Gross premiums earned" against "Payments and changes in liabilities for insurance and investment contracts, gross" were expanded in the statement of profit and loss in respect of the year 2014 in the amount of about NIS 382 million.
   In addition internal classification was executed in the following Note components: 15,16,18a,18b,20,25,27,30 and 37.b.2.

2. The above reclassifications had no effect on the equity, profit and loss or comprehensive income.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Financial statement structure and the operating cycle:

The Group's regular operating cycle usually exceeds one year, especially in relation to the following lines: life assurance and long-term savings, LTC, disease and hospitalization and general liability and motor act insurance.

The consolidated statements of financial position, which mainly include the assets and liabilities of an insurance subsidiary, are presented in order of liquidity with no distinction between current and non-current. This presentation provides more reliable and relevant information, consistent with International IAS 1, "Presentation of Financial Statements", and is in accordance with the directives of the Commissioner of Insurance.

f. Functional currency and foreign currency:

1. Functional and presentation currencies:

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

2. Transactions, assets and liabilities in foreign currency:

Foreign currency transactions are translated into the 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 are 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 (except in cases of impairment when the translation differences recognized in the other comprehensive income are allocated to profit or loss).

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

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Functional currency and foreign currency: (Cont.)

2. Transactions, assets and liabilities in foreign currency: (Cont.)

The assets and liabilities of foreign activities are translated to NIS at the exchange rate at the reporting date. Income and expenses of foreign activities are translated at exchange rates at the dates of the transactions. Exchange rate differences from the translation of foreign activities are recognized in other comprehensive income and are presented in equity in translation reserve of foreign activities.

In general, exchange rate differences on loans received from or provided to foreign operations, including foreign operations that are subsidiaries, are recognized in the consolidated financial statements in profit or loss.

When the settlement of loans received or granted to a foreign operation is neither planned nor likely in the foreseeable future, profits and losses from exchange rate differences resulting from these monetary items are included as part of the investment in foreign operations, net, recognized in other comprehensive income and are presented as part of the translation reserve.

g. Changes in accounting policies:

Effective from January 1, 2015, the Group adopts IAS 24 Related Party Disclosures.

The amendment expands the definition of "related party" to include entities that provide management services of key management personnel to the reporting entity, either directly or through another entity in the Group.

According to the amendment, it is required to provide separate disclosure of the amounts recognized as expense for management services rendered by the managing entity. However, it is not required to disclose the amounts paid to specific people within the managing entity providing the aforesaid services. The amendment was applied retrospectively. This amendment has no impact on the financial statements.

h. Consolidated financial statements, business combinations and goodwill:

1. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are 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.

Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

1. Consolidated financial statements: (Cont.)

The financial statements of the Company and its subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries have been consistently applied with those applied in the financial statements of the Company.

2. Business combinations and goodwill: (Cont.)

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 acquire previously held by the purchaser, less the net amount related upon acquisition to identifiable assets acquired and for the liabilities assumed.

The acquirer recognizes at the acquisition date a contingent liability assumed in a 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 gain in the statement of profit and loss on the date of acquisition.

In addition, goodwill is not adjusted for the utilization of tax loss carryforwards which existed at the time of the business combination.

The consideration transferred includes the fair value of the assets transferred to the former owners of the acquiree, the liabilities incurred by the acquirer to the former owners of the acquiree and the equity instruments that were issued by the Group. In an acquisition achieved in stages, the difference between the acquisition date fair value of equity rights in the acquiree previously held by the Group 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 remeasured.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

2. Business combinations and goodwill: (Cont.)

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

Regarding the testing of goodwill impairment, see paragraph p below.

When goodwill is allocated to cash-generating units upon realization of a cash generating unit, the difference between the consideration and the net assets plus the unamortized goodwill balance, is recognized in the statement of profit and loss. Profit or loss from the disposal of part of the cash generating unit includes part of the goodwill measured according to the proportion of the cash generating unit realized.

3. Non-controlling interests:

Non-controlling interests arise from the capital of a subsidiary which cannot be attributed directly or indirectly to the parent.

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), are measured at the date of the business combination at fair value or at their proportionate share of the 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Investment in affiliates:

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

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

Investments in affiliates are accounted for using the equity method and are initially recognized 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 affiliates, accounted for under the equity method, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences and until the date that significant influence ceases.

Unrealized gains from transactions with affiliates are eliminated pro rata to the Group's share of the investments therein. Unrealized losses are eliminated in the same manner as unrealized gains as long as there is no evidence of impairment.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including long-term investments, which are part of the investment in the investee, is reduced to nil and the Group does not recognize further losses unless the Group has an obligation or has made payments on behalf of the investee.

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 implementing the equity method from the date it loses significant influence or obtains control and it accounts for the remaining investment as a financial asset or as a subsidiary, as applicable.

On the date on which the Group ceases to have a significant influence, 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 remaining investment and any consideration from the partial realization of the investment in the affiliate and the carrying value of the investment at that time.

The amounts recognized in equity through other comprehensive income with respect to the same affiliate are reclassified to profit or loss or to retained earnings as would have been required if the affiliate had itself realized the related assets or liabilities.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Investment in affiliates: (Cont.)

Change in ownership interests 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 unchanged.

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 in the statement of profit and loss.

Furthermore, on the same date, a proportionate part of the amounts recognized in equity through other comprehensive income with respect to the same affiliate 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.

j. Insurance contracts and asset management contracts:

IFRS 4 which deals with insurance contracts allows the insurer to continue the accounting policies adopted before the transition to IFRS for insurance contracts it issues (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) Revenue recognition - see paragraph t below.

b) Liabilities in respect of life assurance contracts:

Liabilities in respect of life assurance contracts are computed according to the Commissioner'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 Migdal Insurance's appointed actuary, Mr. Leibush Ulman who is an employee of Migdal Insurance. The reinsurers' share in liabilities for life assurance contracts is determined according to the conditions of the relevant contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management contracts: (Cont.)

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

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 last index published prior to the balance sheet date, including liabilities for life assurance contracts with respect to policies that, according to their terms, are semi-annually linked.

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

Circulars issued by the Commissioner regarding the calculation of liabilities for annuities in life assurance policies, determine instructions for the calculation of the provisions as a result of the rate of the improvement in life expectancy. The instructions require monitoring the sufficiency of the reserves with respect to insurance policies which allow receipt of an annuity and the supplementation of the reserves in an appropriate manner.

For further information see Note 37b(3)(b) below.

e) Deferred acquisition costs in life assurance:

(1) Deferred acquisition costs ("DAC") in respect of life assurance policies 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.

(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 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 underlying this examination include assumptions regarding cancellations, operating expenses, rate of return on assets, mortality and morbidity rates that are determined by Migdal Insurance's 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 (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 POLICIES (Cont.)

j. Insurance contracts and asset management 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 and health insurance contracts. If the examination shows that the premiums received are not sufficient to cover the expected claims, a special provision for the deficiency is recorded. The examination is performed 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 and commission expenses, return on assets, interest rates, illiquid premiums, mortality rates, rehab and illness realization rates and taking into consideration fair value surplus of assets above their book value. The assumptions determined by the actuary every year based on examinations of past experience, other relevant research and regulatory provisions.

h) Outstanding claims:

Outstanding claims 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 recognized in 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, the policyholders' share in investment income, management fees, commissions to agents, and general and administrative expenses are recognized in the statement of profit and loss, in respect of these contracts.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management contracts: (Cont.)

2. General insurance:

a) Revenue recognition, see paragraph t 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 update of the provision for outstanding claims (which includes a provision for direct and indirect claims handling costs) reported in previous years.

c) Liabilities for insurance contracts and deferred acquisition costs:

The insurance reserves and outstanding claims, included in the item liabilities in respect of insurance contracts, and the reinsurers' share in reserves and outstanding claims, included in the item reinsurance assets and deferred acquisition costs in general insurance were computed in accordance with the Financial Services Regulations (Insurance) (Calculation of Reserves in General Insurance, 2013) ("Regulation for Calculation of Reserves"), the Commissioner'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 premiums 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, among others, on a model determined in Regulations for Calculation of Reserves.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management 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 (including IBNR) 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, Mr. Daniel Israeli, an employee of Migdal Insurance.

3.2 In the branches of comprehensive business premises, engineering insurance, contractors' insurance, marine insurance, aviation insurance, 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 claims, reports of ceding companies for incoming business and with the addition of IBNR where necessary.

3.3 Excess of income over expenses:

In 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 up until December 31, 2015, on a triennial cumulative basis (hereunder - "excess" or "accumulation").

The excess is calculated, according to the regulations for calculating reserves and the Commissioner'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 at 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 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, is included up to December 31, 2015, under liabilities for insurance contracts and a deficiency is recognized as an expense.

Regarding cancelation of excess see paragraph 4 below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management 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 Subrogation and salvage are taken into account in the database used in the calculation of the actuarial valuations of outstanding claims.

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

(4) Changes in calculation of insurance reserves in general insurance beginning on December 31, 2015

In January 2013, the Financial Services Regulations (Insurance) (Calculation of Reserves in General Insurance), 2013 (hereunder – "the new regulations") and Circular, were published, which were updated in January 2015. In addition, in January 2015 the Commissioner's position regarding best practice for calculating insurance reserves in general insurance for the purpose of financial statements (hereunder collectively - "the amendment") was published. The amendment cancels the Supervision of Insurance Business Regulations (Methods of Calculating Provisions for Future Claims in General Insurance), 1984, and the new regulations will replace them. The main change that will take place when the regulations come into force will be the cancellation of accumulation in the motor act and liability and the implementation of the Commissioner's position regarding the best practice described in Note 17.

The amendment will be implemented in the financial statements as at December 31, 2015.

As a supplementary measure to the amendment in October 2015, the measurement directives included in the consolidated circular, regarding the reinsurers share in the deferred acquisition costs and unearned premiums in general insurance, starting with the financial statements as of December 31, 2015 were updated.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management 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.)

4) Changes in calculation of insurance reserves in general insurance beginning on December 31, 2015 (Cont.)

The amendment was treated as a change in accounting policy, which was implemented retrospectively is not practical and therefore effect of the change was recorded as an adjustment to surplus as at December 31, 2015 with no retroactive application.

The effect of the said amendment on the Company's financial statements as at December 31, 2015 is as follows:

	Gross	Reinsurance	On retention/Total
	NIS in thousands		
(Increase) decrease in the insurance liabilities in general insurance and increase (decrease) of reinsurance assets:			
Due to cancelation of the accruals	199,653	(120,350)	79,303
Implementation of the best practice guidelines for in calculating insurance liabilities, calculated by the actuary	(87,257)	14,026	(73,231)
(Increase) decrease in reinsurance assets due to update of calculation of reinsurers share in unearned premium	-	(12,930)	(12,930)
Total increase (decrease) in insurance liabilities in general insurance and increase (decrease) in reinsurance assets	112,396	(119,254)	(6,858)
(Increase) decrease in creditors and payables due to update of calculation of reinsurers' share in deferred acquisition costs			8,592
Total effect of the amendment before taxes			1,734
Tax effect attributable - (increase) decrease of liabilities for current taxes			(652)
Total increase (decrease) in surplus item			1,082

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management contracts: (Cont.)

2. General insurance: (Cont.)

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 Control Regulations, calculated as a percentage of unearned premiums separately for each branch.

f) Incoming business from the Israeli Pool for Motor Vehicle Insurance of the Association of Insurance Companies in Israel ("the Pool"), from other insurance companies (including co-insurance and incoming 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 paragraph t below.

b) Liabilities in respect of health insurance contracts:

The liabilities for health insurance contracts are computed according to the Commissioner'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. Daniel Katzman, an employee of Migdal Insurance.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. 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 Insurance 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:

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.

(1) 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.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments:

1. Non-derivative financial instruments:

Non-derivative financial instruments include both 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 non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date incurred. The remaining financial assets acquired in the normal way (regular way purchase), including assets designated at fair value through profit or loss are initially recognized on the trade date in which the Group becomes a party to the contractual provisions of the instrument, meaning the date on which the Group has committed to buy or sell property

Non-derivative financial assets include investments in shares and debt instruments, customers and other receivables, including debtors in the framework of concession arrangements and cash and cash equivalents.

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 into known amounts of cash and are exposed to insignificant risks of changes in value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

1. Non-derivative financial instruments: (cont.)

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.

Financial assets at fair value through profit or 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.

Available-for-sale financial assets

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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 less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

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 the amounts are 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 financial assets and financial liabilities not measured at fair value:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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 Commissioner and in accordance to the standard.

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 bonds, 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.

Investments in quoted securities in the financial statements of a subsidiary engaged in investment management

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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 current market value of another similar instrument, discounted cash flows or other valuation methods.

In determining fair value of an asset or a liability, the Group uses quoted market prices whenever possible. The measurement of fair value is divided into three levels on the basis of the data used in the measurement 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).

For additional information see Note 12f below.

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 financial 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, 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 Group is granted the right to receive payment. If the dividend is received for quoted shares, the Group recognizes dividend income on the ex-date.

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 and loss when incurred.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Fixed assets:

1. Recognition and measurement:

   Items of fixed assets are measured at cost less accumulated depreciation and accumulated impairment losses.

   The cost of a number of items of fixed assets 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 recognized as part of the cost of such equipment.

   Gain or loss from disposal of an item of fixed assets 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 assets and other subsequent expenses are capitalized if it is probable that the future economic benefits affiliated 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 fixed assets, since this method reflects the projected pattern of consumption of future economic benefits embodied in the property in the best way.

   Freehold land is not depreciated.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Fixed assets: (Cont.)

3. Depreciation (Cont.)

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

	%
Buildings	4
Leasehold improvements	10 - 17
Motor vehicles	15
Computers and software	17 - 33
Furniture and equipment	6 - 15

Land leased from the Israel Land Administration and treated as a financial lease, is depreciated over the lease period.

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 depreciation method, useful lives and residual values are reviewed at least at the end of each reporting year.

m. 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 Group under an operating lease and are intended for rent to a third party, 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 POLICIES (Cont.)

m. 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.

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 remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement 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.

Investment property in development intended for use as investment property is measured at fair value, as mentioned above, if and when the fair value can be measured reliably. If fair value cannot be measured reliably, due to the characteristics and the amount of risk in the project, the property is measured at cost, less losses from impairment, if they exist, until the earlier between, when fair value may be measured reliably and when construction is completed. Cost of investment property under development includes the cost of the real estate with the addition of cost of financing used to finance the development, direct additional cost of planning and development and brokerage for contracts for the rental of the property.

For additional information, see Note 8 below.

n. 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 the transaction according to the provisions of IAS 17:

The Group as lessee

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 apportioned between finance expenses and repayment of the lease liability using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Leases: (Cont.)

2. Operating leases:

Lease agreements which do not transfer substantially all the risks and rewards from ownership of the leased asset are classified as an operating lease. 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 basis over the lease term.

The Group as lessor

Operating leases:

Leases in which the Group does not transfer to the lessee substantially all the risks and rewards incidental to ownership of the leased asset are classified as operating leases. Rental income is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in respect of the lease agreement are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the rental income. Contingent rent is recognized as income in the statement of profit and loss when the Company is entitled to receive such income.

o. Intangible assets:

Intangible assets acquired separately are measured upon initial recognition at cost with the addition of direct acquisition costs. Intangible assets acquired in 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Intangible assets: (Cont.)

Intangible assets with finite 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 expense on intangible assets with finite useful lives is recognized in the statement of profit and loss.

1. Goodwill:

Goodwill arising on the acquisition of a business combination is presented in the framework of intangible assets. For information regarding the measurement of goodwill at initial recognition see paragraph h(2) above.

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

2. Software development costs:

Software development costs are capitalized only if 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Intangible assets: (Cont.)

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 Group, 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 benefit 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Intangible assets: (Cont.)

5. Amortization: (Cont.)

f) Customer relations - excess of cost resulting from the agreement to absorb new general insurance policies of Eliahu Insurance, recognized at the discounted forecasted cash flow of policies, is amortized over a period of 10 years using the declining sum of digits method.

g) Customer lists – excess of cost resulting from the agreement to absorb new general insurance policies of Eliahu Insurance, is amortized over a period of three years using the straight line method.

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

p. Impairment:

1. Financial assets:

A financial asset not measured 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 and observable date that indicates that there is a measurable decrease in expected cash flows from a group of financial assets.

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 volatility 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Impairment: (Cont.)

1. Financial assets: (Cont.)

Evidence of impairment of debt instruments

The Group considers evidence of impairment of loans and receivables at both the individual asset and collective level. All individually significant loans and receivables are assessed for specific impairment. Loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has occurred 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 as a provision for loss against the balance of the financial assets.

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, in respect of available for sale assets, to profit or loss. The cumulative loss which is transferred to profit and loss is the difference between the acquisition cost net of any principal repayments and amortization, and the current fair value less any 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 debt securities, the reversal is recognized in profit or loss. For available-for-sale equity securities, the reversal is recognized directly in other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Impairment: (Cont.)

2. Reinsurance:

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

Reinsurers who do not fulfill their obligations under the reinsurance treaties may cause losses to the Group.

b) Migdal Insurance records an allowance for doubtful accounts in respect of reinsurers' debts whose collection is doubtful on the basis of individual risk estimates and based on the depth of the debts.

In addition, in determining the reinsurers' share in the insurance liabilities, the Company takes into consideration, among others, the likelihood 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 Migdal Insurance records the provisions, it takes into consideration, among others, the willingness of the parties to reach cut-off agreements (termination of agreements by a final settlement of the debts) in order to reduce the exposure.

3. Outstanding premiums in general insurance:

The allowance for doubtful accounts in respect of outstanding premiums in general insurance is calculated based on estimates of the depth of the debt in arrears and actual rates of policy cancellations in previous years.

4. Non-financial assets:

Timing of impairment testing

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 are any indications of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The Group tests the impairment of goodwill once a year, on a fixed date or more frequently if events or changes in circumstances indicate that impairment exists.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Impairment: (Cont.)

4. 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 realization costs. 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 ("cash-generating unit"). 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 not larger than a business segment before aggregation of similar segments. Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, which are expected to benefit from the synergies of the combination.

Affiliates

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

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 carrying amount of the asset after reversal of the impairment loss 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 POLICIES (Cont.)

q. Share capital:

Ordinary shares are classified as equity. Incremental costs directly related to issue of Ordinary shares and warrants are presented as a reduction of capital.

r. Employee benefits:

The Group has a number of employee benefit plans.

The classification of employee benefits for measurement purposes as short-term benefits or long-term benefits is determined on the basis of the Group's forecasts of the date when the benefits are expected to be fully settled.

1. Short-term benefits:

Short-term employee benefits are benefits which are expected to be settled fully, up to 12 months from the end of the annual reporting period in which employees provide related services.

These employee benefits include salaries, recreation, vacation and social security payments 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, 1963 (in this section - "the Law"), in which it pays regular contributions without having a legal or constructive obligation 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Employee benefits: (Cont.)

2. Post-employment benefits: (Cont.)

b) Defined benefit plans: (Cont.)

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 Group determines the net interest expense on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual periods. The discount rate is the yield at the reporting date of high quality corporate bonds denominated in the same currency, and which 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.

When the calculation results in a net asset for the Group, an asset is recognized up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. An economic benefit in the form of refunds or reductions in future contributions is considered available when it can be realized over the life of the plan or after settlement of the obligation.

Remeasurement of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Remeasurement are recognized immediately directly in retained earnings through other comprehensive income.

Interest costs on a defined benefit obligation, interest income on plan assets and interest from the effect of the asset ceiling that were recognized in profit or loss are presented under general and administrative expenses.

When the benefits of a plan are improved or curtailed, the portion of the increased benefit relating to past service by employees or the gain or loss on curtailment are recognized immediately in profit or loss when the plan improvement or curtailment occurs.

Assets held against the compensation component in policies issued by Migdal Insurance, do not constitute defined benefit plan assets and are offset from liabilities in respect of insurance contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Employee benefits: (Cont.)

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 high-quality corporate bonds whose currency and maturity dates are 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 profit or loss 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 long service grants. These benefits are accounted for as other long-term benefits since the Group 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.

5. Share-based payment transactions:

Equity-settled 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 Group 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 which benefits the employee/other service provider is recognized at fair value at the time of change.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Employee benefits: (Cont.)

5. Share-based payment transactions: (Cont.)

Equity-settled transactions (Cont.)

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

Transactions in which the parent company grants the Group's 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.

Cash-settled transactions

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 remeasured 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.

s. 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 passage of time.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Provisions: (Cont.)

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets affiliated with that contract.

t. 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 Group 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 included in the item 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 premiums.

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 POLICIES (Cont.)

t. Revenue recognition: (Cont.)

2. Management fees:

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

Management fees are calculated in accordance with the Commissioner'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 Commissioner's directives.

c) Management fees from mutual funds and from management of customers' 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 POLICIES (Cont.)

t. 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 cancellations of insurance policies.

4. Net investment gains (losses), finance income and finance expenses - see paragraph k(8) above.

In the statement of cash flows, the Company chose to present interest received, dividend received and interest paid in cash flows from current activities. Dividends paid are presented in cash flows from finance activities.

u. General and administrative expenses:

General and administrative 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.

v. 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 POLICIES (Cont.)

v. 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 underlying 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.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

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 current tax assets and liabilities will be realized simultaneously.

Tax addition in respect of dividend distribution

In the calculation of deferred taxes provisions are not made for tax liabilities in respect of the realization of investments in investee companies, if the realization of the investment is not expected in the foreseeable future. In addition, provisions for deferred taxes are not made for distribution of dividends by investee companies when the distribution of the dividend does not result in additional taxes or since the Group's policy is to not initiate the distribution of a dividend by a subsidiary which results in an additional tax liability.

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.

w. Earnings per share:

The Group 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 Group 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New Standards not yet adopted:

	Standard/ Interpretation/ Amendment	Subject	Application and transition provisions	Expected implications
1	IFRS 9 (2014), "Financial Instruments"	IFRS 9 (2014) is the final version of the Standard, prescribing updated provisions for the classification and measurement of financial instruments and a new model for measuring the impairment of financial assets. These provisions are added to the chapter on "hedge accounting - general" issued in 2013. Classification and measurement According to the Standard, there are three main categories for measuring financial assets: amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI). The classification of debt instruments is based on the entity's business model for managing financial assets and the contractual cash flow features of the financial asset. Investment in equity instruments is measured at FVTPL (unless the Company chose to present the changes in fair value in OCI upon initial recognition). As a rule, the Standard requires recognizing changes in the fair value of financial liabilities designated at FVTPL and attributed to the change in own credit risk in OCI. Impairment of financial assets The Standard provides a new expected credit loss model for the majority of financial debt assets. The new model presents a dual impairment measurement method: if the credit risk attributed to the financial asset has not significantly increased since the initial recognition date, a provision for loss will be recorded in the amount of the expected credit losses due to failure events whose occurrence is possible in the 12 months after the reporting date. If the credit risk has significantly increased, in most cases, the provision for impairment will increase and be recorded in the amount of the expected credit losses over the entire life of the financial asset.	The Standard will be adopted in annual periods beginning on January 1, 2018 with a possibility for early adoption. The Standard will be adopted retrospectively, excluding several exemptions.	The Group has not yet begun studying the implications of the adoption of the Standard on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New Standards not yet adopted: (Cont.)

	Standard/ Interpretation/ Amendment	Subject	Application and transition provisions	Expected implications
2	IFRS 15, "Revenue from Contracts with Customers"	The Standard replaces the existing revenue recognition provisions and introduces a new model for recognizing revenue from contracts with customers. The Standard stipulates two revenue recognition approaches: over time or at a point in time. The model includes five steps for analyzing transactions in order to determine the timing and amount of revenue recognition. The Standard also provides new and more extensive disclosure requirements.	The Standard will be adopted in annual periods beginning on January 1, 2018 with a possibility for early adoption. The Standard prescribes various alternative transition provisions to be chosen by entities upon initial adoption: full retrospective adoption; full retrospective adoption that includes practical exemptions; or adoption of the Standard from the first adoption date while adjusting the balance of retained earnings to that date to ongoing transactions.	The Group is studying the implications of the Standard on the financial statements without any intention of early adoption. At this stage it is not possible to estimate the effect.
3	Amendments to IAS 16, " Property, plant and equipment", and IAS 38, "Intangible Assets": clarification of acceptable methods of depreciation and amortization	The Amendment to IAS 38 prescribes a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate. The purpose of the Amendment is to restrict the use of revenue-based amortization and therefore, entities that wish to continue applying this method to intangible assets must demonstrate that the revenue produced and the consumption of economic benefits are highly correlated. The Amendment to IAS 16 specifically proscribes the use of the revenue-based amortization method for fixed assets.	The Amendments will be adopted prospectively in annual periods beginning on January 1, 2016 with a possibility for early adoption.	

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New Standards not yet adopted: (Cont.)

	Standard/ Interpretation/ Amendment	Subject	Application and transition provisions	Expected implications
4	IFRS 16, "Leases"	The Standard replaces IAS 17 Leases and the related interpretations. The Standard cancel the existing requirement for lessees to classify the lease as operating leases or finance. Instead, regarding the lease, the new Standard presents one model for handling accounting for all leases under which the lessee must recognize the asset and liabilities for lease in its financial statements. Furthermore, the Standard establishes disclosure requirements more extensive than those existing today.	The new Standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied concurrently. The Standard includes various alternatives for the implementation of transitional provisions, that companies will be able to choose one of the following options during the initial application: full retrospective application or implementation of the Standard starting from the initial application through retained earnings adjustment date.	The Group has not yet started assessing the impact of the Standard on its financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New Standards not yet adopted: (Cont.)

5	Amendment to IAS 12, Taxes on income: recognition of deferred tax assets in respect of unrealized losses	The amendment clarifies the need of recognizing a deferred tax asset, when assessing taxable income is expected to have the effect of neutralizing the reversal of deductible temporary differences. This assessment will be made separately with respect to different types of deductible temporary differences, if there are tax laws limitations on the types of taxable income against which the losses can be used. The amendment also states that the expected taxable income can include income from assets settled for an amount higher than their value in books, if there is sufficient evidence of this.	The amendment will be implemented with retroactive application beginning on or after January 1, 2017, with the possibility of early adoption.	The Group has not yet started assessing the effects of adopting the amendment to the financial statements.
6	Amendment to IAS 7, Statement of Cash Flows, regarding additional disclosures of financial liabilities:	In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments requires presenting the movement between disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.	The amendments will be implemented for annual periods beginning on or after January 1, 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.	The Company will include the necessary disclosures in the financial statements when applicable.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

	Consumer Price Index		Representative exchange
	Index in respect of	Known index	rate of the USD
		%	
Year ended December 31, 2015	(1.0)	(0.9)	0.3
Year ended December 31, 2014	(0.2)	(0.1)	12.1
Year ended December 31, 2013	1.8	1.9	(7.0)

NOTE 3:- OPERATING SEGMENTS

a. General

The operating segments Note includes a number of sectors that constitute strategic business units of the Group. These business units include a variety of products and are managed separately for the purpose of allocating resources and assessing performance. The products at the base of each segment is substantially similar with regard to the nature, manner of distribution, customer mix, the essence of the supervisory environment and economic and demographic characteristics of long-term exposure to derivatives with similar characteristics to insurance risks. In addition, the results of the investment portfolio held against insurance liabilities could have a significant impact on profitability.

Results, assets and liabilities in each segment include items directly attributable to a segment and items that can be attributed on a reasonable basis.

The accounting principles applied in segment reporting correspond to the accounting principles applied in the preparation and presentation of the Group's financial statements.

1. The life assurance and long-term savings segment:

   The life assurance and long-term savings segment 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 funds), as well as insurance coverage for various risks such as: death, disability, occupational disability, etc. According to the Commissioner'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 consolidates the Group's entire activities in health insurance – the segment includes long-term care insurance, medical expense insurance, operations, transplants, dental insurance, etc.

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. General (Cont.)

3. General insurance segment:

The general insurance segment includes the liability and property branches. Under the Commissioner'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 coverage whose acquisition by the owner of the vehicle or the driver is compulsory by law and which provides 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 and other risks.

NOTE 3:- OPERATING SEGMENTS (Cont.)

a. General (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 operating segments

Other operating segments include mainly operating results of insurance agencies.

6. Activities not attributed to operating segments

This includes part of the Group's headquarters not attributable to the operating segments, related activities/launch the Group's operations and the assets and liabilities held against Migdal Insurance equity in accordance with the Capital Regulations.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments:

	Year ended December 31, 2015							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	7,661,558	1,024,474	2,002,782	-	-	-	-	10,688,814
Premiums earned by reinsurers	149,693	69,590	403,873	-	-	-	-	623,156
Premiums earned on retention	7,511,865	954,884	1,598,909	-	-	-	-	10,065,658
Net investment income and finance income	3,080,924	70,059	182,340	6,079	3,634	170,051	(27,754)	3,485,333
Income from management fees	1,338,043	-	-	141,531	-	-	-	1,479,574
Income from commissions	53,765	15,868	58,453	55,562	334,057	-	(175,109) *)	342,596
Other income	-	-	-	2,169	3,630	66,631	(30,698)	41,732
Total income	11,984,597	1,040,811	1,839,702	205,341	341,321	236,682	(233,561)	15,414,893
Payments and change in liabilities in respect of insurance and investment contracts, gross	10,355,974	779,039	1,453,183	-	-	-	(26,454)	12,561,742
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	66,198	64,625	216,487	-	-	-	-	347,310
Payments and change in liabilities in respect of insurance and investment contracts on retention	10,289,776	714,414	1,236,696	-	-	-	(26,454)	12,214,432
Commissions, marketing expenses and other acquisition expenses	831,369	293,467	416,237	65,422	139,296	-	(160,524)	1,585,267
General and administrative expenses	597,811	58,582	47,575	115,891	157,285	78,410	(17,111)	1,038,443
Other expenses	20,253	-	16,376	27,524	7,702	30,853	(907)	101,801
Finance expenses	21,058	-	4,360	28	1,893	47,779	(17,387)	57,731
Total expenses	11,760,267	1,066,463	1,721,244	208,865	306,176	157,042	(222,383)	14,997,674
Share of earnings of investees accounted for at equity	51,882	-	18,267	-	1,894	19,555	-	91,598
Income (loss) before taxes on income	276,212	(25,652)	136,725	(3,524)	37,039	99,195	(11,178)	508,817
Other comprehensive income (loss) before taxes on income	(165,682)	(9,724)	(79,761)	643	(160)	(73,735)	-	(328,419)
Total comprehensive income (loss) for the period before taxes on income	110,530	(35,376)	56,964	(2,881)	36,879	25,460	(11,178)	180,398

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long-term savings in the amount of NIS 122,384 thousand, in health insurance in the amount of NIS 24,895 thousand and in general insurance in the amount of NIS 18,206 thousand and in the financial services in the amount of NIS 9,624 thousand.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments: (Cont.)

	Year ended December 31, 2014							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	7,605,774	879,877	1,939,920	-	-	-	-	10,425,571
Premiums earned by reinsurers	190,767	64,167	432,739	-	-	-	-	687,673
Premiums earned on retention	7,415,007	815,710	1,507,181	-	-	-	-	9,737,898
Net investment income and finance income	5,166,123	105,857	180,879	14,471	2,361	173,176	(28,585)	5,614,282
Income from management fees	1,424,781	-	-	144,287	-	-	-	1,569,068
Income from commissions	65,498	13,567	73,675	43,533	346,994	-	(* (174,738)	368,529
Other income	-	-	-	7,267	-	37,753	(2,064)	42,956
Total income	14,071,409	935,134	1,761,735	209,558	349,355	210,929	(205,387)	17,332,733
Payments and change in liabilities in respect of insurance and investment contracts, gross	12,437,303	617,439	1,443,244	-	-	-	(2,064)	14,495,922
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	79,286	54,149	250,302	-	-	-	-	383,737
Payments and change in liabilities in respect of insurance and investment contracts on retention	12,358,017	563,290	1,192,942	-	-	-	(2,064)	14,112,185
Commissions, marketing expenses and other acquisition expenses	829,345	253,214	397,913	70,319	142,538	-	(170,274)	1,523,055
General and administrative expenses	592,201	43,360	43,982	127,276	172,742	74,095	(12,487)	1,041,169
Other expenses	22,702	-	17,851	8,315	10,666	17,094	-	76,628
Finance expenses	20,480	-	13,906	3,124	3,178	31,151	(20,360)	51,479
Total expenses	13,822,745	859,864	1,666,594	209,034	329,124	122,340	(205,185)	16,804,516
Share of earnings of investees accounted for at equity	43,461	-	13,217	-	1,611	21,823	-	80,112
Income before taxes on income	292,125	75,270	108,358	524	21,842	110,412	(202)	608,329
Other comprehensive income before taxes on income	152,325	7,028	8,266	1,562	1,549	13,681	-	184,411
Total comprehensive income for the period before taxes on income	444,450	82,298	116,624	2,086	23,391	124,093	(202)	792,740

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long-term savings in the amount of NIS 126,988 thousand, in health insurance in the amount of NIS 23,050 thousand and in general insurance in the amount of NIS 20,438 thousand and in the financial services in the amount of NIS 4,262 thousand.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments: (Cont.)

	Year ended December 31, 2013							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Gross premiums earned	7,546,534	770,176	1,755,864	-	-	-	-	10,072,574
Premiums earned by reinsurers	173,721	65,359	478,257	-	-	-	-	717,337
Premiums earned on retention	7,372,813	704,817	1,277,607	-	-	-	-	9,355,237
Net investment income and finance income	8,896,233	183,939	170,349	15,865	2,869	150,285	(34,113)	9,385,427
Income from management fees	1,556,132	-	-	143,873	-	-	(3,207)	1,696,798
Income from commissions	64,031	22,234	59,084	37,077	351,875	-	(* (174,191)	360,110
Other income	-	-	-	3,847	-	31,599	-	35,446
Total income	17,889,209	910,990	1,507,040	200,662	354,744	181,884	(211,511)	20,833,018
Payments and change in liabilities in respect of insurance and investment contracts, gross	15,767,954	638,091	1,171,044	-	-	-	-	17,577,089
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	122,010	40,365	172,294	-	-	-	-	334,669
Payments and change in liabilities in respect of insurance and investment contracts on retention	15,645,944	597,726	998,750	-	-	-	-	17,242,420
Commissions, marketing expenses and other acquisition expenses	854,588	202,807	371,965	66,624	163,472	-	(178,617)	1,480,839
General and administrative expenses	611,436	39,188	43,448	135,017	203,955	77,193	(15,918)	1,094,319
Other expenses	11,570	-	4,555	2,899	12,458	19,190	-	50,672
Finance expenses (income)	24,009	-	(2,700)	422	1,739	50,255	(21,402)	52,323
Total expenses	17,147,547	839,721	1,416,018	204,962	381,624	146,638	(215,937)	19,920,573
Share of earnings of investees accounted for at equity	39,577	-	13,164	-	1,227	16,806	-	70,774
Income (loss) before taxes on income	781,239	71,269	104,186	(4,300)	(25,653)	52,052	4,426	983,219
Other comprehensive income before taxes on income	124,645	5,933	49,721	837	1,280	21,941	-	204,357
Total comprehensive income (loss) for the period before taxes on income	905,884	77,202	153,907	(3,463)	(24,373)	73,993	4,426	1,187,576

*) Derived from income from commissions received by agencies owned by the Group, from activities in life assurance and long-term savings in the amount of NIS 134,384 thousand, in health insurance in the amount of NIS 15,286 thousand and in general insurance in the amount of NIS 24,521 thousand.

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2015			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,661,558	-	-	7,661,558
Premiums earned by reinsurers	149,693	-	-	149,693
Premiums earned on retention	7,511,865	-	-	7,511,865
Net investment income and finance income	3,069,656	8,523	2,745	3,080,924
Income from management fees	857,895	348,592	131,556	1,338,043
Income from commissions	53,765	-	-	53,765
Total income	11,493,181	357,115	134,301	11,984,597
Payments and change in gross liabilities for insurance and investment contracts, gross	10,355,974	-	-	10,355,974
Reinsurers' share in payments and change in liabilities for insurance contracts	66,198	-	-	66,198
	10,289,776	-	-	10,289,776
Payments and change in liabilities for insurance and investment contracts on retention				
Commissions, marketing expenses and other acquisition expenses	637,142	149,047	45,180	831,369
General and administrative expenses	400,748	137,540	59,523	597,811
Other expenses	-	-	20,253	20,253
Finance expenses	21,058	-	-	21,058
Total expenses	11,348,724	286,587	124,956	11,760,267
Group's share of earnings of investees accounted for at equity	51,882	-	-	51,882
Income before taxes on income	196,339	70,528	9,345	276,212
Other comprehensive loss before taxes on income	(157,351)	(6,228)	(2,103)	(165,682)
Total comprehensive income for the period before taxes on income	38,988	64,300	7,242	110,530

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2014			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,605,774	-	-	7,605,774
Premiums earned by reinsurers	190,767	-	-	190,767
Premiums earned on retention	7,415,007	-	-	7,415,007
Net investment income and finance income	5,157,219	7,368	1,536	5,166,123
Income from management fees	946,081	340,621	138,079	1,424,781
Income from commissions	65,498	-	-	65,498
Total income	13,583,805	347,989	139,615	14,071,409
Payments and change in gross liabilities for insurance and investment contracts, gross	12,437,303	-	-	12,437,303
Reinsurers' share in payments and change in liabilities for insurance contracts	79,286	-	-	79,286
	12,358,017	-	-	12,358,017
Payments and change in liabilities for insurance and investment contracts on retention				
Commissions, marketing expenses and other acquisition expenses	647,374	136,793	45,178	829,345
General and administrative expenses	409,045	127,756	55,400	592,201
Other expenses	-	-	22,702	22,702
Finance expenses	20,480	-	-	20,480
Total expenses	13,434,916	264,549	123,280	13,822,745
Group's share of earnings of investees accounted for at equity	43,461	-	-	43,461
Income before taxes on income	192,350	83,440	16,335	292,125
Other comprehensive income before taxes on income	151,443	800	82	152,325
Total comprehensive income for the period before taxes on income	343,793	84,240	16,417	444,450

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2013			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,546,534	-	-	7,546,534
Premiums earned by reinsurers	173,721	-	-	173,721
Premiums earned on retention	7,372,813	-	-	7,372,813
Net investment income and finance income	8,888,182	8,051	-	8,896,233
Income from management fees	1,115,074	302,377	138,681	1,556,132
Income from commissions	64,031	-	-	64,031
Total income	17,440,100	310,428	138,681	17,889,209
Payments and change in gross liabilities for insurance and investment contracts, gross	15,767,954	-	-	15,767,954
Reinsurers' share in payments and change in liabilities for insurance contracts	122,010	-	-	122,010
Payments and change in liabilities for insurance and investment contracts on retention	15,645,944	-	-	15,645,944
Commissions, marketing expenses and other acquisition expenses	686,481	121,944	46,163	854,588
General and administrative expenses	437,434	118,558	55,444	611,436
Other expenses	-	-	11,570	11,570
Finance expenses	23,541	-	468	24,009
Total expenses	16,793,400	240,502	113,645	17,147,547
Group's share of earnings of investees accounted for at equity	39,577	-	-	39,577
Income before taxes on income	686,277	69,926	25,036	781,239
Other comprehensive income (loss)before taxes on income	122,731	1,974	(60)	124,645
Total comprehensive income for the period before taxes on income	809,008	71,900	24,976	905,884

NOTE 3:- OPERATING SEGMENTS (Cont.)

d. Additional information regarding the general insurance segment:

	Year ended December 31, 2015				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	509,942	646,605	588,162	305,488	2,050,197
Reinsurance premiums	11,495	2,872	319,588	76,808	410,763
Premiums on retention	498,447	643,733	268,574	228,680	1,639,434
Change in unearned premium balance, on retention	5,296	(37,631)	(6,302)	(1,888)	(40,525)
Earned premium on retention	503,743	606,102	262,272	226,792	1,598,909
Net investment income and finance income	96,402	14,856	11,018	60,064	182,340
Income from commissions	-	(365)	51,806	7,012	58,453
Total income	600,145	620,593	325,096	293,868	1,839,702
Payments and change in liabilities for insurance contracts, gross	350,549	499,421	405,253	197,960	1,453,183
Reinsurers' share in payments and in change in liabilities for insurance contracts	(11,459)	1,239	286,137	(59,430)	216,487
Payments and change in liabilities for insurance contracts on retention	362,008	498,182	119,116	257,390	1,236,696
Commissions, marketing expenses and other acquisition expenses	60,515	151,429	142,411	61,882	416,237
General and administrative expenses	16,744	11,883	12,560	6,388	47,575
Other expenses	4,979	6,430	2,683	2,284	16,376
Finance expenses	847	149	2,830	534	4,360
Total expenses	445,093	668,073	279,600	328,478	1,721,244
Share of earnings of investees accounted for at equity	9,808	1,510	840	6,109	18,267
Income (loss) before taxes on income	164,860	(45,970)	46,336	(28,501)	136,725
Other comprehensive loss before taxes on income	(42,822)	(6,591)	(3,670)	(26,678)	(79,761)
Total comprehensive income (loss) for the period before taxes on income	122,038	(52,561)	42,666	(55,179)	56,964
Liabilities in respect of gross insurance contracts at December 31, 2015	1,735,607	440,936	567,267	1,512,579	4,256,389
Liabilities in respect of insurance contracts on retention at December 31, 2015	1,718,804	439,650	202,958	1,279,389	3,640,801

*) 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 96% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability insurance, third party liability and professional liability branches whose activities constitute about 86% of the total premiums in these branches.

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2014				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	540,042	553,535	571,116	304,218	1,968,911
Reinsurance premiums	11,874	618	318,110	75,865	406,467
Premiums on retention	528,168	552,917	253,006	228,353	1,562,444
Change in unearned premium balance, on retention	4,368	(2,996)	(44,362)	(12,273)	(55,263)
Earned premium on retention	532,536	549,921	208,644	216,080	1,507,181
Net investment income and finance income	90,267	14,239	17,969	58,404	180,879
Income from commissions	-	(26)	66,988	6,713	73,675
Total income	622,803	564,134	293,601	281,197	1,761,735
Payments and change in liabilities for insurance contracts, gross	471,278	400,302	266,227	305,437	1,443,244
Reinsurers' share in payments and in change in liabilities for insurance contracts	11,229	(30)	178,156	60,947	250,302
Payments and change in liabilities for insurance contracts on retention	460,049	400,332	88,071	244,490	1,192,942
Commissions, marketing expenses and other acquisition expenses	61,035	139,134	136,724	61,020	397,913
General and administrative expenses	16,135	9,939	11,472	6,436	43,982
Other expenses	6,035	6,318	2,890	2,608	17,851
Finance expenses (income)	1,603	294	10,981	1,028	13,906
Total expenses	544,857	556,017	250,138	315,582	1,666,594
Share of earnings of investees accounted for at equity	7,018	1,104	553	4,542	13,217
Income (loss) before taxes on income	84,964	9,221	44,016	(29,843)	108,358
Other comprehensive income before taxes on income	4,389	690	346	2,841	8,266
Total comprehensive income (loss) for the period before taxes on income	89,353	9,911	44,362	(27,002)	116,624
Liabilities in respect of gross insurance contracts at December 31, 2014	1,844,918	367,256	532,236	1,636,202	4,380,612
Liabilities in respect of insurance contracts on retention at December 31, 2014	1,793,404	367,071	178,165	1,163,270	3,501,910

*) 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 95% of the total premiums in these branches.

Other liability branches mainly include the results of employers' liability insurance, third party liability and professional liability branches whose activities constitute about 85% of the total premiums in these branches.

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2013				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	538,619	579,875	620,216	282,822	2,021,532
Reinsurance premiums	8,517	951	435,445	67,999	512,912
Premiums on retention	530,102	578,924	184,771	214,823	1,508,620
Change in unearned premium balance, on retention	(130,833)	(86,407)	(2,560)	(11,213)	(231,013)
Earned premium on retention	399,269	492,517	182,211	203,610	1,277,607
Net investment income and finance income	93,703	11,756	1,041	63,849	170,349
Income from commissions	-	11	53,496	5,577	59,084
Total income	492,972	504,284	236,748	273,036	1,507,040
Payments and change in liabilities for insurance contracts, gross	306,071	366,795	224,174	274,004	1,171,044
Reinsurers' share in payments and in change in liabilities for insurance contracts	(439)	(56)	143,212	29,577	172,294
Payments and change in liabilities for insurance contracts on retention	306,510	366,851	80,962	244,427	998,750
Commissions, marketing expenses and other acquisition expenses	45,459	127,189	141,695	57,622	371,965
General and administrative expenses	16,383	10,151	12,500	4,414	43,448
Other expenses	1,601	1,747	559	648	4,555
Finance expenses	889	145	(4,335)	601	(2,700)
Total expenses	370,842	506,083	231,381	307,712	1,416,018
Share of earnings of investees accounted for at equity	7,061	883	408	4,812	13,164
Income (loss) before taxes on income	129,191	(916)	5,775	(29,864)	104,186
Other comprehensive income before taxes on income	26,668	3,336	1,544	18,173	49,721
Total comprehensive income (loss) for the period before taxes on income	155,859	2,420	7,319	(11,691)	153,907
Liabilities in respect of gross insurance contracts at December 31, 2013	1,630,776	352,804	520,375	1,529,271	4,033,226
Liabilities in respect of insurance contracts on retention at December 31, 2013	1,586,246	352,739	133,393	1,091,661	3,164,039

*) 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 96% of the total premiums in these branches.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2015

NOTE 3:- OPERATING SEGMENTS (Cont.)

e. Details on segment assets and liabilities:

	December 31, 2015							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	344,133	-	221,218	352,600	105,752	249,393	(1,793)	1,271,303
Deferred acquisition costs	1,295,400	416,676	186,499	-	-	-	(65,153)	1,833,422
Investments in affiliates	407,978	-	148,225	-	8,515	135,496	-	700,214
Investment property for yield dependent contracts	5,217,710	110,743	-	-	-	-	-	5,328,453
Investment property - other	523,445	15,521	172,904	-	-	6,445	-	718,315
Reinsurance assets	104,214	34,491	615,588	-	-	-	-	754,293
Outstanding premiums	190,514	25,475	353,434	-	-	-	-	569,423
Financial investments for yield dependent contracts	68,580,067	1,546,388	-	-	-	-	-	70,126,455
Other financial investments:								
Quoted debt assets	3,240,261	56,389	1,625,523	1,513	2,777	2,688,753	-	7,615,216
Unquoted debt assets	21,076,455	382,843	533,917	6,731	4,797	141,807	(109,350)	22,037,200
Shares	626,057	11,205	253,096	70,338	2	220,245	-	1,180,943
Other	1,547,229	27,662	468,342	122	290	467,662	-	2,511,307
Total other financial investments	26,490,002	478,099	2,880,878	78,704	7,866	3,518,467	(109,350)	33,344,666
Cash and cash equivalents for yield dependent contracts	7,638,992	162,134	-	-	-	-	-	7,801,126
Cash and cash equivalents – other	633,611	15,678	206,063	176,779	45,154	1,125,459	-	2,202,744
Other assets	662,138	109,405	91,980	28,283	152,676	1,876,064	(1,229,060)	1,691,486
Total assets	112,088,204	2,914,610	4,876,789	636,366	319,963	6,911,324	(1,405,356)	126,341,900
Total assets for yield dependent contracts	81,927,664	1,716,030	-	-	-	-	-	83,643,694
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	27,342,062	727,755	4,256,389	-	-	-	-	32,326,206
Liability due to yield dependent insurance and investment contracts	81,580,815	1,731,671	-	-	-	-	-	83,312,486
Financial liabilities	253,114	7,387	11,709	580	110,856	2,737,399	(103,307)	3,017,738
Other liabilities	1,397,845	31,121	608,691	114,121	209,107	1,350,807	(1,254,776)	2,456,916
Total liabilities	110,573,836	2,497,934	4,876,789	114,701	319,963	4,088,206	(1,358,083)	121,113,346

NOTE 3:- OPERATING SEGMENTS (Cont.)

	December 31, 2014							
	Life assurance and long-term savings	Health	General insurance	Financial services	Other operating segments	Unallocated to operating segments	Adjustments and offsets	Total
	NIS in thousands							
Assets								
Intangible assets	364,388	-	237,594	379,775	110,442	269,316	(1,620)	1,359,895
Deferred acquisition costs	1,301,707	356,067	171,734	-	-	-	(60,192)	1,769,316
Investments in affiliates	371,438	-	134,959	-	10,347	127,722	-	644,466
Investment property for yield dependent contracts	4,795,995	102,062	-	-	-	-	-	4,898,057
Investment property - other	476,950	10,476	141,763	-	-	1,701	-	630,890
Reinsurance assets	113,620	21,385	878,702	-	-	-	-	1,013,707
Outstanding premiums	213,053	25,951	340,331	-	-	-	-	579,335
Financial investments for yield dependent contracts	68,170,751	1,412,248	-	-	-	-	-	69,582,999
Other financial investments:								
Quoted debt assets	2,702,109	40,779	1,602,266	3,900	18,287	1,772,901	-	6,140,242
Unquoted debt assets	20,930,116	335,533	529,340	213,990	3,130	201,260	(159,733)	22,053,636
Shares	656,143	10,347	256,503	19,517	1	170,841	-	1,113,352
Other	1,499,541	23,610	474,100	6,556	7,680	373,716	-	2,385,203
Total other financial investments	25,787,909	410,269	2,862,209	243,963	29,098	2,518,718	(159,733)	31,692,433
Cash and cash equivalents for yield dependent contracts	3,221,415	68,554	-	-	-	-	-	3,289,969
Cash and cash equivalents – other	703,791	13,345	130,112	107,810	66,220	621,373	-	1,642,651
Other assets	1,220,781	124,422	79,748	57,695	174,632	1,313,107	(1,022,145)	1,948,240
Total assets	106,741,798	2,544,779	4,977,152	789,243	390,739	4,851,937	(1,243,690)	119,051,958
Total assets for yield dependent contracts	77,207,168	1,500,896	-	-	-	-	-	78,708,064
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	26,500,404	522,715	4,380,612	-	-	-	-	31,403,731
Liability due to yield dependent insurance and investment contracts	76,419,773	1,626,443	-	-	-	-	-	78,046,216
Financial liabilities	646,290	15,456	12,463	40,867	161,256	871,001	(159,733)	1,587,600
Other liabilities	1,610,935	24,098	584,077	212,088	229,483	1,118,894	(1,043,237)	2,736,338
Total liabilities	105,177,402	2,188,712	4,977,152	252,955	390,739	1,989,895	(1,202,970)	113,773,885

NOTE 4:- INTANGIBLE ASSETS

a. Composition:

	Goodwill	Initial difference attributed to value of insurance portfolios	Future management fees	Brand name	Computer software	Customer relations	Other	Total
				NIS in thousands				
Cost								
Balance at January 1, 2014	1,069,209	741,466	213,623	10,939	1,126,104	81,115	22,829	3,265,285
Acquisitions in business combinations	-	-	-	-	-	-	-	-
Acquisitions and internal development (1)	-	-	-	-	107,461	-	-	107,461
Disposals during the year	-	-	-	-	(3,306)	-	-	(3,306)
Balance at December 31, 2014	1,069,209	741,466	213,623	10,939	1,230,259	81,115	22,829	3,369,440
Acquisitions in business combinations	-	-	-	-	-	-	-	-
Acquisitions and internal development (1)	-	-	-	-	114,302	-	-	114,302
Disposals during the year	-	-	-	-	(20,534)	-	-	(20,534)
Exist from consolidation	-	-	-	-	(1,894)	-	-	(1,894)
Balance at December 31, 2015	1,069,209	741,466	213,623	10,939	1,322,133	81,115	22,829	3,461,314
Accumulated amortization and impairment losses								
Balance at January 1, 2014	110,217	706,387	155,202	7,647	821,260	3,687	7,300	1,811,700
Amortization recognized during the year	-	8,900	9,388	1,008	137,341	14,379	5,657	176,673
Impairment	22,897	-	-	732	849	-	-	24,478
Disposals during the year	-	-	-	-	(3,306)	-	-	(3,306)
Balance at December 31, 2014	133,114	715,287	164,590	9,387	956,144	18,066	12,957	2,009,545
Amortization recognized during the year	-	7,702	7,788	504	129,962	12,904	4,978	163,838
Impairment	38,927	-	-	-	-	-	-	38,927
Disposals during the year	-	-	-	-	(20,534)	-	-	(20,534)
Exist from consolidation	-	-	-	-	(1,765)	-	-	(1,765)
Balance at December 31, 2015	172,041	722,989	172,378	9,891	1,063,807	30,970	17,935	2,190,011
Net book value								
At December 31, 2015	897,168	18,477	41,245	1,048	258,326	50,145	4,894	1,271,303
At December 31, 2014	936,095	26,179	49,033	1,552	274,115	63,049	9,872	1,359,895

(1) In respect of computer software, included internal development in 2015 and 2014 of about NIS 8 million and NIS 71 million, respectively.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. Examination of impairment of intangible assets with an indefinite life:

In order to examine the impairment of goodwill as of December 31, 2015, the goodwill was allocated to the following cash generating units: pension funds, provident funds, general insurance, financial services and others (insurance agencies and activities not allocated to operating segments).

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

	December 31,	
	2015	2014
	NIS in thousands	
Pension funds	190,866	190,866
Provident funds	112,671	125,758
Financial services	349,856	375,696
General insurance	168,470	168,470
Other	75,305	75,305
	897,168	936,095

In order to examine the impairment 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 forecast revenues less expenses expected from existing business (value in use). Cash flows were discounted according to a risk free real interest yield curve. The recoverable amount significantly exceeds the carrying amount of the unit.

The recoverable amount of the provident fund unit is determined on the basis of the estimated future cash flows deriving from the activities of the unit.

As at December 31, 2015, mainly due to the decrease in management fees rate and the scope of the managed assets, it was found that the carrying amount of the unit of provident funds exceeded its recoverable amount which is NIS 196,057 thousand and therefore an impairment loss of NIS 13,191 thousand was recognized. The impairment loss was fully allocated to goodwill.

The recoverable amount of the financial services unit based on its fair value less realization costs and is determined based on the estimated future cash flows derived from the overall activities of the unit.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. Examination of impairment of intangible assets with an indefinite life: (Cont.)

In the year 2015, the financial services unit includes mutual funds, in the year 2014 this unit also included a hedge fund. During the year 2015, following the fluctuations in the capital market and the volume of redemptions in the mutual fund branch during the reporting period, it was found that the carrying amount of the trust funds unit was higher than its recoverable amount, which as at December 31, 2015 is NIS 348,551 thousand, and therefore recognized an impairment loss was recognized in the amount of NIS 25,840 thousand. The said impairment loss was allocated to goodwill. In the year 2014 an impairment loss was recognized in the amount of NIS 6,786 thousand in respect of hedge fund goodwill balance.

Fair value measurements are classified as Level 3 in the fair value hierarchy, see the definition of the fair value hierarchy in Note 2k(7) regarding determination of the fair value.

The recoverable amount of the unit of general insurance is based on its value in use and determined on the basis of estimated future cash flows of the general insurance lines. The unit's recoverable amount exceeds its carrying amount.

The other units relate to the activity of the Group's insurance agencies and activities not allocated to operating segments.

The recoverable amount of each of the other units is based on their value in use and determined based on the estimated future cash flows of each unit.

The recoverable amount exceeds the carrying amount of each of the other units. In the year 2014 an impairment loss was recognized in an amount which is not significant.

The impairment losses are all included in the item of other expenses.

The key assumptions used for the calculation of the recoverable amount

The calculation of the recoverable amount of the unit of provident funds is based on the following main assumptions:

Pre-tax nominal discount interest rate of about 18.8% and post-tax discount rate of about 10% (in the year 2014 the real pre-tax discount interest rate was about 15.5% and post-tax about 10.2%). This rate was determined using the WACC model, on the basis of parameters characteristic of this type of activity.

Nominal long-term growth rate – 3% (2014 real long term growth rate 1.75%). This rate was determined on the basis of the average long-term growth rate for this type of activity.

The cash flow forecast was built for five years

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. Examination of impairment of intangible assets with an indefinite life: (Cont.)

The key assumptions used for the calculation of the recoverable amount (Cont.)

The calculation of the recoverable amount of the unit of mutual funds is based on the following main assumptions:

Pre-tax real discount interest rate of about 15.6% and post-tax real discount rate of about 15.6% (in the year 2014 pre-tax real discount interest rate of about 16% and post-tax discount rate of about 11%). This rate was determined using the WACC model, on the basis of parameters characteristic of this type of activity.

Real long-term growth rate 2% (in the year 2014 real long-term growth rate of 2%). The rate was determined on the basis of the average long-term growth rate for this type of activity.

Average management fee rates in long term mutual funds about 0.56% (in the year 2014 about 0.56%).

The cash flow forecast was built for five years.

The calculation of the recoverable amount of the general insurance unit is based on the following main assumptions:

Nominal pre-tax discount interest rate of about 15% and post-tax discount rate of about 9.6 % (in the year 2014 real pre-tax discount rate of about 12.6% and post-tax about 8%), he cash flow forecast was built for five years, overall damage ratio in the various general insurance lines of 80%-118% (in the year 2014 92%-100%); long-term premium growth rate in the motor act line of 1.5% and long-term premium growth rate in the other lines of about 3.3% (in the year 2014 1.5% in motor act and 3.3% in remaining lines).

The calculation of the recoverable amount of the insurance agencies is based on the following main assumptions:

Pre-tax discount interest rate of about 16% and post-tax discount rate of about 12% (in the year 2014 about 16% pre-tax and about 12% post-tax) and long-term growth rate of about 1.5%-2.5% (in the year 2014 1.5%-2.5%).

These rates were determined on the basis of parameters characteristic of this type of activity.

NOTE 5:- DEFERRED ACQUISITION COSTS

a. Composition:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Life assurance and long-term savings:		
Life assurance	1,012,228	1,047,849
Pension and provident funds	228,953	198,563
	1,241,181	1,246,412
Health insurance	405,742	351,170
General insurance	186,499	171,734
	1,833,422	1,769,316

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

	Life assurance and long-term savings: Life assurance	Life assurance and long-term savings: Pension and provident funds	Life assurance and long-term savings: Total	Health insurance	Total
	NIS in thousands				
Balance at January 1, 2014	1,099,828	165,261	1,265,089	303,759	1,568,848
Additions:					
Acquisition commissions	75,311	55,880	131,191	108,791	239,982
Other acquisition expenses	81,136	7,686	88,822	34,111	122,933
Total additions	156,447	63,566	220,013	142,902	362,915
Current amortization	133,346	14,302	147,648	65,729	213,377
Amortization due to cancellations	75,080	15,962	91,042	29,762	120,804
Balance at December 31, 2014	1,047,849	198,563	1,246,412	351,170	1,597,582
Additions:					
Acquisition commissions	94,117	56,138	150,255	121,373	271,628
Other acquisition expenses	85,164	10,882	96,046	40,110	136,156
Total additions	179,281	67,020	246,301	161,483	407,784
Current amortization	129,594	18,320	147,914	77,984	225,898
Amortization due to cancellations	85,308	18,310	103,618	28,927	132,545
Balance at December 31, 2015	1,012,228	228,953	1,241,181	405,742	1,646,923

NOTE 6:- FIXED ASSETS

a. Composition and movement:

2015

	Land and office buildings	Computers and software	Motor vehicles	furniture and equipment	Leasehold improvements	Total
			NIS in thousands			
Cost						
Cost as at January 1, 2015	752,367	232,129	1,866	206,523	28,934	1,221,819
Additions during the year	34,121	20,364	145	11,024	1,079	66,733
Disposals during the year	(780)	(6,104)	(1,142)	(7,800)	(4,098)	(19,924)
Transfer from investment property	13,748	-	-	-	-	13,748
Exist from consolidation	-	(6,381)	(21)	(1,224)	(463)	(8,089)
Cost as at December 31, 2015	799,456	240,008	848	208,523	25,452	1,274,287
Accumulated depreciation						
Accumulated depreciation as at January 1, 2015	164,617	184,803	923	132,501	21,519	504,363
Additions during the year	28,656	27,692	143	12,593	2,572	71,656
Disposals during the year	(768)	(6,056)	(588)	(7,541)	(2,943)	(17,896)
Exist from consolidation	-	(5,898)	(13)	(822)	(338)	(7,071)
Accumulated depreciation as at December 31, 2015	192,505	200,541	465	136,731	20,810	551,052
Depreciated cost as at December 31, 2015	606,951	39,467	383	71,792	4,642	723,235
Annual depreciation rates	4%	17%-33%	15%	6%-15%	10%-17%	

NOTE 6:- FIXED ASSETS (Cont.)

a. Composition and movement: (Cont.)

2014

	Land and office buildings	Computers and software	Motor vehicles	furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Cost as at January 1, 2014	745,281	244,795	4,502	201,207	29,468	1,225,253
Additions during the year	7,086	13,081	400	6,965	507	28,039
Disposals during the year	-	(25,747)	(3,036)	(1,649)	(1,041)	(31,473)
Cost as at December 31, 2014	752,367	232,129	1,866	206,523	28,934	1,221,819
Accumulated depreciation						
Accumulated depreciation as at January 1, 2014	138,932	180,913	2,101	123,269	21,173	466,388
Additions during the year	25,685	29,627	384	10,808	1,387	67,891
Disposals during the year	-	(25,737)	(1,562)	(1,576)	(1,041)	(29,916)
Accumulated depreciation as at December 31, 2014	164,617	184,803	923	132,501	21,519	504,363
Depreciated cost as at December 31, 2014	587,750	47,326	943	74,022	7,415	717,456
Annual depreciation rates	4%	17%-33%	15%	6%-15%	10%-17%	

NOTE 6:- FIXED ASSETS (Cont.)

b. Details of rights to real estate used by the Group as fixed assets:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Freehold	561,733	546,478
Capitalized leased *)	45,218	41,272
	606,951	587,750

*) Assets under capitalized lease amount to NIS 34,004 thousand (2014 - NIS 36,362 thousand) with a remaining leasehold period of up to 16 years.

Assets under capitalized lease in the amount of NIS 11,214 thousand (2014 - NIS 4,910 thousand) with a remaining leasehold period of over 45 years.

d. Additional information:

The Group has fully depreciated assets which are still operating. The original cost of these assets as of December 31, 2015 is about NIS 163 million (December 31, 2014 - about NIS 154 million).

In the year 2015, the Company derecognized fully depreciated fixed assets that are not utilized by the Company with an original cost of about NIS 17 million (December 31, 2014 - about NIS 25 million).

NOTE 7:- INVESTMENTS IN INVESTEES

a. Details of subsidiaries:

A list of the Group's principal subsidiaries

	Principal location of the Company's operation	The Group's ownership interests in the subsidiary Year ended December 31, 2015	2014
		%	
Migdal Insurance Company Ltd.	Israel	100	100
Migdal Makefet Pension and Provident Funds Ltd.	Israel	100	100
Yozma Pension Fund For the Self Employed Ltd.	Israel	100	100
Migdal Holdings and Insurance Agency Management Ltd.	Israel	100	100
Mivtach Simon Insurance Agencies Ltd.	Israel	100	100
Sagi Yoav Insurance Agencies (1988) Ltd.	Israel	100	100
Shacham Insurance Agencies (1977) Ltd.	Israel	100	100
Peltours Insurance Agencies Ltd.	Israel	73.28	73.28
Migdal Health and Quality of Life Ltd.	Israel	100	100
Infomed Medical Sites Ltd.	Israel	81.9	71
B-Well Quality of Life Solutions Ltd.	Israel	81.9	71
Migdal Capital Markets (1965) Ltd.	Israel	100	100
Migdal Management Services Ltd. (1)	Israel	100	100

b. Details of affiliates:

1. Composition of affiliates:

	December 31, 2015				
	Main place of operation	Company's equity and voting rights	Loans and capital notes provided by the Company to affiliates (3)	Scope of investment in affiliates	Total
		%	NIS in thousands		
Ramat Aviv Mall Ltd.	Israel	26.60	-	240,167	240,167
Amot Investments Ltd.	Israel	13.31 (1)	-	428,314	428,314
			-	668,481	668,481
Other affiliates			9,851	21,882	31,733
Total affiliates			9,851	690,363	700,214

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

b. Details of affiliates: (Cont.)

1. Composition of affiliates: (Cont.)

	December 31, 2014				
	Main place of operation	Company's equity and voting rights	Loans and capital notes provided by the Company to affiliates (3)	Scope of investment in affiliates	Total
		%	NIS in thousands		
Ramat Aviv Mall Ltd.	Israel	26.60	(2) 13,547	212,179	225,726
Amot Investments Ltd.	Israel	(1) 13.34	-	397,589	397,589
			13,547	609,768	623,315
Other affiliates			6,451	14,700	21,151
Total affiliates			19,998	624,468	644,466

(1) Migdal Insurance has the right to appoint two directors 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 TASE as of December 31, 2015 is about NIS 457 million (2013 - NIS 425 million).

(2) In June 2009, capital notes in the amount of about NIS 76 thousand were issued for a minimum period of five years, bearing no interest or linkage. During the year 2014, capital notes in the amount of about NIS 61 thousand were repaid. During the year 2015 the remaining capital notes in the amount of about NIS 15 million were repaid. The capital notes are presented in the financial statements at their present value.

(3) For details of loans granted to affiliates, capital notes issued by affiliates and loans received from affiliates, see Note 38h below regarding balances and transactions with interested and related parties.

(4) For details regarding the sale of part of the investment and the loss of significant influence after the reporting period, see Note 40a regarding significant events after the reporting period.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

b. Details of affiliates: (Cont.)

2. Composition of investment in affiliates:

	December 31,	
	2015	2014
	NIS in thousands	
Cost of shares	434,421	423,781
The Company's share in profits and capital reserves accrued from the date of acquisition, less dividends	255,942	200,687
Other investments - capital notes and loans	9,851	19,998
	700,214	644,466
Goodwill included in the investment	12,382	12,382

3. Group's share of operating results of affiliates:

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

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Group's share of net income *)	91,598	80,112	70,774
Group's share of other comprehensive income (loss)	(2,599)	(282)	2,402

*) Including amortization of original differences.

c. Capital management and 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 Commissioner of Insurance.

Pursuant to the policy, as stated, it was resolved in the board of directors of Migdal Insurance Company Ltd. (hereunder - "Migdal Insurance"), among others, 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.

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.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

2. Hereunder are details with respect to the required and existing capital of Migdal Insurance pursuant to the Control of Financial Services (Insurance) Law (Minimum Shareholders' Equity required from an Insurer), 1998, (hereunder "the Capital Regulations"), and the Commissioner's directives.

	December 31, 2015	December 31, 2014
	NIS in thousands	
Amount required as per the Capital Regulations and the Commissioner's directives (a)	4,317,670	4,145,381
Total existing amount calculated as per the Capital Regulations:		
First tier capital - basic	4,679,651	4,720,001
Complex second tier capital (b)	2,013,033	844,247
Complex third tier capital (b)	702,615	-
Total complex second and third tier capital	2,715,648	844,247
Total existing capital calculated as per the Capital Regulations	7,395,299	5,564,248
Surplus as of the reporting date	3,077,629	1,418,867
Dividend declared after the reporting date	-	(204,006)
Surplus taking into consideration events after the reporting date (see paragraph 10 below)	3,077,629	1,214,861
Amount of investments required against capital surplus based on the Commissioner's directives which represent restricted surplus (see paragraph 4 below)	245,924	120,390
The amount of reduction in capital requirements in respect of the cost of acquisition of provident funds which constitutes restricted surplus (see paragraph 3 below)	63,929	63,929
Surplus taking into account events after the balance sheet date after deduction of restricted surplus	2,767,776	1,030,542
(a)The required amount includes capital requirements in respect of:		
Activity in general insurance/required first tier capital	402,356	386,018
Long-term care insurance activity	34,370	30,849
Extraordinary risks in life assurance	446,478	425,604
Deferred acquisition costs in life assurance and insurance for diseases and hospitalization	1,480,531	1,458,193
Requirements in respect of yield-guaranteed plans	12,724	10,772
Inadmissible assets as defined in the Capital Regulations	10,037	8,531
Investment in insurance subsidiaries and consolidated managing companies	319,864	311,932
Decrease in capital requirements in respect of the cost of acquisition of provident funds (see paragraph 3 below)	(63,929)	(63,929)
Investment assets and other assets	972,349	913,277
Catastrophe risks in general insurance	416,883	380,758
Operating risks	284,277	281,803
Guarantees	1,730	1,573
Total amount required according to the Capital Regulations and the Commissioner's directives	4,317,670	4,145,381

b) As for bonds that serve as complex second and third tier capital of Migdal Insurance, see Note 24e.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

3. According to the Capital Regulations, the Commissioner 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 a 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 from the acquisition of provident fund activity or a provident fund management company.

   On November 7, 2011, the Commissioner 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 of December 31, 2011. This change led to a reduction of about NIS 64 million in the minimum required capital.

   This approval will be cancelled when the first tier capital requirements in the Solvency II Directive take effect and replace the Capital Regulations, and does not testify as to the control policy for implementing said requirements, see 6 below.

4. The amount of investments that should be against retained earnings include, among others, 50% deferred acquisition costs in Makefet and Yozma and loans to subsidiaries in the amount of about NIS 100 million which began from January 1, 2015 are pending against the familiar capital surplus of the insurer.

5. The capital requirements from management companies include capital requirements according to the scope of assets under management and annual expenses, but not less than the primary capital of NIS 10 million. As at the date of this report, these companies comply with the capital regulations.

6. In November 2014, the Commissioner issued a letter to the directors of insurance companies ("the letter") regarding the outline of the adoption of the Solvency II Directive. In the letter, the Commissioner states that the European Parliament has decided to adopt the Directive in Europe in early 2016 and has also established schedules for the adoption of the final guidelines.
   Insurance companies in Israel will be required to comply with the new capital directives beginning from the annual financial statements of 2016. A change in the capital requirements is subject, among others, to a change in the Control of Financial Services Regulations (Insurance) (Minimum Shareholders' Equity required from an Insurer), 1998.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

6. (Cont.)

Also, before the entry into force of the new regime in Israel, during 2016, the Commissioner intends to apply a quarterly report to the Commissioner of indications of new solvency ratio and concurrent reporting capital requirements in accordance with existing regulations. This step is designed to ensure the organizational and automate the insurance companies to implement the new regime. In February 2016, the Supervisor published consultation letter with insurance companies on this issue.
In addition, according to this letter, the Commissioner intends on publishing in the future guidelines relating to capital management and targeting internal capital, with regard to gaps survey which the companies will need to perform with respect to risk management, control and corporate governance and a consultation paper to promote the process of self-assessment of risks and solvency (ORSA). As part of the preparation to the implementation of the model, made according to the guidelines of the Commissioner, a number of exercises (IQIS - simulations of the impact of the Directive on the capital of the insurer, given the mix of business and its existing balance sheet) designed to calibrate the model.

In April 2015 in continuation to the letter from November 2014the Commissioner of Insurance issued a letter for performance of IQIS for the year 2014 (hereinafter 4IQIS) based on final regulations and technical guidelines issued by the European Commission to implement. In this letter the Commissioner notes that: "The exercise, to be performed on the reports for the year 2014, reflects the European guidelines. For the avoidance of doubt and to prevent uncertainty in the preparation process we would like to emphasize that the exercise reflects the decision of the Commissioner regarding required adjustments to the Israeli market, and imported reflected new guidelines. Towards Exercise IQIS5 we will continue and follow the developments of European guidelines, if any, and discuss the adjustments that will be required of Israel ".

In July 2015, the Commissioner published a letter to insurance company managers concerning transitional provisions for implementing Solvency II Directive mainly based on:

- An insurer who does not meet the capital requirements in the first year of implementation of the Directive, will be required to take the necessary measures in order to cover the shortfall in equity or reduce the risk profile to ensure compliance with the capital requirements by December 31, 2018.

- Reduced capital requirement for part of the shares held by the insurer on December 31, 2016, when this demand will continue to increase steadily over seven years until it reaches its full rate.

In March 2016, the Commissioner published a draft of the directive to carry out an exercise IQIS 5 on the basis of the financial statements as at December 31, 2015, including, among others, changes in required adjustments for the Israeli market.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

6. (Cont.)

According to an IQIS exercise performed by Migdal Insurance, based on the mix of investments and insurance liabilities as at December 31, 2014, lack of appropriate preparation can result in deficiencies in capital amounting to about NIS 4.5 billion. However, the lack of equity as at December 31, 2014 considering raising second and third tier capital performed in the year 2015 amounting to about NIS 2 billion, as detailed in Note 24.e, is about NIS 2.5 billion.

The amount above does not include the effect of the company's activities (including ongoing activities for the year 2015) and the results on the mix of investments and insurance liabilities as at December 31, 2015. This estimate constitutes an indication, resulting mainly from an increase of capital requirements in relation to the existing capital requirements in respect of financial risks (both in the Nostro portfolio and the participating portfolio) and insurance (among other things longevity, cancellations and morbidity). This indication is considering the Commissioner's transitional provisions regarding certain types of investments held by Migdal Insurance that additional capital requirement in respect of which a total of about an additional NIS 1.5 billion.

Migdal Insurance operates in compliance with the capital targets according to the new capital regime by expanding its capital base. There are also options to Migdal Insurance to reduce capital requirements through various means such as adjusting the mix of investments and hedging actions in the Nostro portfolio, reinsurance acquisition and more. The use of such measures may have a significant impact on the future profitability of Migdal Insurance, and will be examined considering alternative prices prevailing at the time, their economic benefits versus existing alternatives if necessary.

It should be noted that the model, in its present form, has a very high sensitivity to changes in market variables and others and therefore the reflected capital situation may be very volatile. Also, the exercise is carried out as part of the preparations for the implementation of the model in its present form as applicable, understanding and completing the new directives organizational and computerized assessments.
As stated in the guidelines of the Commissioner, a number of exercises are carried out that constitute simulations of the impact of the Directive on the capital of the insurer whose aim is to calibrate the model to suit. Therefore, the actual results may differ from the results of the exercises. However, and as described above, Migdal Insurance is prepared to meet the new capital regime in accordance with the indications obtained from the results of the exercises.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

7. In the year 2015 Migdal Capital Raising Ltd. ("Migdal Capital Raising"), a special purpose subsidiary of Migdal Insurance, issued debentures Series C and Series D in the amount of about NIS 1.9 billion, constituting secondary capital (Series C) and third tier capital (Series D) regarding capital regulations. For further details see Note 24.e.

8. In December 2011, the Commissioner published a letter regarding the distribution of dividends by insurance companies (hereunder - the "letter"). The letter is an update for clarification from March 2010 states that the Commissioner will not approve the distribution of a dividend unless, after the distribution, the insurer equity ratio is recognized as equity required by at least 105% and the submission of the following: annual profit outlook of the insurer two years consecutive from the date of dividend distribution; updated debt service plan approved by the insurance company's Board of Directors and the Board of Directors of the holding company in the insurance company; an action plan to complete the capital approved by the insurance company's Board of Directors and the protocol of the insurance company Board of Directors which approved the dividend distribution. It was also determined that the notice of dividend distribution shall be deemed approved from the Commissioner, if, after the distribution, the insurer selling equity ratio equity required by more than 115% and all the documents specified in the letter delivered to the Commissioner no later than 10 business days after the distribution date.

   In May 2015 Capital Market Division sent a letter to Migdal Insurance according to which, notwithstanding the letter of December 2011 as stated, Migdal Insurance will notify in advance the Commissioner, by at least 15 business days prior to the distribution, along with a document detailing the adequacy of the distribution to the capital management plan, together with the necessary items required in the letter, as stated even if after the distribution, Migdal Insurance recognized equity capital ratio as required equity, according to the existing rules, by more than 115%. For further details, see Section 10.b) 4) below.

9. One of the subsidiaries of Migdal Capital Markets (1965) Ltd., a fully owned subsidiary of the Company, was until October 28, 2015 a member of the stock exchange, and accordingly was required to meet the equity and liquidity and the rules for granting credit to customers by members of the exchange which are not banks.

   Regarding the completion of the merger of a subsidiary of Migdal Capital Markets, and consequently the cancellation of membership in TASE date of the merger, see Note 39. 2.e.3).

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

10. Dividend

a) The Company

1) On April 19, 2015 the general meeting of the Company approved a dividend distribution in the amount of about NIS 200 million, constituting about the par value of NIS 0.19 per ordinary share.

2) On October 27, 2015 the Company's Board of Directors decided on a dividend distribution in the amount of NIS 200 million subject to approval of the general assembly.
The general assembly which was convened for approval of said dividend distribution was postponed to an unknown date.
For additional information see paragraph b)4) below.

b) Migdal Insurance

During the year ended as at December 31, 2015 the following dividends were declared by Migdal Insurance:

1) On January 18, 2015, Migdal Insurance distributed a dividend in-kind in a total of about NIS 4 million constituting about NIS 0.02 per ordinary share par value NIS 1 per share and about NIS 0.002 per ordinary share par value NIS 0.1 per share.

2) On March 24, 2015, the Board of Directors of Migdal Insurance approved the distribution of a dividend of about NIS 200 million constituting about NIS 1.07 per ordinary share par value NIS 1 per share and about NIS 0.11 per ordinary share par value NIS 0.1 per share.
The dividend distribution was paid on April 20, 2015.

3) On May 26, 2015 the Board of Directors of Migdal Insurance approved the distribution of a dividend of about NIS 6.2 million constituting about NIS 0.03 per ordinary share par value NIS 1 per share and about NIS 0.009 per ordinary share par value NIS 1 per share.

4) On October 27, 2015 the Board of Directors of Migdal Insurance approved the distribution of a dividend of NIS 185 million.

On November 1, 2015 Migdal Insurance received a letter from the Supervisor which stated, among others, that the distribution of the dividend, at this time, following the exercise IQIS4 filed in August this year and in light of the substantial capital of several NIS billion, it can impair the proper management of Migdal Insurance Business and their preparations for the implementation of a new solvency regime. Given this Migdal Insurance was requested to convene the Board of Directors and cancel the aforementioned dividend distribution.

Further to the Supervisor's letter, the Board of Directors of Migdal Insurance reexamined the decision from October 27, 2015 and found that there was a flaw in this decision. Including all the above considerations relevant aspects for the purpose of dividend distribution and aspects of the solvency regime in accordance with Solvency II, were taken into account in making the decision.
Migdal Insurance's Board of Directors believes that Migdal Insurance is preparing properly and sufficiently towards the new regime.

NOTE 8:- INVESTMENT PROPERTY

a. Composition and movement:

	For yield dependent contracts					
	Leased for retail use		Leased for office and other use		Total	
	2015	2014	2015	2014	2015	2014
	NIS in thousands					
Balance at January 1,	1,344,544	1,318,235	3,553,513	3,379,649	4,898,057	4,697,884
Additions during the year:						
Purchases	22,807	32,927	282,471	89,101	305,278	122,028
Capitalized costs and expenses	235	240	20,311	2,620	20,546	2,860
Total additions	23,042	33,167	302,782	91,721	325,824	124,888
Disposals during the year:						
Realizations	-	-	-	-	-	-
Total disposals	-	-	-	-	-	-
Changes in fair value (unrealized)	33,887	(6,858)	70,685	82,143	104,572	75,285
Balance at December 31,	1,401,473	1,344,544	3,926,980	3,553,513	5,328,453	4,898,057

	Investment property - other					
	Leased for retail use		Leased for office and other use		Total	
	2015	2014	2015	2014	2015	2014
	NIS in thousands					
Balance at January 1,	145,590	142,608	485,300	467,596	630,890	610,204
Additions during the year:						
Purchases	2,558	2,666	46,401	5,765	48,959	8,431
Capitalized costs and expenses	108	11	3,208	859	3,316	870
Total additions	2,666	2,677	49,609	6,624	52,275	9,301
Disposals during the year:						
Realizations	-	-	-	(2,414)	-	(2,414)
Transfer to fixed assets	-	-	(13,748)	-	(13,748)	-
Total disposals	-	-	(13,748)	(2,414)	(13,748)	(2,414)
Changes in fair value (unrealized)	1,046	305	47,852	13,389	48,898	13,694
Changes in fair value (realized)	-	-	-	105	-	105
Balance at December 31,	149,302	145,590	569,013	485,300	718,315	630,890

b. Investment property is measured at fair value and classified as Level 3 in the fair value hierarchy.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

c. Data regarding fair value measurements of investment property:

Type of asset	Valuation techniques to determine fair value	Significant non-observable data	Interactions between unobservable significant data and the fair value measurement
Assets for rent for commercial / office use	The fair value is estimated using the discounted income technique: The valuation model is based on the estimated present value of the NOI resulting therefrom. Real estate valuation is based on the net annual cash flows discounted using a discount rate that reflects the specific risks inherent in them. When actual lease agreements are signed, which have payments which are unreasonable when compared to market rates; adjustments are made to reflect the actual rental payments during the contract period or alternatively determining the discount rate which reflects specific risk.. The valuations take into account the type of tenants actually leased or responsible for meeting lease commitments or likely to be in occupation after letting vacant premises and a general assessment regarding the quality of the tenants and the remaining economic life of the asset, in those places where these parameters are relevant. Sometimes the fair value is determined based on a comparison to recent transactions in similar properties in the real estate market in relation to similar real estate and similar location of the real estate owned by the Group, if there are any such transactions, and sometimes by performing a combination of comparing transactions of similar properties and the discounted income valuation technique.	• The market value of the lease payments. • Discount rate of cash flows (6% to 15 %, weighted average 7.33%)	Estimated fair value will increase if: • The market value of the lease payments increases. • The discount rate of the cash flows decreases.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

Type of asset	Valuation techniques to determine fair value	Significant non-observable data	Interactions between unobservable significant data and the fair value measurement
Investment property under construction	The valuation is based on estimating the fair value of investment property after completion, less reasonable entrepreneurial profit and cost of construction estimate, taking into account discount rate adjusted for the relevant risks and characteristics of the property.	• Market value of the lease payments. • NIS construction costs per square meter (NIS 3,275 to NIS 6,800 depending on the location, weighted average cost NIS 5,200). • Entrepreneurial profit margin (15% - 20%). • Discount rate of cash flows (7.75% to 8.25%, weighted average 7.83%).	Estimated fair value will increase if: • The market value of lease payments increases. • Construction costs per square meter decrease. • Profit margins on construction activity and development decrease. • The discount rate of the cash flows decreases.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

d. Sensitivity analysis:

The discount rate represents a major estimate in determining fair value since any changes therein materially affect the fair value of investment property. Nevertheless, it should be noted that a change in the fair value of investment property for part of the insurance contracts (yield dependent contracts) does not completely affect the Group's profit or loss since in respect of which most of the change in value is allocated to the rights of members..

The following sensitivity analysis presents the effect of a change in the discount rate:

NIS in thousands	Increase (decrease) in fair value at December 31		Increase (decrease) in profit and loss before tax	
	2015	2014	2015	2014
0.5% increase	(389,267)	(270,312)	(73,652)	(70,608)
0.5% decrease	286,182	299,250	84,108	75,189

e. Evaluation processes adopted by the Company:

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 valuations are examined by the responsible officers in the Company.

f. Regarding transactions for the acquisition of investment property, see Note 39.2.c below.

g. For details of operating lease agreements in which the Group serves as lessor that are classified as investment property, see Note 39.2.h.2 regarding leases.

h. Rental income and operating expenses recognized in the statement of profit and loss

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Rental income from investment property	416,803	370,082	348,794
Direct operating expenses	(48,326)	(39,520)	(36,505)
	368,477	330,562	312,289

*) Of this NIS 368 thousand, NIS 286 thousand and NIS 72 thousand in the years 2015, 2014 and 2013 respectively, in respect of direct operating expenses arising from investment property that did not produce rental income during the period.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

i. Details of real estate rights used by the Group as investment property:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Freehold (a)	3,253,563	3,023,194
Capitalized leases (b)	2,793,205	2,505,753
	6,046,768	5,528,947

(a) Assets owned in the total amount of NIS 1,522,945 thousand have not yet been 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, but for which a caveat has been registered in the Land Registry Office in favor of the Company.

(b)

	December 31, 2015	December 31, 2014
	NIS in thousands	
Remaining lease period of up to 15 years	191,120	179,830
Remaining lease period of 15-50 years	1,070,309	848,800
Remaining lease period of over 50 years	1,531,776	1,477,123
Total leases	2,793,205	2,505,753

NOTE 9: - DEBTORS AND RECEIVABLES

a. Composition:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Government authorities and institutions	7,390	8,534
Income receivable	51,697	41,604
Prepaid expenses	20,903	14,218
Employees	28,328	28,995
Advances to suppliers	17,532	12,009
Receivables for the TASE Securities and Clearing House	150,494	707,395
Advances on account of commissions to insurance agents	7,061	9,960
Insurance companies and insurance brokers	66,267	42,121
Other	132,000	123,767
Less - allowance for doubtful accounts	(252)	(95)
	481,420	988,508

NOTE 9: - DEBTORS AND RECEIVABLES (Cont.)

b. Movement in provision for doubtful accounts:

	2015	2014
	NIS in thousands	
Balance at January 1,	(95)	(115)
Change in provision during the period	(157)	20
Balance at December 31,	(252)	(95)

NOTE 10: - OUTSTANDING PREMIUMS

a. Composition:

	December 31,	
	2015	2014
	NIS in thousands	
Outstanding premiums *)	576,389	587,320
Less - allowance for doubtful accounts	(6,966)	(7,985)
Total outstanding premiums	569,423	579,335
*) Including checks receivable and standing orders	187,024	173,748

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

b. Aging:

	December 31,	
	2015	2014
	NIS in thousands	
Unimpaired outstanding premiums:		
Without arrears	343,636	333,465
In arrears *):		
Less than 90 days	83,264	99,721
Between 90 – 180 days	33,996	37,259
Over 180 days	106,136	105,960
Total unimpaired outstanding premiums	567,032	576,405
Impaired outstanding premiums	2,391	2,930
Total outstanding premiums	569,423	579,335

*) Includes amount of NIS 190,514 (as at December 31, 2014 – NIS 213,053 thousand) debts in arrears in the life assurance segment. These debts are mainly backed by the policy's redemption value.

NOTE 10: - OUTSTANDING PREMIUMS (Cont.)

c. Movement in provision for doubtful accounts in respect of outstanding premiums:

	2015	2014
	NIS in thousands	
Balance at January 1,	(7,985)	(4,268)
Change in provision in the period	1,019	(3,717)
Balance at December 31,	(6,966)	(7,985)

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS

a. Details of assets presented at fair value through profit and loss:

	December 31,	
	2015	2014
	NIS in thousands	
Investment property	5,328,453	4,898,057
Financial investments:		
Quoted debt assets	27,477,247	23,462,098
Unquoted debt assets *)	8,395,427	7,675,768
Shares	16,024,532	14,807,965
Other financial investments	18,229,249	23,637,168
Total financial investments	70,126,455	69,582,999
Cash and cash equivalents	7,801,126	3,289,969
Other	387,660	937,039
Total assets for yield dependent contracts	83,643,694	78,708,064

*) Including unquoted debt assets totaling NIS 908,891 thousand measured at amortized cost and classified to the category of "loans and receivables" (in 2014 - NIS 917,619 thousand) whose fair value is NIS 1,133,546 thousand (2014 - NIS 1,175,898 thousand).

Regarding exposure in respect of yield dependent policy assets see Note 37.b.1 below.
Regarding details of interest and linkage of debt assets see Note 37d1 below.
Regarding price quotes and interest rates used to determine the fair value of the unquoted debt assets see Note 12f below.

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

b. Fair value levels of financial assets distributed into levels:

The table below analyses assets held against insurance contracts and investment contracts that are presented at fair value through profit or loss.

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets	23,686,872	3,790,375	-	27,477,247
Unquoted debt assets	-	7,110,598	375,938	7,486,536
Shares	14,459,682	-	1,564,850	16,024,532
Other financial investments	15,351,297	97,146	2,780,806	18,229,249
Total financial investments	53,497,851	10,998,119	4,721,594	69,217,564
Unquoted debt assets for which disclosure of fair value is provided (11a above)	-	1,133,546	-	1,133,546

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial investments:				
Quoted debt assets *)	19,898,604	3,563,494	-	23,462,098
Unquoted debt assets	-	6,708,901	49,248	6,758,149
Shares	13,611,226	-	1,196,739	14,807,965
Other financial investments	19,573,221	389,931	3,674,016	23,637,168
Total financial investments	53,083,051	10,662,326	4,920,003	68,665,380
Unquoted debt assets for which disclosure of fair value is provided (11a above)	-	1,175,898	-	1,175,898

*) Reclassified.

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

c. Level 3 assets measured at fair value:

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2015	-	49,248	1,196,739	3,674,016	4,920,003
Total gains (losses) recognized in profit and loss	-	(40,015)	8,180	(119,255)	(151,090)
Investments	-	199,899	515,597	639,018	1,354,514
Realizations	-	(1,032)	(155,666)	(1,412,973)	(1,569,671)
Surrenders	-	(6,139)	-	-	(6,139)
Transfers to Level 3	-	190,836	-	-	190,836
Transfers from Level 3	-	(16,859)	-	-	(16,859)
Balance at December 31, 2015	-	375,938	1,564,850	2,780,806	4,721,594
Total earnings in the period included in profit and loss for assets held at December 31, 2015	-	(40,895)	1,035	(134,681)	(174,541)

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

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2014	-	72,760	1,081,963	3,347,454	4,502,177
Total gains recognized in profit and loss	-	4,659	267,663	317,939	590,261
Investments	-	29,944	158,767	775,811	964,522
Realizations	-	(52,090)	(180,001)	(767,188)	(999,279)
Surrenders	-	(6,025)	-	-	(6,025)
Transfers to Level 3	-	-	-	-	-
Investments	-	-	(131,653)	-	(131,653)
Balance at December 31, 2014	-	49,248	1,196,739	3,674,016	4,920,003
Total earnings in the period included in profit and loss for assets held at December 31, 2014	-	653	151,304	253,052	405,009

The transition from Level 3 derives from securities issued for the first time.

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS

	December 31, 2015			
	Presented in fair value through profit or loss	Available for sale	Loans and receivables	Total
	NIS in thousands			
Quoted debt assets (a)	1,513	7,613,703	-	7,615,216
Unquoted debt assets (b)	790	-	22,036,410	22,037,200
Shares (d)	130,718	1,050,225	-	1,180,943
Other (e)	22,192	2,489,115	-	2,511,307
Total	155,213	11,153,043	22,036,410	33,344,666

	December 31, 2014			
	Presented in fair value through profit or loss	Available for sale	Loans and receivables	Total
	NIS in thousands			
Quoted debt assets (a)	3,900	6,136,342	-	6,140,242
Unquoted debt assets (b)	1,750	-	22,051,886	22,053,636
Shares (d)	19,517	1,093,835	-	1,113,352
Other (e)	33,212	2,351,991	-	2,385,203
Total	58,379	9,582,168	22,051,886	31,692,433

a. Quoted debt assets:

Composition

	December 31,	
	2015	2014
	NIS in thousands	
Government bonds:		
Presented at fair value through profit and loss held for trade	1,513	3,122
Available for sale	4,723,666	3,751,890
Total government bonds	4,725,179	3,755,012
Other debt assets:		
Unconvertible:		
Presented at fair value through profit and loss - held for trade	-	778
Available for sale	2,890,037	2,384,452
Total other unconvertible debt assets	2,890,037	2,385,230
Total quoted debt assets	7,615,216	6,140,242
Impairment allocated to profit and loss (accumulated)	2,415	1,802

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

b. Unquoted debt assets:

Composition:

	December 31,			
	Carrying amount		Fair value	
	2015	2014	2015	2014
	NIS in thousands			
Government bonds - designated bonds *)	19,780,084	19,481,929	25,487,339	24,861,366
Other unconvertible debt assets:				
Presented at fair value through profit and loss	790	1,750	790	1,750
Presented as loans and receivables, excluding bank deposits	1,566,296	1,704,265	1,788,875	1,946,578
Bank deposits	690,030	865,692	913,824	1,120,340
Total unconvertible debt assets	2,257,116	2,571,707	2,703,489	3,068,668
Total unquoted debt assets	22,037,200	22,053,636	28,190,828	27,930,034
Impairment allocated to profit and loss (accumulated)	25,375	21,398		

*) The fair value of designated bonds is calculated according to the contractual maturity date.

c. Details of interest and linkage of debt assets (effective interest):

	December 31,	
	2015	2014
	%	
Quoted debt assets:		
Linkage basis:		
Linked to the CPI	1.3	1.6
In NIS	1.3	1.8
Linked to foreign currency	4.5	4.3
Unquoted debt assets:		
Linkage basis:		
Linked to the CPI	5.1	5.1
In NIS	0.8	2.2
Linked to foreign currency	5.5	5.8

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

d. Shares:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Quoted:		
Presented at fair value through profit and loss - held for trade	18,542	18,129
Presented at fair value through profit and loss designated for the first time	60,380	-
Available for sale	979,940	1,024,261
Total quoted shares	1,058,862	1,042,390
Unquoted:		
Presented at fair value through profit and loss	51,796	1,388
Available for sale	70,285	69,574
Total unquoted shares	122,081	70,962
Total shares	1,180,943	1,113,352
Impairment allocated to profit and loss (accumulated)	123,593	109,330

e. Other financial investments:

Other financial investments mainly include investments in basket certificates, mutual fund participation certificates, investment funds, hedge funds, financial derivatives, futures contracts, options, structured.

	December 31, 2015	December 31, 2014
	NIS in thousands	
Quoted:		
Presented at fair value through profit and loss - held for trade	-	6,122
Available for sale	2,011,046	1,971,626
Derivative instruments (e1)	7,404	2,516
Total quoted financial investments	2,018,450	1,980,264
Unquoted:		
Available for sale	478,069	380,365
Derivative instruments (e1)	14,788	24,574
Total unquoted financial investments	492,857	404,939
Total other financial investments	2,511,307	2,385,203
Impairment allocated to profit and loss (accumulated)	256,730	214,190

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

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. Exposure to interest derivative instruments is shown by value:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Shares	111,715	(7,583)
Quoted	109,394	20,066
Foreign currency	(2,433,391)	(1,715,830)
Interest	(15,109)	(16,284)

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 by discounting their estimated anticipated cash flows. The discount rates are based on yields of government bonds and the spreads of corporate bonds, as measured on the TASE. 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, Fair Spread Ltd. ("Fair Spread") provides price quotations and discount rates to institutional entities for revaluation of unquoted debt assets. The fair spread model is primarily based 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 ("the fair spread model").

The fair value of unquoted debt assets abroad is calculated by a model based on the present value of discounted cash flows using the interest rate for capitalization received from an expert.
The discount rates are based primarily on the yields of corporate bonds, as measured through exchanges abroad
Following the judgment of the Supreme Court which ordered the cancellation of the tender won by fair margin a new tender was published.

Following a letter issued by the Ministry of Finance in September 2014, the Tenders Committee decided to announce Fair Spread as the winner of the new tender. The letter also stated that the schedules for assimilating the adjusted fair spread model will be published separately. At this stage, the Company is unable to estimate the effect of the expected update in methodology, on the fair value of unquoted debt assets, if and to the extent there is any update.

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

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

	December 31, 2015	December 31, 2014
	%	%
AA and above	0.5	0.7
A	2.1	2.7
BBB	5.1	-
Lower than BBB	6.1	-
Not rated	9.8	8.5

(*) The sources for the level of rating in Israel are the rating companies of Ma'alot and Midroog and internal rating. The data from Midroog were transferred to the rating categories according to the generally accepted conversion coefficients. Each rating includes all the ranges: for example, rate A includes A- up to A+.

Regarding internal rating, see Note 37b(4)(b)(1).

g. Fair value levels of financial assets:

Hereunder an analyses of financial assets that are presented at fair value.

The balance in the financial statements of cash and cash equivalents, outstanding premiums, and debtors and receivables are the same or proximate to their fair value.

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	6,472,512	1,142,704	-	7,615,216
Unquoted debt assets	-	-	790	790
Shares	1,058,862	-	122,081	1,180,943
Other	2,018,450	12,817	480,040	2,511,307
Total	9,549,824	1,155,521	602,911	11,308,256
Unquoted debt assets for which disclosure of fair value is provided (12b above)	-	28,102,926	87,112	28,190,038

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

g. Fair value levels of financial assets:

Hereunder an analyses of financial assets that are presented at fair value.

The balance in the financial statements of cash and cash equivalents, outstanding premiums, and debtors and receivables are the same or proximate to their fair value.

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets *)	5,623,044	517,198	-	6,140,242
Unquoted debt assets	-	-	1,750	1,750
Shares	1,042,390	-	70,962	1,113,352
Other	1,980,264	24,574	380,365	2,385,203
Total	8,645,698	541,772	453,077	9,640,547
Unquoted debt assets for which disclosure of fair value is provided (12b above)	-	27,909,830	20,204	27,930,034

*) Reclassified.

Financial assets measured at fair value at level 3

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss and available-for-sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2015	-	1,750	70,962	380,365	453,077
Total gains (losses) recognized:					
In profit and loss	-	(204)	(9,122)	(27,336)	(36,662)
In other comprehensive income	-	-	9,471	32,596	42,067
Investments	-	-	52,032	95,915	147,947
Realizations	-	(756)	(1,262)	(1,500)	(3,518)
Surrenders	-	-	-	-	-
Transfers from Level 3	-	-	-	-	-
Balance at December 31, 2015	-	790	122,081	480,040	602,911
Total gains (losses) in the period included in profit and loss for assets held at December 31, 2015	-	(179)	(8,997)	(27,729)	(36,905)

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

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

Financial assets measured at fair value at level 3 (Cont.)

	Fair value measurement on the reporting date				
	Financial assets at fair value through profit or loss and available-for-sale financial assets				
	Quoted debt assets	Unquoted debt assets	Shares	Other financial investments	Total
	NIS in thousands				
Balance as January 1, 2014	-	3,293	51,829	345,193	400,315
Total gains (losses) recognized:					
In profit and loss	-	(388)	4,498	(40,532)	(36,422)
In other comprehensive income	-	-	27,149	76,583	103,732
Investments	-	-	45,960	40,443	86,403
Realizations	-	(9)	(24,203)	(41,322)	(65,534)
Surrenders	-	(1,146)	-	-	(1,146)
Transfers from Level 3	-	-	(34,271)	-	(34,271)
Balance at December 31, 2014	-	1,750	70,962	380,365	453,077
Total gains in the period included in profit and loss for assets held at December 31, 2014	-	(57)	(7,370)	(48,390)	(55,817)

h. Aging of investments in unquoted financial assets:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Government bonds - bonds designated	19,780,084	19,481,929
Unimpaired debt assets:		
Without arrears	2,195,894	2,501,738
In arrears *):		
Less than 90 days	3,651	5,943
Between 90 – 180 days	191	1,433
Over 180 days	5,645	32,163
Total unimpaired debt assets	2,205,381	2,541,277
Impaired assets, gross		
Specifically impaired assets, gross	77,110	51,828
Impairment allocated to profit and loss (accumulated)	(25,375)	(21,398)
Total debt assets specifically impaired	51,735	30,430
Total unquoted debt assets	22,037,200	22,053,636

It should be noted that the amounts presented above do not represent the actual amount in arrears but rather the outstanding debt in arrears.

*) Mainly loans on policies against which there are full surrender values and/or mortgages.

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

	December 31,	
	2015	2014
	NIS in thousands	
Cash and deposits for immediate withdrawal	7,801,126	1,364,530
Short-term deposits	-	1,925,439
Cash and cash equivalents	7,801,126	3,289,969

The cash in the banking corporations as of the reporting date bear current interest based on the interest rate in respect of daily bank deposits at the average rate of about 0.07% - (2014- about 0.2%).

Short-term deposits deposited in banking corporations are for periods of one week to three months. The deposits bear average interest rate of about 0.2% in the year 2014.

Regarding the linkage terms of the cash and short-term deposits, see Note 37d(1) below.

NOTE 13a:- CASH AND CASH EQUIVALENTS - OTHERS

	December 31,	
	2015	2014
	NIS in thousands	
Cash and deposits for immediate withdrawal	2,054,713	793,404
Short-term deposits	148,031	849,247
Cash and cash equivalents	2,202,744	1,642,651

The cash in the banking corporations as of the reporting date bear current interest based on the interest rate in respect of daily bank deposits at the average rate of about 0.7% - (2014 - about 0.2%).

Short term deposits deposited in banking corporations are for periods of one week to three months. The deposits bear an average interest rate of about 0.07% (2014 - about 0.2%).

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

NOTE 14:- EQUITY

a. Composition of share capital:

	December 31, 2015		December 31, 2014		December 31, 2013	
	Authorized	Issued and paid up *)	Authorized	Issued and paid up *)	Authorized	Issued and paid up *)
	NIS in thousands					
Ordinary shares of NIS 0.01 par value each	15,000	10,539	15,000	10,539	15,000	10,538

*) 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 share capital:

	Number of shares	NIS in thousands par value
Balance at January 1, 2013	1,051,666,202	10,516
Realization of employees options into shares	2,144,852 *)	22
Balance at December 31, 2013	1,053,811,054	10,538
Realization of employees options into shares	97,180	1
Balance at December 31, 2014	1,053,908,234	10,539
Realization of employees options into shares	-	-
Balance at December 31, 2015	1,053,908,234	10,539

*) Of this 1,912,474 shares in respect of completion of Stage I in the Options Program 2010.

Regarding share-based payments, see Note 33 below.

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 TASE.

NOTE 14:- EQUITY (Cont.)

d. Distributed dividends:

The following dividends were distributed by the Company:

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
In 2015 NIS 0.19 per share, in 2014 and 2013: NIS 0.38 per share (distributed on two dates each year, on each date - NIS 0.19 per share)	200,000	400,000	400,000

On October 27, 2015, the Company's Board of Directors decided to distribute a dividend in the amount of NIS 200 million, subject to the approval of the general assembly.

The general convened to approve the said dividend distribution was postponed indefinitely.

For additional information see Note 7.g.10.

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

	December 31,					
	2015	2014	2015	2014	2015	2014
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long-term savings:						
Insurance contracts	27,133,549	26,403,968	100,181	109,459	27,033,368	26,294,509
Investment contracts	277,325	161,892	-	-	277,325	161,892
	27,410,874	26,565,860	100,181	109,459	27,310,693	26,456,401
Less - amounts deposited in the Group under defined benefit plan for the Group's employees	68,812	65,456	-	-	68,812	65,456
Total life assurance and long-term savings	27,342,062	26,500,404	100,181	109,459	27,241,881	26,390,945
Insurance contracts included in the health insurance segment	727,755	522,715	31,790	21,163	695,965	501,552
Insurance contracts included in the general insurance segment	4,256,389	4,380,612	615,588	878,702	3,640,801	3,501,910
Total liabilities in respect of non-yield dependent insurance and investment contracts	32,326,206	31,403,731	747,559	1,009,324	31,578,647	30,394,407

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

	December 31,					
	2015	2014	2015	2014	2015	2014
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long-term savings:						
Insurance contracts	79,997,092	75,202,243	4,033	4,161	79,993,059	75,198,082
Investment contracts	1,720,584	1,336,629	-	-	1,720,584	1,336,629
	81,717,676	76,538,872	4,033	4,161	81,713,643	76,534,711
Less - amounts deposited in the Group under defined benefit plan for the Group's employees	136,861	119,099	-	-	136,861	119,099
Total life assurance and long-term savings	81,580,815	76,419,773	4,033	4,161	81,576,782	76,415,612
Insurance contracts included in the health insurance segment	1,731,671	1,626,443	2,701	222	1,728,970	1,626,221
Total liabilities in respect of yield dependent insurance and investment contracts	83,312,486	78,046,216	6,734	4,383	83,305,752	78,041,833

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 less 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,					
	2015	2014	2015	2014	2015	2014
	Gross		Reinsurance		On retention	
	NIS in thousands					
Motor act and liability branches						
Provision for unearned premium	370,522	367,291	40,140	35,205	330,382	332,086
Excess of income over expenses (accumulation)	-	157,042	-	101,427	-	55,615
Outstanding claims and provision for premium deficiency *)	2,877,664	2,956,787	209,853	387,813	2,667,811	2,568,974
Total motor act and liability branches (see b1 below)	3,248,186	3,481,120	249,993	524,445	2,998,193	2,956,675
Of which: liabilities in respect of the motor act branch (see c3 and c4 below)	1,735,607	1,844,918	16,803	51,514	1,718,804	1,793,404
Property and other branches:						
Provision for unearned premium	521,847	477,664	139,389	150,364	382,458	327,300
Provision for premium deficiency	10,507	-	-	-	10,507	-
Outstanding claims	475,849	421,828	226,206	203,893	249,643	217,935
Total property and other branches (see b2 below)	1,008,203	899,492	365,595	354,257	642,608	545,235
Total liabilities in respect of insurance contracts included in the general insurance segment	4,256,389	4,380,612	615,588	878,702	3,640,801	3,501,910
Deferred acquisition costs:						
Motor act and liability branches	57,503	52,675	6,275	7,167	51,228	45,508
Property and other branches	128,996	119,059	27,104	34,265	101,892	84,794
Total deferred acquisition costs	186,499	171,734	33,379	41,432	153,120	130,302
Liabilities in respect of general insurance contracts less deferred acquisition costs:						
Motor act	1,705,146	1,818,237	16,803	51,514	1,688,343	1,766,723
Other liabilities branches	1,485,537	1,610,208	226,915	465,764	1,258,622	1,144,444
Property and other branches	879,207	780,433	338,491	319,992	540,716	460,441
Total liabilities in respect of general insurance contracts less deferred acquisition costs	4,069,890	4,208,878	582,209	837,270	3,487,681	3,371,608

*) Decrease in gross outstanding claims in the year 2015 in these sectors is mainly due to an improvement in claims experience which led to the positive development of reserves. The increase in outstanding claims on retention in 2015 was due to an improvement in claims experience of the reinsurers.
A decrease in the reinsurance contingent liabilities due to large claims payments largely covered by reinsurance and revision of the estimate by reinsurers part.

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,					
	2015	2014	2015	2014	2015	2014
	Gross		Reinsurance		On retention	
	NIS in thousands					
Actuarial valuations:						
Mr. Daniel Israeli - general insurance actuary						
Total actuarial valuations	3,119,660	3,167,149	219,915	400,805	2,899,745	2,766,344
Provisions on the basis of other valuations:						
Claims department valuation in respect of known outstanding claims	238,321	205,936	212,694	187,638	25,627	18,298
Addition to outstanding claims due to claims incurred but not yet reported (IBNR)	6,039	5,530	3,450	3,263	2,589	2,267
Provision for unearned premium	892,369	844,955	179,529	185,569	712,840	659,386
Excess of income over expenses (accumulation)	-	157,042	-	101,427	-	55,615
Total insurance liabilities in respect of insurance contracts included in the general insurance segment	4,256,389	4,380,612	615,588	878,702	3,640,801	3,501,910

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:

	December 31,					
	2015	2014	2015	2014	2015	2014
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance at the beginning of the year (1)	3,428,445	3,107,696	517,278	476,465	2,911,167	2,631,231
Accumulated claims cost in respect of the current underwriting year (2)	712,002	713,792	35,771	44,944	676,231	668,848
Change in balances at the beginning of the year as a result of linkage to the index	(26,366)	(2,654)	(3,273)	(343)	(23,093)	(2,311)
Change in accumulated claims cost estimate in respect of previous underwriting years (3)	(181,335)	87,136	(116,864)	38,531	(64,471)	48,605
Total change in accumulated claims cost	504,301	798,274	(84,366)	83,132	588,667	715,142
Payments for settlement of claims during the year						
In respect of current underwriting year	7,055	6,741	109	187	6,946	6,554
In respect of previous underwriting years	665,223	465,525	102,066	38,404	563,157	427,121
Total payments for the period (4)	672,278	472,266	102,175	38,591	570,103	433,675
Accumulation in respect of current underwriting year (5)	33,816	30,016	30,717	21,668	3,099	8,348
Accumulation recognized in profit in respect of the released underwriting year (6)	(55,208)	(75,342)	(37,461)	(55,030)	(17,747)	(20,312)
Balance of change in the accumulation (7)	64,003	40,067	25,666	29,634	38,337	10,433
Total change in the accumulation for the period	42,611	(5,259)	18,922	(3,728)	23,689	(1,531)
Changes allocated directly to equity (8)	(112,396)	-	(105,941)	-	(6,455)	-
Balance at the end of the year (1)	3,190,683	3,428,445	243,718	517,278	2,946,965	2,911,167

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.)

1. Motor act and liability branches: (Cont.)

Comments:

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

(2) The ultimate claims cost is: outstanding claims balance (without the accumulation), 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 the cumulative cost of claims in respect of previous underwriting years stems mainly from motor act, professional liability and product which was partially offset by an increase in provisions for third party liability and employers liability. The gap in change of accumulated estimated claims cost in respect of claims from previous underwriting years in reinsurance is due to an update of reinsurers claims experience.

(4) Payments include indirect expenses for settling claims attributable to underwriting. The increase in gross and retention is due to large claims payments largely covered by reinsurance and increase in the volume of business.

(5) Prior to the accumulation being allocated to retained earnings, in the year 2015, in respect of the current underwriting year on retention mainly results from the branches: accrual was recorded in retained earnings in 2015, in respect of the residual current underwriting year derives mainly from industries: motor act and product warranty.

(6) The accruals allocated to profit in the year 2015 for underwriting year released, is due mainly to the motor act branch.

(7) The balance of the change in accrual retention in 2015 is mainly due to the accrual of motor act and product liability branches.

(8) See Note 2.j.2.d) (4).

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. Property and other branches:

	December 31,					
	2015	2014	2015	2014	2015	2014
	Gross		Reinsurance		On retention	
	NIS in thousands					
Balance at the beginning of the year (1)	780,433	758,169	319,992	343,556	460,441	414,613
Accumulated claims cost in respect of events during the reporting year (2)	942,192	712,702	311,420	211,764	630,772	500,938
Change in accumulated claims cost in respect of events prior to the reporting year (3)	(48,025)	(42,276)	(24,045)	(33,641)	(23,980)	(8,635)
Payment to settle claims during the year						
In respect of events during the reporting year	635,330	435,708	196,279	83,001	439,051	352,707
In respect of events prior to the reporting year	204,816	216,877	68,783	92,925	136,033	123,952
Total payments (4)	840,146	652,585	265,062	175,926	575,084	476,659
Change in provision for unearned premium, net of deferred acquisition costs	34,246	8,322	907	(25,761)	33,339	34,083
Change in provision for premium deficiency (5)	10,507	(3,899)	-	-	10,507	(3,899)
Changes allocated directly to equity (6)	-	-	(4,721)	-	4,721	-
Balance at the end of the year (1)	879,207	780,433	338,491	319,992	540,716	460,441

Comments:

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

(2) The cumulative cost of claims in respect of events in the reporting year include the balance of outstanding claims at the end of the reporting year plus the total claims payments during the reporting period, including direct and indirect expenses for settling claims.

(3) The change in estimate of cumulative claims costs in reinsurance is due to a change in reinsurance agreements.

(4) Payments for claims settlement during the year include payments in respect of events that occurred during the reporting year and the year preceding the reporting year.

The payments for claims settlement include direct and indirect expenses attributed to the years of damage.
for settling attribution change damage. The increase between the years 2014 and 2015, gross and retention is due to an increase in business. In addition, due to the increase in gross resulting from too large claim fully covered by reinsurance.

(5) The provision for premium deficiency is in the motor act branch.

(6) See Note 2.j.2.d.4.

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

c1. Examination of development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs, gross in the motor act and liability branches *):

	December 31, 2015										
	Underwriting year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	NIS in thousands adjusted to the CPI of November 2015 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	11,246	10,763	11,827	9,434	6,557	5,848	4,958	6,651	6,676	6,996	
After two years	66,858	62,822	78,343	47,971	32,094	28,773	29,087	42,692	57,915		
After three years	118,984	129,701	132,740	90,473	78,079	68,587	76,852	144,593			
After four years	174,694	185,096	187,257	139,591	136,254	132,449	141,195				
After five years	221,601	235,612	247,442	203,105	184,860	213,470					
After six years	263,165	292,984	301,482	248,586	242,273						
After seven years	301,688	349,934	359,640	309,935							
After eight years	346,962	384,618	414,371								
After nine years	381,051	417,504									
After ten years	400,549										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	609,034	579,634	579,900	530,841	478,057	464,368	439,289	709,859	737,130	745,759	
After two years	627,052	590,752	600,279	545,310	495,534	479,572	454,806	757,497	788,282		
After three years	638,052	605,746	621,152	559,699	506,362	498,657	472,614	797,212			
After four years	516,651	531,312	555,482	481,112	430,665	458,056	399,946				
After five years	512,565	533,261	533,304	460,507	439,537	455,341					
After six years	494,014	521,553	510,435	444,182	412,036						
After seven years	464,455	512,907	525,366	437,990							
After eight years	464,402	500,781	520,512								
After nine years	469,435	487,086									
After ten years	448,077										
Excess (deficiency) after release of accumulation ***)	68,574	44,226	34,970	43,122	18,629	2,715					212,236
The rate of deviation in relation to the first year that does not include accumulation, in percentage	13.27%	8.32%	6.30%	8.96%	4.33%	0.59%					7.14%
Accumulated claims cost as at December 31, 2015 before the change in the calculation of reserves	448,077	487,086	520,512	437,990	412,036	455,341	399,946	797,212	788,282	745,759	5,492,241
Changes allocated directly to equity, see Note 2.j.2.3.4	2,566	3,617	5,097	5,006	6,951	9,288	8,511	(91,235)	(49,036)	(21,745)	(120,980)
Accumulated payments up to December 31, 2015	400,549	417,504	414,371	309,935	242,273	213,470	141,195	144,593	57,915	6,996	2,348,801
Outstanding claims balance	50,094	73,199	111,238	133,061	176,714	251,159	267,262	561,384	681,331	717,018	3,022,460
Outstanding claims in respect of the years up to and including the underwriting year 2005 ****)											168,223
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2015											3,190,683

(*) According to an examination the Company performed in the property and other branches, the claims are 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.

(***) The gap between the accumulated claims estimate in the first year that do not include the accrual for accumulated claims estimate as at the reporting date results mainly from changes in insurance reserves in general insurance. See Note 2.j.2.d.4.

(****) Includes effect of the changes directly allocated to capital in the general insurance reserves of about NIS 8.5 million.

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 accumulation (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.)

c2. Examination of development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs on retention in the motor act and liability branches:

	December 31, 2015										
	Underwriting year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	NIS in thousands adjusted to the CPI of November 2015 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	11,153	10,733	11,031	9,370	6,067	5,701	4,842	6,399	6,490	6,887	
After two years	64,154	60,144	61,398	46,522	30,692	27,186	27,675	41,501	57,353		
After three years	115,769	123,600	114,755	87,920	74,335	65,347	74,381	143,159			
After four years	171,034	177,581	168,040	135,540	129,764	118,485	138,302				
After five years	216,846	227,052	224,414	195,764	176,533	184,458					
After six years	256,183	282,448	275,943	239,191	227,020						
After seven years	292,893	330,932	331,821	298,232							
After eight years	336,764	363,621	385,174								
After nine years	370,352	394,183									
After ten years	389,197										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	504,074	475,928	483,907	449,842	393,287	389,267	387,611	647,816	671,116	679,271	
After two years	511,672	478,663	489,655	454,784	395,004	387,751	392,472	683,112	706,613		
After three years	518,504	490,765	503,145	466,362	402,833	403,461	407,947	720,446			
After four years	468,862	473,729	495,105	437,464	388,231	392,776	376,624				
After five years	464,906	477,039	479,158	420,866	398,230	391,823					
After six years	449,177	471,758	455,285	406,763	387,522						
After seven years	438,018	462,785	469,586	414,681							
After eight years	436,287	451,116	478,920								
After nine years	439,588	456,609									
After ten years	434,204										
Excess (deficiency) after release of accumulation **)	34,658	17,120	16,185	22,783	709	953					92,408
The rate of deviation in relation to the first year that does not include accumulation, in percentage	7.39%	3.61%	3.27%	5.21%	0.18%	0.24%					3.48%
Accumulated claims cost as at December 31, 2015 before the change in the calculation of reserves	434,204	456,609	478,920	414,681	387,522	391,823	376,624	720,446	706,613	679,271	5,046,713
Changes allocated directly to equity, see Note 2.j.2.3.4	2,206	2,683	4,112	4,090	6,135	6,214	7,335	(48,079)	(4,959)	7,580	(12,683)
Accumulated payments up to December 31, 2015	389,197	394,183	385,174	298,232	227,020	184,458	138,302	143,159	57,353	6,887	2,223,965
Outstanding claims balance	47,213	65,109	97,858	120,539	166,637	213,579	245,657	529,208	644,301	679,964	2,810,065
Outstanding claims in respect of the years up to and including the underwriting year 2005 ****)											136,900
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2015											2,946,965

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

(**) The gap between the accumulated claims estimate in the first year that do not include the accrual for accumulated claims estimate as at the reporting date results mainly from changes in insurance reserves in general insurance. See Note 2.j.2.d.4.

(****) Includes effect of the changes directly allocated to capital in the general insurance reserves of about NIS 6 million.

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 accumulation (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.)

c3. Examination of development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs on retention in the motor act and liability branches:

	December 31, 2015										
	Underwriting year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	NIS in thousands adjusted to the CPI of November 2015 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	9,418	8,622	8,452	6,983	3,807	3,737	2,915	3,600	3,527	5,109	
After two years	53,839	48,258	42,309	33,492	15,929	13,443	15,487	26,510	41,904		
After three years	92,938	91,287	79,230	61,384	41,280	35,548	44,289	104,260			
After four years	134,905	125,100	110,636	92,947	70,763	60,224	83,690				
After five years	166,475	156,324	145,230	131,286	96,895	100,530					
After six years	186,869	187,869	176,913	162,243	133,139						
After seven years	209,688	212,702	215,923	207,286							
After eight years	235,491	234,642	250,086								
After nine years	252,141	255,329									
After ten years	262,327										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	365,612	328,869	340,117	310,004	251,744	241,740	241,432	481,478	474,398	450,948	
After two years	365,768	325,858	339,731	310,937	247,839	240,375	244,843	497,718	479,352		
After three years	368,552	330,260	346,157	319,953	252,514	246,640	251,340	507,510			
After four years	333,740	314,172	325,792	286,280	231,038	220,380	209,436				
After five years	324,568	305,266	306,258	269,295	223,515	204,000					
After six years	320,711	293,939	284,455	258,483	203,013						
After seven years	304,129	284,723	286,588	268,989							
After eight years	290,606	280,479	293,873								
After nine years	290,887	283,555									
After ten years	283,855										
Excess (deficiency) after release of accumulation **)	49,885	30,617	31,919	17,291	28,025	16,380					174,117
Deviation rate after release of accumulation in percentage	14.95%	9.75%	9.80%	6.04%	12.13%	7.43%					10.17%
The rate of deviation in relation to the first year that does not include accumulation, in percentage											
Accumulated claims cost as at December 31, 2015 before the change in the calculation of reserves	283,855	283,555	293,873	268,989	203,013	204,000	209,436	507,510	479,352	450,948	3,184,531
Changes allocated directly to equity, see Note 2.j.2.3.4	-	-	-	-	-	-	-	(59,897)	(21,750)	(4,311)	(85,958)
Accumulated payments up to December 31, 2015	262,327	255,329	250,086	207,286	133,139	100,530	83,690	104,260	41,904	5,109	1,443,660
Outstanding claims balance	21,528	28,226	43,787	61,703	69,874	103,470	125,746	343,353	415,698	441,528	1,654,913
Outstanding claims in respect of the years up to and including the underwriting year 2005 ****)											50,233
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2015											1,705,146

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

(**) The gap between the accumulated claims estimate in the first year that do not include the accrual for accumulated claims estimate as at the reporting date results mainly from changes in insurance reserves in general insurance. See Note 2.j.2.d.4.

(****) No effect of the changes in the general insurance reserves following the Supervisor's Directives.

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 accumulation (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. See Note 37b.3.c.5.

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

c4. Examination of development in valuation of liabilities in respect of insurance contracts net of deferred acquisition costs on retention in the motor act and liability branches:

	December 31, 2015										
	Underwriting year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	NIS in thousands adjusted to the CPI of November 2015 **)										
Claims paid (accumulated) at the end of the year:											
After the first year	9,418	8,622	8,452	6,983	3,807	3,737	2,915	3,600	3,527	5,109	
After two years	53,839	48,258	42,309	33,492	15,929	13,443	15,487	26,510	41,904		
After three years	92,938	91,287	79,230	61,384	41,280	35,548	44,289	104,260			
After four years	134,905	125,100	110,636	92,947	70,763	60,224	83,690				
After five years	166,475	156,324	145,230	131,286	96,895	100,530					
After six years	186,869	187,869	176,913	162,243	131,071						
After seven years	209,688	212,702	215,923	207,286							
After eight years	235,491	234,642	250,086								
After nine years	252,141	255,329									
After ten years	262,327										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	355,815	320,975	332,915	303,248	245,933	236,704	237,128	474,877	466,535	443,096	
After two years	357,049	318,243	331,390	303,955	242,114	234,775	239,024	486,899	467,534		
After three years	359,573	322,947	337,565	312,762	246,618	240,871	245,346	496,366			
After four years	326,510	308,042	320,604	281,204	227,377	218,801	207,748				
After five years	317,336	300,133	302,451	266,495	221,932	202,405					
After six years	315,355	290,600	281,220	256,591	200,945						
After seven years	301,138	282,123	284,390	268,528							
After eight years	287,811	278,705	293,873								
After nine years	288,804	283,555									
After ten years	283,855										
Excess (deficiency) after release of accumulation **)	42,655	24,487	26,731	12,676	26,432	16,396					149,377
The rate of deviation in relation to the first year that does not include accumulation, in percentage	13.06%	7.95%	8.34%	4.51%	11.62%	7.49%					8.88%
Accumulated claims cost as at December 31, 2015 before the change in the calculation of reserves	283,855	283,555	293,873	268,528	200,945	202,405	207,748	496,366	467,534	443,096	3,147,905
Changes allocated directly to equity, see Note 2.j.2.3.4	-	-	-	-	-	-	-	(52,222)	(12,513)	(889)	(65,624)
Accumulated payments up to December 31, 2015	262,327	255,329	250,086	207,286	131,071	100,530	83,690	104,260	41,904	5,109	1,441,592
Outstanding claims balance	21,528	28,226	43,787	61,242	69,874	101,875	124,058	339,884	413,117	437,098	1,640,689
Outstanding claims in respect of the years up to and including the underwriting year 2005 ****)											47,654
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2015											1,688,343

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

(**) The gap between the accumulated claims estimate in the first year that do not include the accrual for accumulated claims estimate as at the reporting date results mainly from changes in insurance reserves in general insurance. See Note 2.j.2.d.4.

(****) No effect of the changes in the general insurance reserves following the Supervisor's Directives.

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 accumulation (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.)

c5. Cumulative data regarding underwriting years in the motor act insurance branches:

	Underwriting year						
	2015	2014	2013	2012	2011	2010	2009
	NIS in thousands						
Year ended December 31, 2015: Gross premiums	516,168	528,286	547,159	267,261	255,658	256,050	308,074
Cumulative comprehensive income on retention in respect of the underwriting year	3,170	13,711	27,016	58,966	63,983	74,486	100,845
Excess of income over expenses on retention	889	12,514	52,222	-	-	-	-
Cumulative effect of investment income on cumulative comprehensive income on retention in respect of the underwriting year	8,090	30,430	64,012	49,196	57,382	65,039	111,308

c6. Cumulative data regarding underwriting years in the other liability insurance branches:

	Underwriting year						
	2015	2014	2013	2012	2011	2010	2009
	NIS in thousands						
Year ended December 31, 2015: Gross premiums	297,545	304,889	282,972	242,858	270,348	268,331	254,524
Cumulative comprehensive income (loss) on retention in respect of the underwriting year	(57,288)	(55,347)	(45,811)	(2,994)	(16,848)	(14,312)	38,557
Excess of income over expenses on retention	2,210	4,831	6,638	-	-	-	-
Cumulative effect of investment income on cumulative comprehensive income on retention in respect of the underwriting year	3,770	13,258	24,626	32,252	37,115	41,590	60,586

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

c7. Composition of comprehensive income (loss) on retention in the motor act insurance branch:

	Comprehensive income in respect of open years	Comprehensive income in respect of underwriting year released in the reporting year (1)	Comprehensive income in respect of underwriting years released in previous years	Activity not included in calculation of reserves	Comprehensive income
	NIS in thousands				
Year ended December 31:					
2015	14,933	44,356	67,728	(4,979)	122,038
2014	28,317	32,544	36,232	(7,740)	89,353
2013	23,235	29,841	108,963	(6,180)	155,859

(1) The underwriting years released in the reporting years of 2015, 2014 and 2013 are 2012, 2011 and 2010, respectively.

c8. Composition of comprehensive income (loss) on retention in the other liability insurance branch:

	Comprehensive income in respect of open years	Comprehensive income in respect of underwriting year released in the reporting year (1)	Comprehensive income in respect of underwriting years released in previous years	Activity not included in calculation of reserves	Comprehensive income
	NIS in thousands				
Year ended December 31:					
2015	(109,284)	(1,437)	57,826	(2,284)	(55,179)
2014	(39,278)	(4,819)	25,742	(8,647)	(27,002)
2013	3,245	2,031	(7,743)	(9,224)	(11,691)

(1) The underwriting years released in the reporting years of 2015, 2014 and 2013 are 2012, 2011 and 2010, respectively.

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 for December 31, 2015						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as 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 guaranteed coefficients	-	-	-	713,442	-	-	713,442
Annuity with guaranteed coefficients:							
Up to May 2001	21,672,473	41,686,114	-	-	-	-	63,358,587
From June 2001	-	9,059,180	82,443	22,391,441	-	-	31,533,064
Annuity in payment	3,628,941	2,001,387	300,089	411,546	-	-	6,341,963
Equity (without annuity option)	1,434,544	1,242,903	-	15,370	-	-	2,692,817
Other risk components	206,126	925,599	-	744,089	425,429	189,525	2,490,768
Total in respect of insurance contracts	26,942,084	54,915,183	382,532	24,275,888	425,429	189,525	107,130,641
Liabilities in respect of investment contracts	-	708	276,617	1,720,584	-	-	1,997,909
Total	26,942,084	54,915,891	659,149	25,996,472	425,429	189,525	109,128,550
(b) According to financial exposure:							
Non yield dependent	25,671,947	327,302	659,149	341,310	221,641	189,525	27,410,874
Yield dependent	1,270,137	54,588,589	-	25,655,162	203,788	-	81,717,676
Total	26,942,084	54,915,891	659,149	25,996,472	425,429	189,525	109,128,550

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

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 for December 31, 2014						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as 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 guaranteed coefficients	-	-	-	405,204	-	-	405,204
Annuity with guaranteed coefficients:							
Up to May 2001	21,179,036	40,375,602	-	-	-	-	61,554,638
From June 2001	-	8,828,981	94,614	20,295,974	-	-	29,219,569
Annuity in payment	3,084,915	1,543,019	319,904	271,721	-	-	5,219,559
Equity (without annuity option)	1,528,624	1,288,985	-	14,055	-	-	2,831,664
Other risk components	277,884	954,149	-	555,328	420,665	167,551	2,375,577
Total in respect of insurance contracts	26,070,459	52,990,736	414,518	21,542,282	420,665	167,551	101,606,211
Liabilities in respect of investment contracts	-	791	161,101	1,336,629	-	-	1,498,521
Total	26,070,459	52,991,527	575,619	22,878,911	420,665	167,551	103,104,732
(b) According to financial exposure:							
Non yield dependent	25,047,143	285,545	575,619	260,515	229,487	167,551	26,565,860
Yield dependent	1,023,316	52,705,982	-	22,618,396	191,178	-	76,538,872
Total	26,070,459	52,991,527	575,619	22,878,911	420,665	167,551	103,104,732

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

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

b. Details of results according to types of policies:

	Data for the year ended December 31, 2015						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/endowment	48,315	34,633	-	-	-	-	82,948
Savings component	316,849	2,116,879	380	3,763,791	-	-	6,197,899
Other	62,362	291,720	-	489,013	464,747	75,328	1,383,170
Total	427,526	2,443,232	380	4,252,804	464,747	75,328	7,664,017
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	141,683	704,632	-	-	846,315
Financial margin including management fees	363,247	571,663	(1,536)	279,695	-	-	1,213,069
Payments and change in liabilities in respect of gross insurance contracts	1,622,393	3,947,332	(3,321)	4,465,721	203,463	99,653	10,335,241
Payments and change in liabilities in respect of investment contracts	-	216	2,145	18,372	-	-	20,733
Income (loss) from life assurance business	6,764	244,290	23,532	(138,359)	82,450	(22,338)	196,339
Other comprehensive loss from life assurance business	(123,512)	(5,327)	(16,061)	(5,226)	(3,307)	(3,918)	(157,351)
Total comprehensive income (loss) from life assurance business	(116,748)	238,963	7,471	(143,585)	79,143	(26,256)	38,988
Profit from pension and provident funds							79,873
Other comprehensive loss from pension and provident funds							(8,331)
Total comprehensive income from life assurance and long term savings							110,530
Annualized premium in respect of insurance contracts – new business	-	-	-	253,179	92,843	-	346,022
One time premium in respect of insurance contracts	7	-	380	944,887	-	-	945,274
Annualized premium in respect of investment contracts – new business	-	-	-	91,789	-	-	91,789
One time premium in respect of investment contracts	-	-	141,683	592,446	-	-	734,129
Transfers to the Company of insurance and investment contracts	-	-	-	91,245	-	-	91,245
Transfers from the Company of insurance and investment contracts	14,614	224,243	-	236,854	-	-	475,711

1. The products issued up to 1990 (including their increases) were mainly guaranteed yield and are mainly 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 annual yield 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 results according to types of policies: (Cont.)

	Data for the year ended December 31, 2014						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/endowment	57,528	40,399	-	-	-	-	97,927
Savings component	331,052	2,116,175	-	3,656,307	-	-	6,103,534
Other	68,532	316,457	-	466,052	469,486	83,957	1,404,484
Total	457,112	2,473,031	-	4,122,359	469,486	83,957	7,605,945
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	10,459	797,476	-	-	807,935
Financial margin including management fees	428,565	707,527	32,780	248,451	-	-	1,417,323
Payments and change in liabilities in respect of gross insurance contracts	1,806,630	5,499,777	22,263	4,813,752	195,107	64,190	12,401,719
Payments and change in liabilities in respect of investment contracts	-	5,544	(7,218)	37,258	-	-	35,584
Income (loss) from life assurance business	(142,826)	255,464	15,518	(107,779)	157,074	14,899	192,350
Other comprehensive income from life assurance business	123,400	5,064	11,003	4,496	3,346	4,134	151,443
Total comprehensive income (loss) from life assurance business	(19,426)	260,528	26,521	(103,283)	160,420	19,033	343,793
Profit from pension and provident funds							99,775
Other comprehensive income from pension and provident funds							882
Total comprehensive income from life assurance and long term savings							444,450
Annualized premium in respect of insurance contracts – new business	-	-	-	297,657	109,158	-	406,815
One time premium in respect of insurance contracts	131	16,179	-	825,956	-	-	842,266
Annualized premium in respect of investment contracts – new business	-	-	-	50,890	-	-	50,890
One time premium in respect of investment contracts	-	-	10,459	743,512	-	-	753,971
Transfers to the Company of insurance and investment contracts	-	-	-	154,365	-	-	154,365
Transfers from the Company of insurance and investment contracts	7,458	133,675	-	242,827	-	-	383,960

1. The products issued up to 1990 (including their increases) were mainly guaranteed yield and are mainly 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 annual yield 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 results according to types of policies: (Cont.)

	Data for the year ended December 31, 2013						
	Policies with savings component (including riders) according to policy's date of issue				Policies without savings component		Total
			From 2004		Risk sold as separate policy		
	Up to 1990	Up to 2003	Non yield dependent	Yield dependent	Individual	Group	
	NIS in thousands						
Gross premiums:							
Traditional/endowment	66,024	46,712	-	-	-	-	112,736
Savings component	336,849	2,094,625	30,455	3,588,116	-	-	6,050,045
Other	75,113	332,238	-	460,701	427,717	86,461	1,382,230
Total	477,986	2,473,575	30,455	4,048,817	427,717	86,461	7,545,011
Receipts in respect of investment contracts credited directly to insurance reserves	-	-	-	524,749	-	-	524,749
Financial margin including management fees	318,914	924,169	9,495	194,532	-	-	1,447,110
Payments and change in liabilities in respect of gross insurance contracts	1,983,503	7,904,353	43,815	5,449,033	231,023	109,654	15,721,381
Payments and change in liabilities in respect of investment contracts	-	(251)	16,572	30,252	-	-	46,573
Income (loss) from life assurance business	41,940	732,023	13,936	(184,266)	109,010	(26,366)	686,277
Other comprehensive income (loss) from life assurance business	111,562	4,350	(2,941)	3,542	3,016	3,202	122,731
Total comprehensive income (loss) from life assurance business	153,502	736,373	10,995	(180,724)	112,026	(23,164)	809,008
Profit from pension and provident funds							94,962
Other comprehensive income from pension and provident funds							1,914
Total comprehensive income from life assurance and long term savings							905,884
Annualized premium in respect of insurance contracts – new business	28	11	-	488,365	92,363	-	580,767
One time premium in respect of insurance contracts	234	13,352	30,455	845,334	-	-	889,375
Annualized premium in respect of investment contracts – new business	-	-	-	-	-	-	-
One time premium in respect of investment contracts	-	-	-	524,749	-	-	524,749
Transfers to the Company of insurance and investment contracts	-	-	-	374,537	-	-	374,537
Transfers from the Company of insurance and investment contracts	7,564	83,918	216	217,677	-	-	309,375

1. The products issued up to 1990 (including their increases) were mainly guaranteed yield and are mainly 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 annual yield 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. 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, 2015
	2015	2014	2013	2012	2011	Before management fees	After management fees	
	In percentage							NIS in thousands
"Yud" Fund (Fund No. 10)	2.79	5.77	12.44	11.25	(3.01)	5.69	4.46	553,567
General track for policies beginning from the year 2004	1.74	5.13	11.71	10.64	(4.03)	4.88	3.59	216,908
Other								87,420
Total								857,895

d. Details of transfer of funds:

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Transfer to the Company from other entities			
Transfers from other insurance companies	22,643	70,997	167,698
Transfers from pension funds	7,225	12,824	92,839
Transfers from provident funds	61,377	70,544	114,000
Total transfers to the Company	91,245	154,365	374,537
Transfers from the Company to other entities			
Transfers to other insurance companies	64,763	126,355	132,182
Transfers to pension funds	147,897	109,210	79,688
Transfers to provident funds	263,051	148,395	97,505
Total transfers from the Company	475,711	383,960	309,375
Transfers, net	(384,466)	(229,595)	65,162

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, 2015				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,550,057	-	181,614	-	1,731,671
Other	181,945	21,606	513,558	10,646	727,755
Total	1,732,002	21,606	695,172	10,646	2,459,426

	Data as at December 31, 2014				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,429,689	-	196,754	-	1,626,443
Other	92,320	20,052	405,912	4,431	522,715
Total	1,522,009	20,052	602,666	4,431	2,149,158

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

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

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

	Data as at December 31, 2015				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	113,471	16,265	14,828	-	144,564
Other risk components	1,618,531	5,341	680,344	10,646	2,314,862
Total	1,732,002	21,606	695,172	10,646	2,459,426

	Data as at December 31, 2014				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	88,616	13,670	2,018	-	104,304
Other risk components	1,433,393	6,382	600,648	4,431	2,044,854
Total	1,522,009	20,052	602,666	4,431	2,149,158

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

b. Details of the results according to policy type:

	Data for the year ended December 31, 2015				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	263,190	13,478	722,157 *)	26,887 *)	1,025,712
Profit (loss) from health insurance business	(38,118)	729	14,525	(2,788)	(25,652)
Other comprehensive loss from health insurance business	(2,368)	(406)	(6,909)	(41)	(9,724)
Total comprehensive income (loss) from health insurance business	(40,486)	323	7,616	(2,829)	(35,376)
Annualized premium - new ***)	54,934	-	178,417	-	233,351

*) Of this, individual premiums in the amount of NIS 657,756 thousand and group premiums in the amount of NIS 91,288 thousand.

**) The most significant coverage included in other long-term health insurance is medical expenses, and in short term 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 for the year ended December 31, 2014				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	235,031	9,706	622,946 *)	13,214 *)	880,897
Profit (loss) from health insurance business	20,502	921	54,766	(919)	75,270
Other comprehensive income from health insurance business	1,054	376	5,584	14	7,028
Total comprehensive income (loss) from health insurance business	21,556	1,297	60,350	(905)	82,298
Annualized premium - new ***)	50,760	-	158,110	-	208,870

*) Of this, individual premiums in the amount of NIS 574,901 thousand and group premiums in the amount of NIS 61,259 thousand.

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

***) Including policy riders.

	Data for the year ended December 31, 2013				
	Long term care		Other		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	205,749	9,625	551,162 *)	3,628 *)	770,164
Profit from health insurance business	7,754	2,006	61,292	217	71,269
Other comprehensive income from health insurance business	582	389	4,959	3	5,933
The comprehensive income from health insurance business	8,336	2,395	66,251	220	77,202
Annualized premium - new ***)	29,606	-	122,767	-	152,373

*) Of this, individual premiums in the amount of NIS 500,171 thousand and group premiums in the amount of NIS 54,619 thousand.

**) The most significant coverage included in other long-term health insurance is medical expenses, and in short term 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, 2014	93,986,770	929,156	94,915,926	1,926,871
Interest, linkage differences and investment income (1)	3,641,969	25,197	3,667,166	59,750
Increase in respect of premiums and deposits allocated to liabilities (2)	6,124,873	807,935	6,932,808	178,910
Decrease in respect of claims, surrenders and maturities	(2,690,995)	(264,404)	(2,955,399)	(30,059)
Other changes (3)	543,594	637	544,231	13,686
Balance as at December 31, 2014	101,606,211	1,498,521	103,104,732	2,149,158
Interest, linkage differences and investment income (1)	1,543,114	7,423	1,550,537	30,918
Increase in respect of premiums and deposits allocated to liabilities (2)	6,095,266	846,315	6,941,581	193,393
Decrease in respect of claims, surrenders and maturities	(2,749,247)	(353,300)	(3,102,547)	(34,586)
Other changes (3)	635,297	(1,050)	634,247	120,543
Balance as at December 31, 2015	107,130,641	1,997,909	109,128,550	2,459,426

1. Interest, linkage differences and investment income – this item 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 the entire 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 item 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-savings premiums. In 2015 and 2014, immediate provisions were recorded following a due diligence study of the life assurance reserves including the supplementary reserve for annuity in the amount of about NIS 363 million and NIS 466 million, respectively (see Note 37b(3)(b)(5)(a) below).

NOTE 21:- TAXES ON INCOME

a. General:
The income of the Company and all other Group companies is subject to corporate tax according to the Income Tax Ordinance (New Version), 1961 ("the Ordinance"). Furthermore, the income of Group companies that are classified as "financial institutions" as defined in the Value Added Tax Law, 1975 is subject to profit and salary tax. It is noted that the activity of companies classified as financial institutions in the insurance, pension and the finance branches constitute the major part of the Group's operations.

b. Tax arrangements that are unique to the insurance industry:

An industry agreement was signed between the Association of Life Assurance Companies and the Tax Authorities that arranges the unique issues of the insurance business, as described below.

After the balance sheet date the Tax Authorities and the Association of Life Insurance Companies signed sector agreements for tax years 2013 up to and including 2015. The taxes in the financial statements for the year 2015 are based on the aforementioned agreements. The taxes in the financial statements for the years 2013 - 2014 were calculated in accordance with the principles of the sector agreement was in force in 2012.

The changes in sector agreements for the years 2013 to 2015, had no material impact on 2015 financial statements of Migdal Insurance.

The sector agreements relate, among others, to the following matters:

1. Deferred acquisition costs (DAC) – expenses incurred in the acquisition of life assurance policies up to and including the year 2014 are deductible for tax purposes in equal portions over a period of four years and for the underwriting years 2015 to 2020 over ten years. Such expenses relating to life assurance contracts have been canceled will be deductible in the year of the cancellation

   Acquisition expenses of pension and provident funds contracts (as defined in the agreement) for the underwriting years 2015 up to and including 2020 will be deductible for tax purposes equally over ten years, or by the rate of reduction in the financial statements, as chosen by the Company. Introduction expense will not be allowed in respect of pension and provident funds canceled.

   Deferred acquisition costs in sickness and hospitalization costs are amortized over a period of six years, similar to the reduction in the financial statements.

2. Allocation of expenses to preferred income – expenses will be allocated to tax exempt income received by insurance companies ("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 industry agreement depends on the source of the money creating the preferred income.

NOTE 21:- TAXES ON INCOME

b. Tax arrangements that are unique to the insurance industry:

The sector agreements relate, among others, to the following matters: (Cont.)

3. Provision for indirect expenses to settle claims – partial adjustment of the provision for indirect expenses to settle claims in the general insurance and health fields, for each underwriting year beginning from the year 2013 up to the year 2020. The adjusted amount will be recognized for tax purposes over three years beginning from the year after the adjustment.

4. 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
5.
6. to expenses.

5. 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.

c. The tax rates:

1. The statutory tax applicable to financial institutions which constitute the Group's main activities is comprised of corporate tax and profit tax.

2. In November 2015 an ordinance VAT (Tax Rate for Non-Profit Organizations and Financial Institutions) (Amendment) 2015, was published, which stated that the payroll tax rate applicable to financial institutions will amount to 17% of the salary paid for the work in October onwards and the tax profit will amount to 17% of the income generated. The directives with regard to profit tax in the 2015 tax year shall apply to the proportionate share of the profit this year. In accordance to the said amendment the comprehensive tax rate applicable to financial institutions, including Migdal, in the year 2015 is 37.58%.

   The said change in the tax rate did not have a significant effect on the Group's financial statements.

NOTE 21:- TAXES ON INCOME

c. The tax rates: (Cont.)

3. In January 2016, the Income Tax Ordinance Law (No. 216), 2016, was published, which provided, among other things, reducing the corporate tax rate from 26.5% to 25%, and it is effective as of January 1, 2016. Pursuant to the amendment the overall tax rate applicable to financial institutions, including Migdal Insurance, from January 1, 2016 and thereafter will be 35.9%.

   Deferred tax balances included in the financial statements as at December 31, 2015 are calculated using tax rates in effect at the balance sheet date and do not take into account the effects of the reduction in corporate tax rate.

   The Group estimates that, while the change in the law was completed until December 31, 2015 it brought an increase in total profit of about NIS 30 million for a reduction in deferred taxes in the Company's investee companies.

   These effects are to be included in the financial statements for the first quarter of 2016.

4. Hereunder are the statutory tax rates applicable to Group's companies, including financial institutions following the changes:

Year	*)	**Corporate tax rate**	**Profit tax rate**		**Comprehensive tax rate in financial institutions**	
			%			
2013	*	25.0	17.58	*)	36.21	
2014	)	26.5	18.00		37.71	
2015		26.5	17.75	*)	37.58	*)
2016 and thereafter		25.0	17.00		35.90	

*) Weighted tax rate.

**) The deferred taxes as at December 31, 2015 were calculated according to the effective tax rate of 37.18% for financial institutions and according to the corporate tax of 25.5%, as were in force at the date of the financial statements.

NOTE 21:- TAXES ON INCOME

d. Tax assessments

Corporate tax assessments

1. Migdal Insurance has received final tax assessments up to and including the year 2010. In July 2014, Migdal Insurance was issued tax assessments in agreement for 2011 and 2011 for the majority of the items that were in dispute. With respect to two items which were not agreed upon, the Company was issued tax assessments to the best of judgment.

   a) About an issue relating to provisions for indirect expenses to settle claims in general insurance and health insurance understandings were formulated which were expressed in the agreement sectors. According to the agreements a partial adjustment will be executed on the said provision balance as of at December 31, 2012. The adjusted amount will be recognized for tax purposes in two equal installments in the years 2013 and 2014.

      These agreements had a minor impact on the financial statements, since this is temporary differences.

   b) Regarding the issues relating to tax liability in respect of dividend income from investee companies linked to the parent company, the tax assessor issued Migdal Insurance a ruling for the year 2011. In respect of this ruling, Migdal Insurance filed an appeal to the Tel Aviv District Court in January 2016. The tax liability resulting from this ruling (including linkage and rate differences as at the date of publication of the financial statements amounts to about NIS 0.7 million.

      Migdal Insurance's management believes, based on, among others, its legal counsel, the chances of the appeal being accepted are greater than the chances that it will be rejected.

      Migdal Insurance estimates that a provision for tax over the provision recorded in the financial statements is not needed

2. In November of 2012, Migdal Real Estate Ltd., a wholly owned subsidiary of Migdal Insurance (hereunder in this subsection - "the Company") received best judgment assessments for the years 2007, 2009 and 2010 whereby the dividend income received from its affiliate, who's origin is in revaluation profits of real estate assets, are taxable. The tax liability results from these assessments (including interest and linkage differences as at the date of publication of the financial statements) amounts to about NIS 68 million.

NOTE 21:- TAXES ON INCOME

d. Tax assessments (Cont.)

Corporate tax assessments (Cont.)

2. (Cont.)

   The Company submitted reservations regarding these assessments and they were rejected by the tax assessor who gave the Company orders for these years, which the Company submitted appeals to the Tel-Aviv District Court.

   Company management estimates, based, among others, on legal counsel, that it is more likely than not that the Company's defense claims of this procedure will be accepted. The Company believes that no tax provision is required beyond that recorded in the financial statements.

3. In the course of 2014, Migdal Makefet Pension and Provident Funds Ltd. ("Migdal Makefet") was issued final tax assessments in agreement for 2008 through 2010 which settled the issue of the amortization of DAC for tax purposes, including the determination of agreed principles for the 2011 and 2012 tax years. In addition, Migdal Gemel Platinum Ltd. (which was merged into Migdal Makefet on January 1, 2011) was issued a final tax assessment for 2010 which settles the amortization of cost of acquisition the activity of the Kahal study funds management and the track fund. The tax assessment agreement stipulates the principles and amounts of the future amortization of the cost of acquisition from 2011 until the end of the amortization period in 2019 in Migdal Makefet's tax return. These tax assessments did not have a material impact on the Company's income or capital.

   In December 2015 a final assessment was signed on the basis of the above principals, regarding the year 2011.

4. The Company and the other subsidiaries of the Company received final tax assessments by agreement or under the statute of limitations up to and including the year 2011, except for a subsidiary with final tax assessments up to and including the year 2012.

NOTE 21:- TAXES ON INCOME (Cont.)

e. Carryforward losses for tax purposes and other temporary differences:

The Group's has carryforward business losses for tax purposes in the amount of about NIS 248 million as of December 31, 2015 (December 31, 2014 - about NIS 247 million) in respect of which deferred tax assets of about NIS 66 million (December 31, 2014 - about NIS 65 million) were recognized in the financial statements.

Deferred tax assets relating to carryforward business losses of about NIS 77 million and capital losses for tax purposes of about NIS 56 million (December 31, 2014 - about NIS 79 million and NIS 69 million, respectively) were not recognized because their utilization in the foreseeable future is not probable.

f. Taxes on income included in the statements of income:

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Current taxes	188,651	163,038	360,042
Deferred taxes relating to the creation and reversal of temporary difference, also see g below	(21,705)	31,625	(11,295)
Taxes in respect of previous years	(5,938)	(9,169)	(4,791)
Effect of change in tax rates	(5,242)	-	22,550
Taxes on income	155,766	185,494	366,506

NOTE 21:- TAXES ON INCOME (Cont.)

g. 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, 2014	(324,038)	(176,064)	(78,195)	(41,973)	(130,675)	50,471	87,930	(612,544)
Changes recognized in profit and loss	1,107	13,362	(1,570)	(3,379)	(4,653)	14,619	(33,290)	(13,804)
Changes recognized in other comprehensive income	-	(68,208)	-	(501)	-	-	(911)	(69,620)
Balance of deferred tax asset (liability) as at December 31, 2014	(322,931)	(230,910)	(79,765)	(45,853)	(135,328)	65,090	53,729	(695,968)
Changes recognized in profit and loss	24,182	7,265	23,201	(10,090)	(21,790)	3,290	(4,353)	21,705
Changes recognized in other comprehensive income	-	121,205	-	837	-	-	3,656	(* 125,698
Effect of deduction at profit tax rate	4,541	(1,023)	47	171	1,801	42	(337)	5,242
Exit from consolidation	-	-	-	-	-	(2,864)	(787)	(3,651)
Balance of deferred tax asset (liability) as at December 31, 2015	(294,208)	(103,463)	(56,517)	(54,935)	(155,317)	65,558	51,908	(546,974)

*) Includes the effect of change in tax rate in the amount of NIS 5, thousand.

NOTE 21:- TAXES ON INCOME (Cont.)

g. Deferred taxes: (Cont.)

The deferred taxes are reflected in the statement of financial position as follows:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Deferred tax assets	19,358	27,017
Liabilities in respect of deferred taxes	(566,332)	(722,985)
	(546,974)	(695,968)

h. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31, 2015	2014	2013
	NIS in thousands		
Income before taxes on income	508,817	608,329	983,219
Overall statutory tax rate applicable to financial institutions (see c above)	37.58%	37.71%	36.21%
Tax computed at the overall statutory tax rate	191,213	229,401	356,024
Deduction in respect of companies that are not financial institutions	(15,529)	(8,846)	(4,675)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses	7,554	7,155	16,013
Exempt dividend income	(17,964)	(15,496)	(14,006)
Group's share of earnings of affiliates	(17,413)	(17,738)	(10,995)
Effect of increase in tax rates on deferred taxes	(5,242)	-	22,550
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	12,658	708	12,309
Taxes in respect of previous years	(5,938)	(9,169)	(4,791)
Other	6,427	(521)	(5,923)
Taxes on income	155,766	185,494	366,506
Average effective tax rate	30.61%	30.49%	37.28%

NOTE 22:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits include short term benefits, post-employment benefits, other long term benefits, termination benefits, as defined in IAS 19, and share based payments.

For additional details on accounting policy for these benefits see Note 2r above. See Note 33 below regarding share-based payments.

Regarding benefits for those who hold key management positions see Note 38j below, in respect of related and interested parties.

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 contribution 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 for employee benefits after termination of employment 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 to employees are generally financed by deposit amounts in insurance policies and are classified as defined contribution plans or defined benefit plan as follows:

<u>Defined contribution plans</u>

The provisions of Section 14 to the Severance Pay Law, 1963 ("Section 14") apply to a portion of the severance pay obligations. According to Section 14, the Group's current contributions in insurance companies' policies and/or in pension funds, release it from any additional liability for severance pay to employees in respect of whom amounts were deposited, as mentioned above. These deposits and deposits in respect of provident benefits constitute a defined contribution plan. In 2015, 2014 and 2013, the expenses in respect of the defined contribution plans amounted to NIS 49,608 thousand, NIS 54,761 thousand and NIS 50,055 thousand, respectively, and were included under general and administrative expenses.

As for the cancellation of the Section 14 arrangement in Migdal Insurance and Migdal Makefet based on a collective agreement signed on February 17, 2015, see Note 32 below under general and administrative expenses.

<u>Defined benefit plans</u>

The portion of severance pay obligations that is not covered by deposits in defined contribution 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.

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

Plan assets

Plan assets comprise assets held by a long-term employee benefit fund (provident fund for hired employees and pension funds) and qualifying insurance policies.

a. Composition of employee benefit liabilities, net:

	December 31, 2015	December 31, 2014
	NIS in thousands	
Liabilities in respect of defined benefit plan which is not financed	13,638	13,334
Liability in respect of financed defined benefit plan	335,534	257,472
Total liability in respect of defined benefit plan – see b1 below	349,172	270,806
Less - fair value of the plan's assets – see b1 below	107,497	72,321
Total net liability in respect of defined benefit plans	241,675	198,485
Short term benefits – provision for vacation	45,707	40,904
Other long term benefits – see c below	24,303	9,220
Share based payment settled in cash	952	495
Total liabilities for employee benefits, net	312,637	249,104

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

b. Information regarding defined benefit plans:

1. Changes in the present value of the liability for defined benefit plan and movement in the fair value of the plan assets:

		Expenses (income) allocated to profit or loss *)					Gain (loss) from re-measurement in other comprehensive income							
	Balance at January 1, 2015	Past service cost	Interest expenses, net	Current service cost	Total expenses allocated to profit or loss in the period	Payments from the plan	Yield on plan assets (other than amounts recognized in interest expenses, net)	Actuarial gain (loss) from changes in demographical assumptions	Actuarial loss (gain) from changes in financial assumptions	Other actuarial loss (gain)	Total effect on other comprehensive income (loss) in the period	Employer contributions to plan	Exit from consolidation	Balance at December 31, 2015
Defined benefit liabilities	270,806	46,903	13,619	35,646	96,168	(24,777)	-	97	3,885	5,219	9,201	-	(2,226)	349,172
Fair value of plan assets	(72,321)	(24,574)	(4,069)	-	(28,643)	10,354	345	-	-	(715)	(370)	(17,885)	1,368	(107,497)
Net liability (asset) from defined benefit	198,485	22,329	9,550	35,646	67,525	(14,423)	345	97	3,885	4,504	8,831	(17,885)	(858)	241,675

*) The expenses are included in wages and related expenses in general and administrative expenses, see Note 32 below.

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

b. Information regarding defined benefit plans: (Cont.)

1. Changes in the present value of the liability for defined benefit plan and movement in the fair value of the plan assets: (Cont.)

		Expenses (income) carried to profit or loss					Gain (loss) from re-measurement in other comprehensive income					
	Balance at January 1, 2014	Past service cost	Interest expenses, net	Current service cost	Total expenses in profit or loss in the period	Payments from the plan	Yield on plan assets (other than amounts recognized in interest expenses, net)	Actuarial loss (gain) from changes in financial assumptions	Other actuarial loss (gain)	Total effect on other comprehensive loss (income) in the period	Employer contributions to plan	Balance at December 31, 2014
	NIS in thousands											
Defined benefit liabilities	274,048	1,993	11,715	22,157	35,865	(34,394)	-	(3,998)	(715)	(4,713)	-	270,806
Fair value of plan assets	(72,286)	-	(3,122)	-	(3,122)	9,975	(2,970)	-	4,024	1,054	(7,942)	(72,321)
Net liability (asset) from defined benefit	201,762	1,993	8,593	22,157	(* 32,743	(24,419)	(2,970)	(3,998)	3,309	(3,659)	(7,942)	198,485

*) The expenses are included in wages and related expenses in general and administrative expenses, see Note 32 below.

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

b. Information regarding defined benefit plans: (Cont.)

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

	2015	2014	2013
		%	
Discount rate on December 31*)	4.18	4.25	4.37
Anticipated real salary increase	3.91	3.04	3.74

Below are reasonably possible changes at the end of the reporting period in each actuarial assumption, assuming that all other actuarial assumptions are constant, that affect the defined benefit liability:

	December 31, 2015		December 31, 2014	
	+1%	-1%	+1%	-1%
	NIS in thousands			
Future increase in salary costs	22,017	(16,356)	9,236	(7,924)
Discount rate	(15,496)	21,008	(7,446)	8,643

3. Actual yield:

	Year ended December 31,		
	2015	2014	2013
		%	
Actual yield on plan assets	3.64	8.43	9.22

4. Impact of the plan on future cash flows of the Group:

- The Group estimates the expected deposits in plan assets in 2016 to fund the defined benefit plan to amount to about NIS 19,963 thousand.
- The Group estimates that the weighted average life of the plan as at the end of the reporting period to be 10 years similar to the previous year.

c. Other long-term benefits:

	December 31,	
	2015	2014
	NIS in thousands	
Liability for sick pay	4,112	3,722
Anniversary grant and others	20,191	5,498
	24,303	9,220

*) Regarding changing the Jubilee bonus at Migdal Insurance and Migdal Makefet in accordance with the collective agreement signed on February 17, 2015, see Note 32 general and administrative expenses

NOTE 23:- CREDITORS AND PAYABLES

	December 31, 2015	December 31, 2014
	NIS in thousands	
Stock Exchange Clearinghouse and securities	66,214	169,043
Employees and other salary-related liabilities	88,422	126,722
Expenses payable	165,788	162,609
Suppliers and service providers	118,341	111,710
Government authorities and institutions	24,486	29,440
Deferred acquisition costs in respect of reinsurance	33,388	41,449
Insurance companies and brokers:		
Deposits by reinsurers	51,845	54,141
Other accounts	112,075	129,779
Total insurance companies and brokers	163,920	183,920
Insurance agents	392,339	403,864
Policyholders and members	343,935	284,503
Provision for profit participation of policyholders	8,458	15,379
Prepaid premium	62,302	64,303
Others	76,067	130,471
Total creditors and payables	1,543,660	1,723,413

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

*) As for a transaction with a controlling shareholder, see Note 38c below regarding irregular and non-negligible transactions with controlling shareholders.

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 is provided in Note 37b(1) below.

a. Details of financial liabilities:

	December 31,			
	Carrying amount		Fair value	
	2015	2014	2015	2014
	NIS in thousands			
1. Financial liabilities at amortized cost:				
Loans from banking institutions *)	9,585	38,886	9,585	38,886
Loans from non-banking institutions**)	2,173	7,326	1,953	7,430
Bonds constituting second tier capital ***)				
Bonds (Series A)	510,620	514,885	546,550	565,450
Bonds (Series B)	326,686	329,362	331,669	328,844
Bonds (Series C)	1,203,087	-	1,239,973	-
Bonds constituting third tier capital ***)				
Bonds (Series D)	706,061	-	717,616	-
Total financial liabilities reported at amortized cost	2,758,212	890,459	2,847,346	940,610
2. Financial liabilities at fair value through profit or loss:				
Derivatives	284,288	684,180	284,288	684,180
Short sales	-	12,961	-	12,961
Total financial liabilities reported at fair value through profit and loss ****)	284,288	697,141	284,288	697,141
Total financial liabilities	3,042,500	1,587,600	3,131,634	1,637,751
*) Includes loans from a bank which is a related party	-	26,804	-	26,804
**) Includes loans from an affiliate, see Note 38h(3)	-	5,081	-	5,185

***) The fair value of the unquoted bonds is provided for disclosure purposes only based on the data of Fair Spread, see Note 12f above.

The fair value of the quoted bonds, which is provided for disclosure purposes only, was determined based on their price at the closing of trade on the reporting date.

The carrying amount in this note includes accrued interest of NIS 24.8 million, which is stated in the balance sheet under payables (in 2014 there was no accrued interest).

****) The carrying amount includes financial liabilities in respect of yield dependent policies in the amount of about NIS 237 million (2014 - about NIS 641 million).

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

b. Financial liabilities at amortized cost:

1. Details of interest and linkage:

	Effective interest December 31, 2015	Effective interest December 31, 2014
	%	
Linkage basis		
Linked to CPI	3.2	3.2
In NIS	3.7	3.4
Linked to foreign currency	-	0.7

2. Maturity dates:

	December 31, 2015	December 31, 2014
	NIS in thousands	
First year	29,501	39,475
Second year	2,810	1,415
Third year	838,569	1,320
Fourth year	1,182	845,390
Fifth year and thereafter	1,886,150	2,859
Total	2,758,212	890,459

See details of maturity dates of non-capitalized financial liabilities in Note 37b(2) below.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

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

Following is an analysis of financial liabilities that are presented at fair value. The carrying amount of creditors and payables approximates their fair value.

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	71,464	212,824	-	284,288
Short sales	-	-	-	-
Total financial liabilities	71,464	212,824	-	284,288
Financial liabilities which are unquoted and whose fair value is disclosed (Note 24a above)	1,957,589	889,757	-	2,847,346

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	78,495	604,240	1,445	684,180
Short sales	12,961	-	-	12,961
Total financial liabilities	91,456	604,240	1,445	697,141
Financial liabilities which are unquoted and whose fair value is disclosed (Note 24a above)	-	940,610	-	940,610

d. Interest rates used in determining fair value:

	December 31,	
	2015	2014
	%	
Loans	3.6	1.6
Bonds constituting second tier capital	2.5	1.6
Bonds constituting third tier capital	3.3	0.0
Other financial liabilities	(0.3)	-

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds:

In 2012, Migdal Capital Raising completed two private placements to classified investors which were listed on the TACT institutional system, as detailed below (the data in the table are presented in NIS in thousands):

	Series A bonds	Series B bonds
Class of capital	Second tier hybrid capital in Migdal Insurance	Second tier hybrid capital in Migdal Insurance
Date of issue	1.2012	12.2012
Amount of issue (NIS in thousands) NIS 1 par value	500,000	324,656
Nominal value	500,000	324,656
Nominal value according to linkage terms	511,758	327,566
Issue proceeds (*)	497,529	322,942
Nominal interest rate	Fixed, 3.5%	Fixed, 2.35%
Effective interest rate	3.61%	2.46%
Linkage to CPI	Capital and interest linked to the increase in the CPI published in December 2011 for November 2011	Capital and interest linked to the increase in the CPI published in December 2012 for November 2012
Contractual maturity date	12.2021	12.2024
Interest payment dates	2 equal semi annual payments on June 30 and December 31 of each of the years 2012-2021 (inclusive)	2 equal semi annual payments on June 30 and December 31 of each of the years 2013-2021 (inclusive)
Midroog Ltd. rating	Aa2	Aa2
First possible early repayment date	7 years after issue	6 years after issue
Trade on the Stock Exchange	If the bonds are listed on the stock exchange, the interest rate will be reduced by 0.2%	If the bonds are listed on the stock exchange, the interest rate will be reduced by 0.2%
Pledge of bonds	Not secured under any pledge	Not secured under any pledge
Carrying amount as at December 31, 2015	510,620	326,686
Accrued interest as of December 31, 2015	-	-
Fair value as of December 31, 2015	546,550	331,669
Carrying amount as at December 31, 2014	514,885	329,362
Accrued interest as at December 31, 2014	-	-
Fair value as at December 31, 2014	565,450	328,844
Balance of deferred issue expenses (*)		
December 31, 2015	1,248	956
December 31, 2014	1,505	1,169

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds: (Cont.)

In 2015, Migdal Capital Raising completed two issues on the Tel Aviv Stock Exchange, as detailed below (the data in the table are presented in NIS in thousands):

	Series C bonds	**Series D bonds**
Class of capital	Second tier hybrid capital in Migdal Insurance	Second tier hybrid capital in Migdal Insurance
Date of issue	6.2015	12.2015
Amount of issue (NIS in thousands) NIS 1 par value	1,191,594	711,215
Nominal value	1,191,594	711,215
Issue proceeds (*)	1,174,891	702,580
Nominal interest rate	Fixed, 3.58%	Fixed, 2.39%
Effective interest rate	3.74%	3.53%
Linkage to CPI	Not linked	Not linked
Contractual maturity date	12.2027	12.2027
Interest payment dates	One annual payment, on March 31 of each of the years 2016-2027	One annual payment, on March 31 of each of the years 2016-2027
Midroog Ltd. rating	Aa2	Aa1
First possible early repayment date	3.2023	3.2023
Pledge of bonds	Not secured under any pledge	Not secured under any pledge
Carrying amount as at December 31, 2015	1,179,711	704,674
Accrued interest as of December 31, 2015	23,375	1,387
Market value as at December 31, 2015	1,239,973	717,616
Balance of deferred issue expenses (*)		
December 31, 2015	11,883	6,541

(*) The issue proceeds are net of deferred issue expenses amortized by the effective interest method.

(**) The last interest payment will be paid together with the principal repayment.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.1 Bonds constituting second tier hybrid capital (Series A, Series B and Series C)

As noted above, in 2012 Migdal Insurance Capital Raising completed two private placements to classified investors, Series A bonds and Series B bonds which were listed on the TACT institutional system.

Furthermore, in June 2015 Migdal Insurance Capital Raising completed an issue of 1,191,594,000 bonds (Series C) of NIS 1 par value, of which 1,100,594,000 bonds (Series C) of NIS 1 par value in a public offering on June 14, 2015 and 91,000,000 bonds (Series C) of NIS 1 par value in a private placement via a Series expansion on June 28, 2015. Bonds (Series C) issued in a private placement are subject to restrictions on resale. The Series C bonds were listed on the Tel Aviv Stock Exchange.

The issue proceeds from bonds (Series A, Series B and Series C) were deposited in Migdal Insurance and pursuant to approvals by the Commissioner were recognized as second tier hybrid capital in Migdal Insurance. Migdal Insurance undertook to bear all the amounts required to settle the Series A, Series B and Series C bonds. This commitment of Migdal Insurance is subordinated until after the payment of Migdal Insurance's remaining liabilities to its creditors and it has preference over liabilities towards its creditors in respect of components and instruments included in the first tier capital of Migdal Insurance.

The terms of the bonds (Series A, Series B and Series C) provide that in case of the existence of suspending circumstances (as detailed 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 interest, whichever the earlier, unless the Commissioner approved the payment of the principal and/or the interest at an earlier date.

"Suspending circumstances" with respect to bonds (Series A, Series B and Series C) which constitute second tier hybrid capital refer to the existence of one or more of the following circumstances:

With respect to the deferral of the payment of interest -according to the latest financial statements of Migdal Insurance that were published prior to the repayment date of the interest, Migdal Insurance does not have distributable profits as defined in the Companies Law, 1999 ("the Companies Law").

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.1 Bonds constituting second tier hybrid capital (Series A, Series B and Series C) (Cont.)

With respect to the deferral of the principal and/or interest payments:

a) According to the Migdal Insurance's latest financial statements that were published prior to the relevant date of settlement of the principal and/or interest, 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.

b) Migdal Insurance's Board of Directors instructed to defer the payment of the principal or the interest, 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 Commissioner of Insurance.

c) The Commissioner instructed to defer the payment of the principal or interest if he/she 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).

The terms of bonds (Series A, Series B and Series C) provide that as long as all the payments of principal and/or interest whose repayment date is deferred have not yet been settled, Migdal Insurance will not perform any distributions, as defined in the Companies Law, will not repay any capital note, liability certificate, or loan from its controlling shareholders or from those in whom the controlling shareholders have a personal interest, 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 deferred payments of the principal or interest have been settled. These restrictions will not apply to the types of payments as detailed in the Commissioner's circular in relation to "the composition of the insurer's recognized shareholders' equity."

Migdal Capital Raising will be entitled to redeem the bonds (Series A, Series B and Series C) at an early redemption fully or partially, on condition that the first early redemption date will be as detailed in the table above. 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 (Series A, Series B and Series C) will bear at that time, for the balance of the period (from the early repayment date that was not exercised as stated and up to the actual settlement date), 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) with the Insurance Commissioner's prior approval and at terms as determined by him.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.1 Bonds constituting second tier hybrid capital (Series A, Series B and Series C) (Cont.)

c) (Cont.)

It was determined that the bonds (Series A, Series B and Series C) may be declared immediately due and payable under certain circumstances, such as a delay in the repayment of any amount of money regarding the bonds (Series A, Series B and Series C), beyond the determined period, the liquidation of Migdal Capital Raising, the appointment of a liquidator or an official receiver to Migdal Capital Raising, etc. The deferral of the payments of principal and/or interest in relation to the bonds (Series A, Series B and Series C), due to suspending circumstances as mentioned, does not grant the right to declare the bonds immediately due and payable. The trustee will not be permitted to declare the unpaid bonds immediately due and payable, without the prior written approval of the Commissioner.

e.2 Bonds constituting third tier hybrid capital (Series D)

On December 10, 2015, Migdal Capital Raising completed a public offering of 7,111,215,000 bonds (Series D). The Series D bonds were listed on the Tel Aviv Stock Exchange. The issue proceeds of the bonds (Series D) were deposited in Migdal Insurance and pursuant to the Commissioner's approval were recognized as third tier hybrid capital in Migdal Insurance. Migdal Insurance undertook to bear all the amounts required to settle the Series D bonds. This commitment of Migdal Insurance is subordinate to Migdal Insurance's other obligations to its creditors, it is pari passu with Migdal Insurance's obligations with respect to creditors' rights under components and instruments constituting third tier hybrid capital of Migdal Insurance, and it takes precedence over obligations to its creditors under components and instruments included in the first tier capital and in the second tier hybrid capital of Migdal Insurance.

The terms of the bonds (Series D) provide that in case of the existence of suspending circumstances (as detailed below), the payment of the principal 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, whichever the earlier, unless the Commissioner approved the payment of principal at an earlier date.

"Suspending circumstances" with respect to bonds (Series D) which constitute third tier hybrid capital refer to the existence of one or more of the following circumstances:

a) According to the Migdal Insurance's latest financial statements published prior to the relevant date of payment of the principal, the amount of the recognized equity of Migdal Insurance is lower than the minimum equity required of it (pursuant to the Capital Regulations), and Migdal Insurance did not perform an equity supplementation as at the date of publication of the financial statements.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.2 Bonds constituting third tier hybrid capital (Series D) (Cont.)

b) The Commissioner has instructed to defer the payment of the principal, where he considers that there is an immediate actual concern regarding Migdal Insurance's ability to comply with the minimum equity required of it (pursuant to the Capital Regulations).

The terms of bonds (Series D) provide that as long as a principal payment whose payment date has been deferred has not been settled, Migdal Insurance will be subject to restrictions, inter alia, on the performance of distributions. For details see the discussion in section 24e1 above regarding the terms of bonds constituting second tier hybrid capital.

Migdal Insurance Capital Raising will be entitled to redeem the bonds (Series D) early, wholly or partly, on condition that the first early redemption date will be March 31, 2023. In the event that this early redemption right is not exercised, additional interest will be paid beyond the interest borne by the bonds (Series D) at that time, for the balance of the period (from the early repayment date that was not exercised as stated and up to the actual settlement date), at the rate of 30% of the initial risk margin determined for the issue. Early redemption will be possible in one of the following cases: a) the issue of a capital instrument (within the meaning of the Capital Composition Circular) of the same or higher quality, or; b) with the Insurance Commissioner's prior approval and at terms as determined by him.

It was determined that the bonds (Series D) may be declared immediately due and payable under certain circumstances, such as a delay beyond a specified period in the payment of any amount in connection with said bonds, the liquidation of Migdal Insurance Capital Raising, the appointment of a liquidator or a receiver to Migdal Insurance Capital Raising, etc. The deferral of principal payments on bonds (Series D) due to suspending circumstances as mentioned, does not establish the right to declare the bonds (Series D) immediately due and payable. The trustee may not declare unpaid bonds (Series D) immediately due and payable without the prior written approval of the Commissioner.

e.3 Deferred issue expenses on bonds (Series A) and bonds (Series B) totaling NIS 3.3 million, deferred issue expenses on bonds (Series C) totaling NIS 5 million and deferred issue expenses on bonds (Series D) totaling NIS 2.9 million were paid to a related party of the Company.

e.4 The trustee for bonds (Series A, Series B, Series C and Series D) is Reznik Paz Nevo Trusts Ltd.

e.5 Rating of Migdal Insurance:

As of December 31, 2015, Migdal Insurance's is rated Aaa for financial stability (IFSR) by Midroog Ltd. (December 31, 2014 - same).

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

Following are details of the rating of the bonds:

Series	Rating company	Rating awarded as of the Series issue date	Ratings between the Series issue date and the reporting date		Rating held as of the reporting date (awarded on November 15, 2015)
			Date	Rating	
Bonds (Series A)	Midroog Ltd.	Aa2 (awarded on 18.12.11)	29.11.12 27.11.13 13.1.15 28.5.15	Aa2	Aa2
Bonds (Series B)	Midroog Ltd.	Aa2 (awarded on 29.11.12)	27.11.13 13.1.15 28.5.15	Aa2	Aa2
Bonds (Series C)	Midroog Ltd.	Aa2 (awarded on 28.5.15)	--	--	Aa2
Bonds (Series D)	Midroog Ltd.	Aa1 (awarded on 15.11.15)	--	--	Aa1

e.6 To the best of Migdal Insurance's knowledge, as of December 31, 2015 and as of the reporting date, Migdal Capital Raising was in compliance with all the conditions and obligations under the trust deeds for bonds (Series A, Series B, Series C and Series D), no grounds existed for declaring the bonds immediately due and payable, and the Company had not received any notice from the trustee for the bonds regarding its failure to comply with the conditions and obligations under the trust deeds.

e.7 Migdal Insurance committed to Migdal Capital Raising to bear all its expenses, including current operating expenses as well as reimbursement of directors' indemnification expenses, if and to the extent there should be any such.

NOTE 25:- PREMIUM EARNED ON RETENTION

	Year ended December 31, 2015		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,664,017	149,693	7,514,324
Premiums in health insurance	1,025,712	69,570	956,142
Premiums in general insurance	2,050,197	410,763	1,639,434
Total premiums	10,739,926	630,026	10,109,900
Less - change in the unearned premium balance *)	(51,112)	(6,870)	(44,242)
Total premiums earned	10,688,814	623,156	10,065,658

	Year ended December 31, 2014		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,605,945	190,767	7,415,178
Premiums in health insurance	880,897	64,175	816,722
Premiums in general insurance	1,968,911	406,467	1,562,444
Total premiums	10,455,753	661,409	9,794,344
Less - change in the unearned premium balance *)	(30,182)	26,264	(56,446)
Total premiums earned	10,425,571	687,673	9,737,898

	Year ended December 31, 2013		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,545,011	173,721	7,371,290
Premiums in health insurance	770,164	65,352	704,812
Premiums in general insurance	2,021,532	512,912	1,508,620
Total premiums	10,336,707	751,985	9,584,722
Less - change in the unearned premium balance *)	(264,133)	(34,648)	(229,485)
Total premiums earned	10,072,574	717,337	9,355,237

*) Mainly in general insurance, see Note 17.

NOTE 26:- INVESTMENT INCOME (LOSS), NET AND FINANCE INCOME

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Profits (losses) from assets held against yield dependent liabilities			
Investment property	445,655	368,615	365,449
Financial investments:			
Quoted debt assets	356,951	1,100,785	960,483
Unquoted debt assets	274,544	292,882	622,167
Shares	625,616	1,185,279	1,802,668
Other financial investments	132,013	946,229	3,707,565
Cash and cash equivalents	(12,712)	54,312	(74,709)
Total profits from assets held against yield dependent liabilities, net	1,822,067	3,948,102	7,383,623
Profits (losses) from assets held against non-yield dependent liabilities, capital and others			
Income from investment property:			
Revaluation of investment property	48,898	13,799	4,900
Current income in respect of investment property	35,304	37,230	32,977
Total income from investment property	84,202	51,029	37,877
Profits (losses) from financial investments, except for interest and linkage differences rate differences and dividend in respect of:			
Available for sale assets (a)	407,198	345,820	121,943
Assets reported at fair value through profit and loss (b)	20,718	(164,822)	46,925
Assets reported as loans and debtors (c)	(9,249)	6,095	(4,927)
Interest income *) and linkage differences from financial assets not at fair value through profit and loss	1,067,431	1,231,638	1,714,524
Interest income and linkage differences from financial assets at fair value through profit and loss	6	2,215	654
Profit (losses) from exchange rate differences in respect of investments not measured at fair value through profit and loss and other assets **)	(12,668)	53,427	(23,922)
Income from dividend	105,628	140,778	108,730
Total profits from net investments and finance income	3,485,333	5,614,282	9,385,427
*) The above income includes interest in respect of financial assets not reported at fair value through profit and losses whose value was impaired	7,579	4,865	6,184

**) Regarding exchange rate differences in respect of financial liabilities see Note 35 below.

NOTE 26:- INVESTMENT INCOME (LOSS), NET AND FINANCE INCOME (Cont.)

a. Net gains (losses) from investments in respect of available for sale assets:

	Year ended December 31,		
	2015	**2014**	**2013**
	NIS in thousands		
Net gains from realized securities	544,996	448,933	209,219
Net impairment recognized in profit and loss	(137,798)	(103,113)	(87,276)
Total gains from investments in respect of available for sale assets	407,198	345,820	121,943

b. Gains (losses) from investments in respect of assets presented at fair value through profit and loss:

	Year ended December 31,		
	2015	**2014**	**2013**
	NIS in thousands		
Net changes in fair value, including realization profit:			
In respect of assets designated upon initial recognition	(2)	(2)	1
In respect of assets held for trade	20,720	(164,820)	46,924
Total gains(losses) from investments in respect of assets reported at fair value through profit and loss	20,718	(164,822)	46,925

c. Gains (losses) from investments in respect of assets presented as loans and receivables:

	Year ended December 31,		
	2015	**2014**	**2013**
	NIS in thousands		
Net gains (losses) from the realization of assets reported as loans and receivables	(1,522)	9,325	(746)
Net increase (decrease) in value recognized in profit and loss	(7,727)	(3,230)	(4,181)
Total gains (losses) from investments in respect of assets reported as loans and receivables	(9,249)	6,095	(4,927)

NOTE 27:- INCOME FROM MANAGEMENT FEES

Composition:

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Management fees in the pension and provident branches	480,148	478,700	441,058
Variable management fees in respect of life assurance contracts	231,800	383,954	636,600
Fixed management fees in respect of life assurance contracts	611,735	552,377	473,578
Management fees in respect of investment contracts	14,360	9,750	4,896
Total income from management fees from members and policyholders	1,338,043	1,424,781	1,556,132
Other management fees	141,531	144,287	140,666
Total income from management fees	1,479,574	1,569,068	1,696,798

NOTE 28:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Insurance agencies' commissions	158,948	172,256	177,684
Reinsurance commissions, net of change in deferred acquisition costs in respect of reinsurance	128,086	152,740	145,349
Other commissions	55,562	43,533	37,077
Total income from commissions	342,596	368,529	360,110

NOTE 29:- OTHER INCOME

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Income from other non-insurance activities	38,766	42,956	35,446
Other capital gains	2,966	-	-
Total other income	41,732	42,956	35,446

NOTE 30:- PAYMENTS AND CHANGE IN LIABILITIES IN RESPECT OF INSURANCE CONTRACTS AND INVESTMENT CONTRACTS ON RETENTION

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
In respect of life assurance contracts:			
Death, disability and others	971,010	931,711	953,753
Less reinsurance	69,357	76,021	(*116,463
	901,653	855,690	837,290
Surrenders	1,711,032	1,807,424	1,755,741
Maturities	1,233,452	1,122,964	848,464
Annuities	460,426	371,438	287,100
Total claims	4,306,563	4,157,516	3,728,595
Increase in liabilities in respect of life assurance contracts (except for change in outstanding) on retention	5,962,480	8,164,917	11,870,776
Increase in liabilities in respect of investment contracts for yield component	20,733	35,584	46,573
Total payments and change in liabilities in respect of insurance contracts and investments contracts on retention, in respect of life assurance contracts	10,289,776	12,358,017	15,645,944
Total payments and change in liabilities in respect of general insurance contracts:			
Gross	1,453,183	1,443,244	1,171,044
Reinsurance	216,487	250,302	172,294
On retention	1,236,696	1,192,942	998,750
Total payments and change in liabilities in respect of health insurance contracts:			
Gross	752,585	615,375	638,091
Reinsurance	64,625	54,149	40,365
On retention	687,960	561,226	597,726
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention	12,214,432	14,112,185	17,242,420

*) Includes gain in the amount of about NIS 52 million from a transaction of purchase of an old reinsurance portfolio in occupational disability from Generali and its sale to Swiss Re. See Note 38g(3) below.

NOTE 31:- COMMISSIONS, MARKETING EXPENSES AND OTHER ACQUISTION EXPENSES

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Acquisition expenses:			
Acquisition commissions	532,571	499,764	509,636
Other acquisition expenses	526,127	459,160	481,879
Change in deferred acquisition costs	(64,106)	(33,107)	(111,537)
Total acquisition expenses	994,592	925,817	879,978
Other current commissions	567,164	564,662	552,215
Other marketing expenses	23,511	32,576	48,646
Total commission, marketing expenses and other acquisition expenses	1,585,267	1,523,055	1,480,839

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Salaries and related expenses	1,016,383	966,828	1,074,238
Depreciation and amortization	201,618	205,232	210,080
Maintenance of office premises and communications	144,409	152,568	149,463
Marketing and advertising	84,026	82,856	75,461
Professional and legal counseling	72,138	59,992	45,835
Others	202,112	195,922	206,958
Total *)	(***1,720,686	1,663,398	(** 1,762,035
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contract item	(127,527)	(103,097)	(115,213)
Amounts classified in commissions, marketing expenses and other acquisition expenses	(554,716)	(519,132)	(552,503)
General and administrative expenses	1,038,443	1,041,169	1,094,319
*) General and administrative include expenses in respect of IT	334,437	345,263	366,832

**) In 2013, includes expenses of about NIS 97 million in respect of a special grant given primarily to Group employees (see in this context an Immediate Report of the Company from November 25, 2013, reference no.: 2013-01-202638).

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES (Cont.)

***) On February 17, 2015, following the approval of the competent organs, a collective agreement was signed between Migdal Insurance and Migdal Makefet, of the one part, and the New Histadrut (General Federation of Labor), of the other part, on behalf of some of the employees, effective as of January 1, 2015 and up to December 31, 2017 ("the collective agreement"). The collective agreement applies to employees of Migdal Insurance and Migdal Makefet who are employed by them at the time of the signing of the agreement as well as employees who will be hired starting from the date of the signing of the agreement. It does not apply to employees at the level of CEO, deputy CEO or vice president or to employees in positions specified and described in the agreement, and it also does not apply to any company in the Migdal Holdings Group other than Migdal Insurance or Migdal Makefet. Following are the main points of the collective agreement:

1. The collective agreement regulates the hiring of employees, the trial period and the grant of tenure and includes other provisions relating to the staffing of positions and transfer of employees. It also regulates the grant of direct employment status to employees in certain areas who currently are employed through contractors and outsourcing, within the period specified in the collective agreement (daytime cleaners, daytime information desk personnel, certain maintenance workers, long-term savings operations scanning. The collective agreement likewise includes arrangements for limiting outsourcing in the Technology Division and the execution of certain projects through other employment formats (contractors/outsourcing).

2. The collective agreement contains provisions on the following additional matters: regulation of the working week and the working hours, including arrangements with respect to overtime and global overtime, sick days and other absences, etc., work routines, procedures and rules of conduct including disciplinary committee, dismissal, resignation and prior notice.

3. The agreement also contains provisions regarding cooperation with the employees' committee, the conditions that will be granted to members serving on the committee in addition to their work, and membership and handling fees that will be debited in the employees' salaries. In addition, an annual amount of NIS 400,000 was set for participation in the employees' committee's budget for the years 2015-2017.

4. The minimum salary starting from January 1, 2015 will be NIS 5,300 on a gross basis per month.

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES (Cont.)

5. In each of the years 2015-2017, a salary increment will be paid to the permanent employees to whom the agreement applies and who are employed on the date of the payment, at a cumulative rate of 10.5% for the entire period of the collective agreement (an employee who has completed 18 months of employment on the date of payment of the salary increment will also be entitled to be included in this framework). The manner of distribution of the increment during the years of the agreement will be agreed upon between the parties, and if they fail to reach agreement, the salary increment will be paid out evenly – i.e. 3.5% in each of said years.

6. Annual bonus – will be in accordance with and subject to the remuneration policy and the approval of the board of directors, as a function of the meeting of targets according to the remuneration policy, and insofar as it is decided to grant bonuses to the officers. Subject to the foregoing, and insofar as it is decided to grant bonuses, the bonus budget for employees with a 100% entitlement will be one salary for an employee and two salaries for a manager, and in any other case (provided it is no less than 80%) – pro rata to the above but not more than 140%. The 100% budget is NIS 30 million.

7. The employer's contributions to pension saving benefits will be increased to 6% (the employee's share will be 5.5%).

8. The arrangement under section 14 of the Severance Pay Law, 1963 will be cancelled for employees to whom the collective agreement applies, both retrospectively and prospectively, and the current payments the amounts earned on them will be on account and not instead of severance pay (this arrangement will not apply to employees in the position of sales representatives, as long as they are employed in that position).

   An employee who is dismissed, retires or resigns will be entitled to release the severance pay accumulated to his credit in the provident fund and/or in the insurance fund, in addition to the supplementation of the severance pay due to him by law, unless he has been denied the right to several pay in accordance with the law, and with respect to resignation – subject to giving prior notice according to law and the orderly handing over of his duties.

9. For each employee contributions will be made to a study fund up to the limit of contributions permitted for tax purposes, at a rate of 7.5% on the employer's account and 2.5% on the employee's account. For an employee undergoing a trial period the contribution rates were set at 2.5% on the employer's account and 2.5% on the employee's account.

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES (Cont.)

10. The collective agreement includes arrangements relating to working and welfare conditions, such as a gift for family events, funding of lunch, medical examinations (survey), discounts on products and services offered by Migdal, convalescence pay at 150% of the rate prescribed in the extension order, vacation days, reimbursement of on-the-job personal and travel expenses, loans to employees, etc., as well as arrangements relating to welfare activities organized for the benefit of the employees.

11. The collective agreement includes an arrangement with respect to entitlement to jubilee bonuses for employees who have completed 20, 30 and 40 years of employment.

12. The collective agreement also includes provisions pertaining to the efficiency measures planned during the period of the agreement, in the framework of which the number of employees will be reduced by 240 in the different units, based on a consultation process provided for in the agreement.

13. Shortly after the signing of the agreement, a one-time bonus was paid to employees to whom the agreement applies and whose employment began up to December 31, 2013, in an amount of NIS 2,000 per employee.

14. The parties agreed to repeal the decision of January 20, 2014 pursuant to the Contempt of Court Ordinance. Furthermore, it was agreed to strike all the legal proceedings in the Labor Court that were pending between the parties, without an order for costs. The National Labor Court approved the application and repealed the decision pursuant to the Contempt of Court Ordinance, without an order for costs.

The implementation of the provisions of the collective agreement increased the Group's expenses in 2015 by NIS 60 million (of which NIS 22 million in respect of one-time components).

NOTE 33:- SHARE-BASED PAYMENT

a. Expenses 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,		
	2015	2014	2013
	NIS in thousands		
In respect of grants settled in cash	370	(225)	658
In respect of capital grants	118	128	403
	488	(97)	1,061

Share-based payment transactions granted by the Company to its employees are described below. During 2012 through 2015 no changes or cancellations were made in the said employee benefit plans.

b. Additional information regarding share-based payment plans:

	2010 plan (2)	2009 plan (1)
Number of options issued to the former Chairman	679,997	650,000
Number of options issued to the former CEO	1,131,684	1,000,000
Number of options issued to the other employees included in the plan	13,552,606	9,698,875
Total options issued	15,364,287	11,348,875
Balance of unrealized options as at the balance sheet date	875,258	-
Conversion ratio	1	1
Adjusted realization price as at December 31, 2015 (3)	0.01	-
Date of grant to former Chairman of the Board of Directors and former CEO	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 *)	-	31/12/2014
Fair value (NIS in millions) as at the date of grant **)		
To the Chairman of the former Board of Directors and the former CEO	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 warrants is 3 years, except for options whose vesting depends on the Company's results as compared with 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 exercise period beyond the vesting period.

**) All the options that were granted in the aforementioned plans were deposited with a trustee in a capital track pursuant to Section 102 to the Income Tax Ordinance.

NOTE 33:- SHARE-BASED PAYMENT (Cont.)

b. Additional information regarding share-based payment plans: (Cont.)

(1) The 2009 plan:

On August 17, 2009, the Company's Board approved a share-based payment plan for officers and managers in the Group.

The plan includes the allocation of 12,000,000 options that are not listed for trade on the TASE granting the participant who holds them the right to receive, by allocation, up to 12,000,000 Ordinary shares of NIS 0.01 par value each.

The vesting period of the 2009 Plan ended on December 31, 2011 and the exercise period ended on December 31, 2014.

(2) The 2010 plan:

On August 24, 2010, the Company's Board approved a long-term remuneration plan, in respect of the Group's officers and managers. The plan includes cash grants and a private placement of up to 16,445,413 eligibility deeds ("the eligibility deeds" and/or "options"), which are not listed for trade on the TASE and which grant the participants who hold them the right to receive by allocation up to 16,445,413 Ordinary shares of NIS 0.01 par value each of the Company. The shares are allocated in two stages when the conditions for their allocation are met, as detailed below, and in return for the payment of their par value. The Company has actually allocated 15,364,287 eligibility deeds.

On October 21, 2010, the Company's general meeting approved the allocation of the eligibility deeds to the Company's Chairman of the Board.

The long-term remuneration plan for 2010 is for a period of 6 years and includes two consecutive stages of three years each ("stage I" and "stage II"). The share price 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 ended on December 31, 2012, each participant was entitled to a grant which is determined as a number of monthly salaries ("the target grant"), which is paid to them upon compliance with the targets as detailed below ("stage I grant"). The amount of the stage I grant was calculated and determined in accordance with 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 was paid in shares and the profitability element was paid partly in shares and partly in cash, as chosen by the participant. At the end of stage 1 and at the employees' choice, eligibility deeds were converted to 1,912,474 shares of NIS 0.01 par value each which were placed with a trustee until the end of stage 11. The number of shares that were issued was 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 information regarding share-based payment plans: (Cont.)

(2) The 2010 plan: (Cont.)

At the end of stage II, which ended on December 31, 2015,any participant who was allocated shares in respect of the profitability element at the end of stage I will be entitled to additional shares of the Company (stage II shares), without any additional payment (except for an insignificant payment of their par 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 Group's rating will become known in the course of 2016.

(3) In the 2010 plan, the exercise price for each option is the par value 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 exercise his shares in the acquired company subject to continuing to provide the subsidiary management services for a period of 60 months. The exercise price of the option is a multiplier of 5 on the company's average annual net income for the two years preceding the exercise of the option. This option is accounted for as a cash-settled share-based payment. The liability in respect of the said option is immaterial.

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:

	2015		2014		2013	
	Number of options	Weighted average realization price	Number of options	Weighted average realization price	Number of options	Weighted average realization price
Share options:						
As at beginning of year	1,106,550	0.01	6,886,057	4.30	21,496,407	2.31
Forfeited during the year	(231,292)	0.01	(3,962,757)	4.70	(9,515,001)	0.14
Realized during the year *)	-	-	(1,816,750)	5.41	(5,095,349)	5.57
As at the end of the year	875,258	0.01	1,106,550	0.01	6,886,057	4.30
Realizable as at the end of the year	-	-	-	-	5,333,625	5.55

*) The weighted average share price in respect of the options exercised in 2014 was NIS 5.52, and in 2013 - NIS 6.06.

d. As at December 31, 2015, the contractual life of the option plans has ended.

NOTE 33:- SHARE-BASED PAYMENT (Cont.)

e. The range of exercise prices of options under the 2009 plan that ended, as mentioned, on December 31, 2014, that were exercisable in 2014, is NIS 5.34-5.55 per option (in 2013 – NIS 5.55-5.65 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. The measurement is made on the date of grant of the options to the Company's employees.

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.

	2010 plan (2)	2009 plan (1)
Dividend yield in respect of the share (%)	3.69	1.33
Expected volatility of share prices (%) *)	-	33.78
Historical volatility of share prices (%)	-	33.78
Risk-free interest rate (%)	2.99	1.49
Exercise 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 price reflects the assumption that the historical volatility of the share price 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 b(2) above.

NOTE 34:- OTHER EXPENSES

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Amortization of intangible assets (except for computer software) *)	33,876	39,332	30,946
Impairment	38,927	24,478	3,181
Expenses from other non-insurance activities	28,993	12,561	16,224
Capital loss from sale of fixed assets	5	257	321
Total other expenses	101,801	76,628	50,672

*) For additional details see Note 4a above.

NOTE 35:- FINANCE EXPENSES

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Interest expenses and linkage differences in respect of:			
Liabilities to banks and affiliate *)	219	2,564	6,118
Finance expenses in respect of bonds	44,064	25,621	41,994
Interest expenses to reinsurers	521	652	755
Exchange rate differences, net in respect of liabilities **)	880	10,127	(4,970)
Commissions and other finance expenses	12,047	12,515	8,426
Total finance expenses	57,731	51,479	52,323

*) For details regarding a loan from an affiliate see Note 38h(3) below.

**) For exchange rate difference in respect of financial investments see Note 26 above.

NOTE 36:- EARNINGS PER SHARE

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Basic and diluted earnings per NIS 1 share attributed to the Company's shareholders (in NIS)	0.33	0.40	0.59

a. Basic earnings per share:

The calculation of the basic earnings per share for 2015 was based on the net income attributable to holders of ordinary shares in the amount of NIS 351,869 thousand (2014 - net income of NIS 422,031 thousand, 2013 - net income of NIS 617,770 thousand), divided by the weighted average number of Ordinary shares outstanding as detailed below:

NOTE 36:- EARNING PER SHARE (Cont.)

a. Basic earnings per share: (Cont.)

Weighted average number of Ordinary shares

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Balance at January 1	1,053,908	1,053,811	1,051,666
Effect of options exercised into shares	-	61	1,387
Weighted average number of ordinary shares used for calculation of basic earnings per share at December 31	1,053,908	1,053,872	1,053,053

b. Diluted earnings per share:

The calculation of the diluted earnings per share for 2015 was based on the net income attributable to holders of ordinary shares in the amount of NIS 351,869 thousand (2014 - net income of NIS 422,031 thousand, 2013 - net income of NIS 617,770 thousand),divided by the weighted average number of Ordinary shares outstanding during the period, after adjustment in respect of all the potentially dilutive Ordinary shares as detailed below:

Weighted average of the number of Ordinary shares (diluted)

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Weighted average number of ordinary shares used for calculation of basic earnings per share	1,053,908	1,053,872	1,053,053
Effect of dilutive potential ordinary shares	477	809	1,688
Weighted average number of ordinary shares used for calculation of diluted earnings per share at December 31	1,054,385	1,054,681	1,054,741

The average market value of the Company's shares, for calculation of the dilutive effect of warrants, was based on the quoted market prices for the period in which the warrants were outstanding.

See Note 33 regarding expired options in each of these years.

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 and investment marketing services, as well as investment banking.

The Company's activities expose it to the following risks:

- Market risks;
- Liquidity risks;
- Insurance risks;
- Credit risks;
- Operating risks, including data security and cyber risks.

These risks are accompanied by general risks such as: regulation and compliance risks, legal risks, goodwill risks, business risks (such as: increase in competition, change in public tastes) etc. See more details in b(5) below.

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 on time.

Insurance risks
Life assurance and health insurance risks result from uncertainty in the anticipated future claims payment with respect to the assumptions relating to mortality/longevity rates, annuity realization rates, morbidity/disability rates, expenses, cancellations or surrenders.
Actuarial risks in pension funds are borne by the members when their effect on the managing company pertains to management fees.
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 borrowers' rating and credit spreads on the capital market.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

1. The principal risks: (Cont.)

Operating risks – the risk of a loss that is the result of the realization of various operating risks due to the inappropriateness or failures in internal processes, human errors, system failures or external events. A significant portion of the Group's activities are dependent on various IT systems. The absence of appropriate IT, data security and cyber infrastructures and/or IT system deficiencies or failures may expose the Group to the risk of noncompliance with regulatory requirements and failures of various operating processes.

For additional information on the risks, see b. below.

The Board of Migdal Insurance defines the exposure policy of the insurer and the profit participating portfolio to the various risks, including determining risk exposure thresholds to the extent possible and addressing a comprehensive risk exposure level based on the adjustment of the various risks approving.

This note provides information as to the Group's exposure to each of the above risks, a description of the risk exposure policy, work processes, identification of risks and the controls in the Group. Additional quantitative disclosure is included though out the financial statements.

2. Legal requirements:

In the insurance and long-term savings activity

The regulatory provisions regulate and determine, among others, the arrangements in relation to risks to which the companies are exposed, by providing regulatory requirements such as the following:

In the framework of the Control 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

2. Legal requirements: (Cont.)

In the insurance and long-term savings activity (Cont.)

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 7c above.

Risk management

- In January 2014, the Commissioner of the Insurance issued Chapter 10 in a complied circular regarding the risk management function in an institutional entity. The circular consists of general guidelines that specify the adequacy criteria for risk management officers and require setting up a risk management unit that is distinct from the business lines whose current operations is examines. In addition, the circular specifies the risk management officer's authorities in obtaining information and access to the data needed for performing the risk management unit's functions and the relevant resources. The circular also elaborates on the roles and methodologies of the risk management officer that consist, among others, of identifying the material risks, quantifying and assessing the identified material risks and reporting them to the relevant entities.

- Adoption of Solvency II ("the Directive")

  See Note 7c(6) above.

  Operating risks – in addition to the above arrangements, the Commissioner published directives regarding the management of specific exposures of which the main ones are: embezzlement and fraud ("the Embezzlement Circular") and data protection risks management ("data protection") and of IT risk management.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

2. Legal requirements: (Cont.)

Risk management (Cont.)

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 Commissioner 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 activity

Migdal Capital Markets and its subsidiaries operate in accordance with the directives of various regulators including the ISA and the TASE which have set guideline rules and limitations on the activities of and among Group companies.

3. Description of procedures and methods of risk management:

a) The risk management array includes:

In the insurance and long-term savings activity

- A risk management forum headed by the insurance company's CEO in which managers from various divisions, the actuaries of the various insurance fields and the risk manager participate.

- The risk management unit is responsible for the coordination 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, the ALM forum, etc.), application of risk evaluation 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.

The Company has appointed a risk manager for the insurance company and institutional bodies managed by it.

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 financial services activity

The person responsible for managing risks in Migdal Capital Markets entities is the CEO of each entity. In addition, the compliance and enforcement department oversees the implementation and enforcement of the relevant regulatory requirements, and the risk management and control department monitors violations of regulatory requirements and internal management instructions. These departments are not dependent on the CEOs of the subsidiaries and they operate independently using advanced software tools and methods on the dissemination of risk management methodologies, preparation of exposure presentations and the updating and distribution of policies under a planned methodology.

With respect to some of the activities policy documents have been defined in accordance, inter alia, with the risk appetite and management method.

These departments report to the Boards of Directors of Migdal Capital Markets and its subsidiaries on its findings including with regard to incompliance with Company policy and procedures.

b) The Group's risk management policy, methodologies and manner of identifying risks and risk management control in the insurance and long-term savings activity:

The Group's risk management policy is designed to support the Company's achievement of business objectives and maintaining financial strength while estimating losses that can result from exposure to risks facing the Company 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.

Risk management in the Migdal Group is based on three lines of defense: business line managers, risk management and internal controls.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

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 departments. The development of exposure to insurance risks in the various insurance branches is regularly reviewed in these forums and accordingly, also as in developments in other areas, management takes decisions in these areas of activity.

- The control array, which is spread out in the various fields of activity in the Group, is directly managed or professionally guided by the control manager. The control array reviews the established infrastructures in order to manage the various risks involving work processes and legal provisions based on the annual control plan.

- The risks management unit. See paragraph a(3)(a) above.

- The internal auditor incorporates in her work plans issues that were defined in the risk survey as issues that require special attention.

New products

The process of entering into a new insurance plan or new area of activity in the Group is executed according to a procedure for launching a new product that complies with, inter alia, regulatory instructions on this matter. The risks affiliated 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.

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.)

b) (Cont.)

Market and liquidity risks

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' funds: the profit participating policies, pension funds and provident funds (in which the risk is borne by the members), and that of the Nostro assets portfolios: the insurance businesses and Migdal Holdings ("the Investment Committees").

These bodies receive reports regarding exposure of the Group's various investment portfolios to changes in the money and capital markets which include, as mentioned, 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 vehicles as a framework for investments made by the Group's investment division, subject to the Ways of Investment Regulations.

The Company deals with market risks, inter alia, by diversification of investment channels, issuers, branches and geographical regions. In addition, exposure limitations are set for investment channels and with respect to risk appetite and incorporated in financial scenarios.

For information regarding the exposure to the linkage bases of the managed portfolios see paragraph c and d hereunder.

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 portfolios. The exposure limits to risk factors of the assets in the managed portfolios is determined in accordance with this data.

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 extreme scenarios. The exposure to interest 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 exposure to decline in interest rates and vice versa).

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Liquidity risk (Cont.)

Regarding portfolios in which the exposure to liquidity risks is relatively high (such as the further education and provident funds) the expected loss as a result of an extreme scenario of immediate realization of funds, is also calculated.

In addition, in respect of the managed portfolios (the asset portfolios of the members' funds: 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.

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.

Insurance risks

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 borne 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 confidence level 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 as 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Insurance risks (Cont.)

- The effect of the measures taken by the Company for dispersion, reduction or limitation of the insurance risks, by underwriting procedures and rules for receipt of business and through reinsurance arrangements, in order to reduce the aforementioned anticipated loss and the impact on the required capital against these risks as a result of the exposure to insurance risks.

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.

In life assurance, health insurance and pension funds - the exposure to loss arising from the risk components of the life assurance and health insurance businesses and the actuarial risks in pension funds such as mortality and morbidity, life expectancy, exceptionally major events such as earthquakes, wars or terrorist acts (catastrophes) and an increase in the cancellation and surrender rates is quantified through the effect of extreme scenarios on the value of the long-term savings portfolio, taking into consideration the correlations between the risk factors within a year's outlook.

Control is exercised over developments in exposures to insurance/actuarial risks such as death, life expectancy, occupational disability, portfolio preservation, expenses etc. and their effect on both the insurance reserves and the value of the long-term savings portfolio and on the profitability of products and the value of the Group's new sales.

In general insurance - the exposure to major deterioration in risk factors that are covered by policies and to a single large damage or accumulation of damages in respect of a catastrophe such as an earthquake and the effect of reinsurance arrangements on the Group's potential loss is quantified by examining scenarios of the central risk factors to which the Company is exposed within the determined degree of certainty. The Group carries out profitability tests for operating segments, reserve deficiencies and the exposure to earthquakes using international models.

A calculation is also made of the exposure to deterioration in future payments for outstanding claims in excess of the reserves existing for such claims.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Credit risks

Credit risks of 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, group of borrowers, exposure to credit rating categories, 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 b(4)(a)(2) below.

The exposure to credit risk in the various investment portfolios is estimated mainly on the basis of an examination of the expected losses to the Group from credit assets under various scenarios and 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 life of the asset.

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 b(4)(b)(1) below.

The details of borrowers of credit provided in the framework of the Group's various investment portfolios are 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.

The Company deals with credit risks of investments by diversifying investment channels, issuers, branches and geographical regions, as well as examining the financial stability and solvency of the entities in which it invests, prior to making an investment and during its life.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

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 b(1)(4) below.

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.

Starting from 2014, the rating is mainly determined by AMBest.

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 standing against the insurance reserves, the outstanding claims as well as to the exposure to earthquakes of reinsurers is examined regularly.

The collection from reinsurers is also regularly monitored.

The Company deals with credit risks of reinsurer through diversification of reinsurers as well as limitations with respect to a single insurer and credit rating limitations.

Operating risks

Main operating risks – managed by the department heads and supported by various units including the control units, organization and methods unit, compliance officer, SOX administrator, manager of information security, operating risk manager, fraud and embezzlement officer, IT governance manager and internal audit. 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Operating risks (Cont.)

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 within the framework of testing the effectiveness of controls, other risks such as operating risks were included alongside the accounting risks.

Quantification of the loss arising 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.

The Company deals with operating risks by conducting an operational risk survey, and it is in the process of reducing its high residual risks.

Data security and cyber risks - in recent years, there has been real escalation in cyber threats worldwide. Various cyber attacks have been launched against national infrastructures, government authorities and corporations in Israel and internationally.

The Group's business activity relies to a large extent on IT systems. The availability of those systems, the reliability of the data and the protection of data confidentiality are critical to the Group's proper business operations. The technological developments increase the risk level underlying the operations of the Group and its customers. The integration of new technologies in the Group's business core and end systems and among its customers increases the level of cyber attack risks.

As a leading financial organization, the Company represents a target for various cyber attacks. The IT systems and communication networks of the Company, its suppliers, agents and customers are frequently attacked and are likely to continue to be exposed to cyber attacks, viruses, malware, phishing and other attempts that are aimed at harming service and data and committing theft. The Company regularly makes the necessary preparations for dealing with cyber threats and invests a great deal of resources in this field. The Company has a work plan that is updated from time to time according to emerging threats. This plan includes measures for dealing with internal risks, such as information leakage, as well as external risks involving phishing, shutting down business operations, introduction of malware and other intrusions.

Prevention of fraud and embezzlement - as part of its risk management array, the Company has an officer in charge of preventing fraud and embezzlement who collaborates with other control systems and functions.

NOTE 37:- RISK MANAGEMENT (Cont.)

a. General: (Cont.)

3. Description of procedures and methods of risk management: (Cont.)

b) (Cont.)

Operating risks (Cont.)

Preparation for disaster - the Company has a plan of action in the event of a disaster which includes, inter alia, a backup site for information about policyholders and members. During 2013, the Company set up an additional backup site in Israel which facilitates RPO (Return Point Objective) and RTO (Return to Operations) within a predetermined time span. Parallel to this decision, the Company adopted additional emergency reference scenarios for which it will provide a response. Furthermore, during 2015, the Company performed a test of disaster recovery readiness which included transfers between sites.

As per the Commissioner's guidelines, a site in Jerusalem was converted into a data recovery disaster site which maintains an additional backup of information in the event that the two backup sites mentioned above shut down. Backup is performed on an ongoing basis in the mainframe room. The equipment was transferred to the new site and is in regular operation since April 2015.

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 the sensitivity analysis of these variables on the profit (loss) for the period and on comprehensive income (loss), see paragraph b(1)(a) below.

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 businesses the average duration of the assets does not match the average duration of the liabilities. This is true primarily in respect of life assurance liabilities (as well as long term health insurance and pensions) in which the average duration of liabilities is 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 a decrease in 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 held against the reserves.

Market risks (capital instruments/real assets) – risks deriving from a change in share prices or a change in the fair value of other assets.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

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, security 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 Nostro investments are likely to have a significant effect on the Group's profitability and shareholders' equity and also on the value of the life assurance portfolio. A decline in the value of securities held against profit participating policies, pension funds and provident funds also reduces the fixed management fees received from these portfolios. 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.

In light of the aforementioned, the sensitivity tests and maturity dates of the liabilities specified in the following paragraphs do not include yield dependent contracts, except for the aforementioned effect with respect to yield dependent policies.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

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, 2015 is about NIS 57 billion (previous year - about NIS 55 billion), will affect the management fees by an amount of about NIS 86 million (previous year - about NIS 82 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. Furthermore, a 1% decrease in the interest rate will result in an increase in the yield dependent reserves and to a decrease in the profit and the comprehensive income totaling NIS 900 million before tax and NIS 600 million after tax (previous year – NIS 600 million before tax and NIS 400 million after tax). For additional information, see Note 27 above.

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 of December 31, 2015, the designated bonds covered about 69% of all the insurance liabilities in life assurance in these programs (previous year – 70%).

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.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

a) Sensitivity tests relating to market risks: (Cont.)

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.

December 31, 2015

	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)	109,610	(513,684)	16,388	(15,886)	(32,467)	32,467	(72,871)	72,871
Comprehensive income (loss) (4)	(146,697)	(220,662)	241,086	(240,584)	(32,467)	32,467	120,450	(120,450)

December 31, 2014

	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)	56,454	(501,948)	2,241	(1,967)	(28,484)	28,484	(73,237)	73,237
Comprehensive income (loss) (4)	(189,829)	(207,510)	216,270	(215,996)	(28,484)	28,484	94,840	(94,840)

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

a) Sensitivity tests relating to market risks: (Cont.)

(1) 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.

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, financial liabilities measured after initial recognition at amortized cost, according to the effective interest method, and liabilities in respect of investment contracts. The assets underlying the sensitivity analysis in 2015 account for about 18% of total assets for non-yield dependent contracts.

(2) The sensitivity analysis does not include the effect on insurance liabilities in life insurance and health insurance (apart from liabilities in respect of supplementary annuity and LAT), in which the discount rate is usually derived from the nominal interest rate and does not necessarily change in line with changes in the market interest rate. The effect of a 1% decrease in the interest rate on profit and comprehensive income in respect of insurance liabilities, which is included in the sensitivity test, is estimated at a loss of NIS 506,644 thousand after tax (previous year – loss of NIS of 481,292 thousand after tax). The increase in interest relates to the elimination of the LAT provision and amounts to a profit of NIS 102,789 thousand after tax (previous year – NIS 37,081 thousand after tax). In general insurance, the Company began to discount its insurance liabilities in the third party and employer's liability lines, following the transition to best practice, as of December 31, 2015. A future decrease of 1% in the interest rate will result in growth in these liabilities and an after-tax reduction of NIS 29 million in profit and comprehensive income.

(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 expresses the effect on profit (loss) for the period.

(5) The change in foreign currency exchange rates includes the effect of non-monetary items and others whose value in the balance sheet amounts to about NIS 2.8 billion (previous year – NIS 2.7 billion).

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 affect other types of assets but not directly, such as the effect of the interest change on the share rates.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

b) Direct interest risk: (Cont.)

Hereunder are details of assets and liabilities according to exposure to interest risks:

	December 31, 2015		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	7,615,216	27,477,247	35,092,463
Unquoted debt assets:			
"Hetz" bonds	19,780,084	790,408	20,570,492
Other	2,257,116	7,605,019	9,862,135
Other financial investments	-	3,173	3,173
Cash and cash equivalents	2,202,744	7,801,126	10,003,870
Reinsurance assets	747,559	6,734	754,293
Total assets with direct interest risk	32,602,719	43,683,707	76,286,426
Assets without direct interest risk *)	10,095,487	39,959,987	50,055,474
Total assets	42,698,206	83,643,694	126,341,900
Liabilities with direct interest risk:			
Financial liabilities	2,773,321	777	2,774,098
Liabilities in respect of insurance contracts and investment contracts	32,326,206	83,312,486	115,638,692
Others	175,776	136,861	312,637
Total liabilities with direct interest risk	35,275,303	83,450,124	118,725,427
Liabilities without direct interest risk **)	2,105,122	282,797	2,387,919
Total liabilities	37,380,425	83,732,921	121,113,346
Total assets net of liabilities	5,317,781	(89,227)	5,228,554
Off balance sheet risk (liabilities to grant credit)	168,533	1,105,362	1,273,895

*) Assets without direct interest risk include: shares, fixed assets and rental property, deferred acquisition costs and other assets as well as balance sheet groups of financial assets (outstanding premiums, insurance companies' current balances and receivables) whose average duration is up to six months and which therefore present a relatively low interest risk.

**) Liabilities without direct interest risk include: tax reserves, various credit and debit balances, etc.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

b) Direct interest risk:

	Year ended December 31, 2014		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	6,140,242	23,462,098	29,602,340
Unquoted debt assets:			
"Hetz" bonds	19,481,929	785,956	20,267,885
Other	2,571,707	6,889,812	9,461,519
Other financial investments	-	-	-
Cash and cash equivalents	1,642,651	3,289,969	4,932,620
Reinsurance assets	1,009,324	4,383	1,013,707
Total assets with direct interest risk	30,845,853	34,432,218	65,278,071
Assets without direct interest risk *)	9,498,041	44,275,846	53,773,887
Total assets	40,343,894	78,708,064	119,051,958
Liabilities with direct interest risk:			
Financial liabilities	906,752	8,409	915,161
Liabilities in respect of insurance contracts and investment contracts	31,403,731	78,046,216	109,449,947
Others	129,901	119,099	249,000
Total liabilities with direct interest risk	32,440,384	78,173,724	110,614,108
Liabilities without direct interest risk **)	2,376,551	783,226	3,159,777
Total liabilities	34,816,935	78,956,950	113,773,885
Total assets net of liabilities	5,526,959	(248,886)	5,278,073
Off balance sheet risk (liabilities to grant credit)	111,622	859,766	971,388

*) Assets without direct interest risk – include shares, fixed assets and rental property, 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 credit balances, etc.

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 *):

	December 31, 2015					
	Listed in Tel-Aviv 100 Index	Listed in other index	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:						
Industry	200,651	62,858	-	200,799	464,308	39.4
Construction and real estate	73,676	12,309	2,574	19,120	107,679	9.1
Electricity and water	-	-	-	8,551	8,551	0.7
Commercial	1,011	9,574	-	9,135	19,720	1.7
Hotels and tourism	-	-	-	-	-	-
Transportation and storage	-	-	-	-	-	-
Communication and computer services	56,435	6,717	-	144,825	207,977	17.6
Banks	68,298	-	-	9,333	77,631	6.6
Financial services	9,960	-	51,796	30,768	92,524	7.8
Other business services	76,195	6,601	15,994	20,625	119,415	10.1
Holding companies	46,863	102	-	36,173	83,138	7.0
Total	533,089	98,161	70,364	479,329	1,180,943	100.0

	December 31, 2014					
	Listed in Tel-Aviv 100 Index	Listed in other index	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:						
Industry	301,071	64,269	-	154,520	519,860	46.8
Construction and real estate	64,266	6,304	3,961	22,163	96,694	8.7
Commercial	3,049	2,106	-	24,755	29,910	2.7
Communication and computer services	65,577	10,892	-	95,088	171,557	15.4
Banks	111,866	-	-	626	112,492	10.1
Financial services	21,188	-	-	33,919	55,107	4.9
Other business services	4,944	6,913	13,270	949	26,076	2.3
Holding companies	62,586	-	-	39,070	101,656	9.1
Total	634,547	90,484	17,231	371,090	1,113,352	100.0

*) Not including investments in affiliates. See Note 7b(1) above.

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 on time.

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 29 billion, which account for about 26% of the insurance liabilities in life assurance at December 31, 2015 (previous year, about NIS 28 billion and 26%, 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 bonds) issued by the Bank of Israel. The Group is entitled to realize these bonds when the redemption of these policies 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. As of December 31, 2015, these assets constitute about 11% of the Group's total assets (about NIS 14 billion). As of December 31, 2014, these assets constituted about 11% of the Group's total assets (about NIS 13 billion).

Of said asset balance as of December 31, 2015, about NIS 8 billion (previous year – NIS 7 billion) represents quoted assets and cash and cash equivalents.

It should be noted, however, that a possible necessity to raise funds unexpectedly and in a short time might require a quick realization of a significant amount 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:

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:

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, in 2014, excess of income over expenses (accrual) are reported in the column - "without a defined settlement date".
Insurance liabilities in property and other insurance branches, which are not statistical, and in branches on which the actuary does not sign on a valuation - 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:

Liabilities in respect of life assurance and health insurance contracts *)

	Up to one year	Up to one year	Over one year and up to 5 years	Over 5 years and up to 10 years	Over 15years	Without a defined settlement date	Total
	NIS in thousands						
December 31, 2015	5,141,123	8,578,622	9,425,885	7,909,214	2,771,408	730,129	34,556,381
December 31, 2014	4,584,863	8,233,876	8,942,559	8,107,805	3,407,269	459,755	33,736,127

*) Does not include liabilities in respect of yield dependent contracts.

Liabilities in respect of general insurance contracts

	Up to 3 years	Over 3 years and up to 5 years	Over 5 years	Without a defined settlement date **)	Total
	NIS in thousands				
December 31, 2015	2,476,325	724,544	920,723	1,929	4,123,521
December 31, 2014	2,350,852	704,062	992,666	161,298	4,208,878

**) In 2014 includes excess income over liabilities in the amount of NIS 157 million, which was reversed as of December 31, 2015 – see Note 2(j)(2)(d)(4).

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

2. Liquidity risks:

Financial liabilities and liabilities in respect of investment contracts:

	Up to1 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						
December 31, 2015:							
Financial liabilities **)	350,205	1,169,193	2,105,569	-	-	-	3,624,967
Liabilities in respect of non-yield dependent investment contracts	26,710	38,745	66,915	1,319	-	-	133,689
Liabilities in respect of yield dependent investment contracts***)	1,720,584	-	-	-	-	-	1,720,584
December 31, 2014:							
Financial liabilities **)	763,128	930,626	1,800	-	-	-	1,695,554
Liabilities in respect of non-yield dependent investment contracts	30,000	54,709	69,428	1,052	378	-	155,567
Liabilities in respect of yield dependent investment contracts ***)	1,336,629	-	-	-	-	-	1,336,629

*) Financial liabilities of up to one year include an amount of about NIS 4 million (2014 - about NIS 33 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 237 million at December 31, 2015 (2014 - about NIS 641 million).

***) Liabilities in respect of yield-dependent investment contracts are for up to a year, since they are payable on demand.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks:

a) General:

The Group sells policies which cover various risks, such as death risk, mainly before retirement age and longevity risk for persons receiving an annuity after retirement ("longevity"), disability, dread diseases (including long term care, occupational disability and professional disability), fire, natural disasters (catastrophic event such as earthquake), theft, burglary, liability for bodily damages, etc. The pricing of the policies and the actuarial estimations with respect to the insurance liabilities of the Company, are made mainly on the basis of past experience and the known legal and regulatory environment.
The obligation to deposit executive insurance savings funds as from January 2008 in annuity policies and the public's tendency to prefer the annuity track as opposed to the capital track upon retirement affect the Company's exposure to longevity risk.

Variance in the risk factors, in the frequency and severity of events and in the legal and regulatory situation could affect the Group's business results.

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 risk–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) risk – the exposure to deterioration in future payments of the outstanding claims above the estimate of the Company's liability for these claims.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

a) General: (Cont.)

The Company's exposure is comprised of the following risks:

Model risk - the risk of choosing an inappropriate model for pricing and/or evaluating the insurance liabilities.

Parameter risk - the risk of using inappropriate parameters, including the risk that the amount paid for settling the Company's insurance liabilities or the settlement date of the insurance liabilities will be different from the anticipated amount and date.

Catastrophe risk

An exposure to the risk that a single event of vast effect (catastrophe), such as earthquake, war or terror, will cause huge accumulated damages. The significant catastrophic event to which the Company is exposed in general insurance is earthquake and in life assurance and health insurance - war.

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 (MPL estimated according to the model applied by the Company),which is basically about 1.8% (*) of the amount at risk, is about NIS 4,785 million, gross, of which about NIS 364 million on retention (excluding one transaction in which there is maximum risk exposure covered entirely by reinsurance.)

(*) Excluding exposure in respect of motor casco that is not covered by reinsurance which is subject to MPL at a rate of about 5%.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

a) General: (Cont.)

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 contract which covers death claims and disability 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 Notes3d, 17, 18a and 19.

Business mix

The Group's business activities are concentrated primarily in life assurance and long term savings. Changes in the mix of the various business segments in the long term savings sector, the growth of the pension segment at the expense of the life assurance segment, have a material effect on the results of operations of the Group in the long term.

Preservation of life assurance and long term savings portfolio

The life assurance and long term savings portfolio of the Company is exposed to policy cancellations and surrenders as well as to movement of accumulated savings between entities. The degree of preservation of the portfolio is affected primarily by the growth of the economy and the level of employment, by the regulatory pronouncements, by public interests, by the competition between various long term savings products as well as the competition between all the entities in the sector, which is increasing over time. The preservation level of the life assurance portfolio, including movement between different long term savings products (life assurance, pension funds, and provident funds), which have different profitability margins, has a significant effect on the profitability of insurance companies and on the embedded value of the long term insurance business of the companies. In view of the discontinuation of the marketing of new insurance products which have guaranteed annuity coefficients, as described in b(3)(b)(6) below, the Company estimates that life assurance plans until December 31, 2012, which include guaranteed annuity coefficients, will be less exposed to the risk of cancellation and surrender. Regarding sensitivity analysis with respect to changes in cancellation rates see b(3)(b)(4) below.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (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 Commissioner'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 tracks" insurance programs there is an identified savings component. The basic and main reserve is at the level of the accumulated savings including 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(2) Actuarial methods for calculating insurance liabilities: (Cont.)

"Endowment" type policies ("traditional") and others:

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 type of 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 assumptions based on the claims experience, including the interest rates ("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 mortality tables that were published in the Commissioner's circular from 2013.

Liabilities in respect of life annuities paid in respect of valid policies (paid and settled) which have not yet reached the stage of realization of the annuity or the policyholder has reached retirement age but actual payment has not yet begun, are calculated according to the annuity take up rates and in accordance with the anticipated life expectancy on the basis of the updated mortality tables as well as on the basis of cancellation rates expected and relevant discount rates in the annuity portfolio until retirement. These estimates are calculated on the basis of Company experience together with data published by the Commissioner.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(2) Actuarial methods for calculating insurance liabilities: (Cont.)

"Endowment" type policies ("traditional") and others: (Cont.)

Changes in estimates regarding discount rates, life expectancy, cancellation rates and take-up rates of withdrawing of savings as annuities and/or other changes will affect the above liabilities.

These liabilities include the basic reserve which represents the surrender value of the policy accrued to the policyholder and the supplementary reserve for annuity. The provision for the supplementary reserve for annuities is accrued gradually using the K discount factor. This factor has a ceiling and cannot exceed the rate of future anticipated income from management fees or financial margin from investments held against insurance liabilities in respect of policies or from premium payments less expenses related to the policies. The K factor is calculated such that it brings to a gradual accumulation of reserves until the expected retirement date.

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 tracks" 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 claim duration, based on the Company's experience.

The reserves for the insurance of individual medical expenses are calculated as the present value of expected future claims based on past experience net of expected net premium. The calculation assumptions regarding parameters relating to morbidity and cancellation were based on the Company's experience, with a conservative margin, as generally accepted for the calculation of reserves.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(2) Actuarial methods for calculating insurance liabilities: (Cont.)

"Endowment" type policies ("traditional") and others: (Cont.)

The outstanding claims in the sub-branches of surgeries, medications and dread diseases are calculated according to the claim triangles (Chain Ladder, Bornhuetter-Ferguson) regarding claims that were paid according to the months of damage, without discounting, and without a range indication. The outstanding claims in the sub-branches of transplants and surgeries abroad are calculated on the basis of the claims department report.

The insurance liabilities in respect of group insurance consist 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.

(3) Main assumptions used in the calculation of the insurance liabilities:

(a) The discount rate:

In respect of insurance programs of the "endowment" (traditional) type and such 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% and 5%, linked;
In respect of yield dependent products, issued in 1991 and onwards, a tariff interest rate of 2.5%, linked.
In accordance with the policy's conditions, changes in interest will be credited to the policyholders.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(3) Main assumptions used in the calculation of the insurance liabilities: (Cont.)

(a) The discount rate: (Cont.)

A decline in the long-term interest rate may increase the insurance reserves in respect of the free component (which is not backed by designated bonds) of policies in which the savings component includes a guaranteed yield which is higher than the discount interest rate, due to the need to provide an additional reserve within the framework of a liability adequacy test (LAT). See Note 2j(1)(g) above. In addition, a decrease in the economic interest rate could increase the supplementary annuity reserve due to use of a gross discount rate, as noted in Circular 2013-1-2. For details on the financial effect, see Note b(3)(b)(5)(a) below.

(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 those 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.

(2) Liability for annuity in payment is calculated according to the pensioner mortality table published by the Commissioner in Circular 2013-1-2.

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 lifelong pension.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(3) Main assumptions used in the calculation of the insurance liabilities: (Cont.)

(b) Mortality and morbidity rates:

(2) (Cont.)

It should be noted that in the last decades there is a trend of increase in the life expectancy rate. The mortality assumption that is used for calculating the liability for annuity, also 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.

Insofar as morbidity rates and severity increase, so too will increase the insurance liability in respect of dread disease morbidity, occupational disability, long-term care, surgery and hospitalization and accidental disability.

(c) Annuity assumptions:

Life assurance contracts that include a savings component were managed in respect of savings funds deposited up to 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 based on the Group's experience as updated from time to time. Beginning from 2008 all the savings premiums that were deposited in the framework of executive insurance are designated for annuity.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(3) Main assumptions used in the calculation of the insurance liabilities: (Cont.)

(c) Annuity assumptions: (Cont.)

Each year the Company conducts a study on the subject of annuity assumptions, including annuity take-up rates, retirement tracks and retirement age and adjusts the supplementary annuity reserve accordingly. For details on the financial effect, see Noted 3(b)(5)(a) below.

(d) K discount factor:

Gradual provision is made for the supplementary annuity reserve using the K factor, as mentioned in section b(3)(b)(2) above.

The K factor is determined so as to create an adequate gradual accrual of the reserve up to the expected retirement age. The Company sets one K for policies in which the savings component includes a guaranteed yield and another for policies in which the savings component is yield dependent.

As of the date of the financial statements, the K value used by the Company for guaranteed yield policies stands at 0.26%, and for profit sharing policies at 0.9% (as of December 31, 2014 – 0.29% and 0.92%, respectively). For details on the financial effect, see Noted b(3)(b)(5)(a) below.

(e) Cancellation rates:

The cancellation rates affect the estimation of 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 cancellation, type of product and the seniority of the coverage period.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(3) Main assumptions used in the calculation of the insurance liabilities: (Cont.)

(f) Continuity rates:

In group health insurances and long term care insurances 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.

(4) Liability adequacy test (LAT):

The Company tests for the adequacy of the life assurance reserves, including the supplementary annuity reserve.

The assumptions used in making these tests includes assumptions underlying cancellations, operating expenses, yield on assets, interest rates, negative liquidity premium and also based on the excess fair value of the assets over their carrying amount, mortality, annuity assumptions and morbidity and are determined by an actuary based on tests, past experience and other applicable research.

In 2015 the Commissioner issued a circular regarding the performance of a liability adequacy test (LAT) on the provisions in the financial statements of insurance companies ("the circular"). The purpose of the circular is to achieve uniformity and improvement in several actuarial assumptions used in the LAT calculation. The assumptions relate, inter alia, to the manner of determination of the illiquidity premium used in discounting insurance liabilities and the manner of determining the actuarial assumptions underlying the LAT calculation. For details on the financial effect, see Note b(3)(b)(5) below.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(4) Liability adequacy test (LAT): (Cont.)

The carrying amount of the provision for LAT amounts to NIS 164 million as of December 31, 2015 and NIS 59 million as of December 31, 2014.

The change in the provision for LAT reflects the changes that occurred during the year in all the operational, demographic and financial factors underlying the assessment of the actuarial liabilities.

(5) Effect of changes in principal estimates and assumptions used to calculate the life assurance provision

(a) Effect of changes on the supplementary annuity reserve and on the LAT:

	December 31	
	2015	2014
	NIS in millions	
Effect of decrease in discount rate in calculating the supplementary annuity reserve	263	295
Increase (decrease) in annuity reserves due to a decrease in expected future income derived from the decrease in the discount rate (K)	(49)	25
Increase in annuity provisions due to the decrease in the discount rate	214	320
Change in annuity assumptions	44	87
Increase following the LAT	105	59
Total before tax	363	466
Total after tax	227	290

It should be noted that the addition for the initial implementation of the provisions of the circular as of June 30, 2015 stood at NIS 192 million.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(5) Effect of changes in principal estimates and assumptions used to calculate the life assurance provision (Cont.)

(b) Updates in assumptions for calculating occupational disability reserves:

The Company conducted in the reporting year a study on the subject of the prolongation of claims in the occupational disability branch affecting the cost-per-insured assumption. The Company adjusted the calculation of the provisions according to the up-to-date study. As a result, the provision for occupational disability increased by NIS 60 million.

(c) After the reporting date, the decrease in the risk-free interest rate curve continued, which is expected to result in an additional increase in the liabilities in respect of insurance contracts. See Note 40c below regarding events after the reporting date.

(6) The supplementary reserve for annuity included in the Company's books approximates NIS 3,855 million and NIS 3,245 million as of December 31, 2015 and 2014, respectively. The balance of the provision which will be recognized gradually in profit and loss, using the aforementioned K factors, until the policyholders reach retirement age, amounts to about NIS 3,182 thousand as of December 31, 2015 (previous year – NIS 2,606 million).

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 the future, relate to funds already accumulated in the policies at the end of the reporting periods and do not include provisions in respect of amounts accumulated in the future.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

b) Insurance risk in life assurance and health policies: (Cont.)

(7) Sensitivity test:

	December 31, 2015							
	Morbidity rate		Rate of cancellations (surrenders, maturities and reductions)		Mortality rates		Annuity take-up rate **)	
	NIS in thousands							
	+10%	-10%	+10%	-10%	+10%	(* -10%	+5%	-5%
Profit (loss)	(4,621)	4,620	10,336	(9,663)	96,276	(662,218)	(294,128)	295,325

	December 31, 2014							
	Morbidity rate		Rate of cancellations (surrenders, maturities and reductions)		Mortality rates		Annuity take-up rate **)	
	NIS in thousands							
	+10%	-10%	+10%	-10%	+10%	(* -10%	+5%	-5%
Profit (loss)	(6,061)	6,056	5,381	(4,974)	97,515	(463,784)	(264,458)	265,534

*) Mainly due to the supplementary annuity reserve.

**) For purposes of the sensitivity test with respect to the annuity take-up rate, 5% of the annuity take-up rate were added/subtracted.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks:

(1) Condensed description of the main insurance branches in which the Group operates:

Migdal Insurance'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 characterized 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.

The coverage 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 Commissioner 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, 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks: (Cont.)

(1) Condensed description of the main insurance branches in which the Group operates: (Cont.)

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 take 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.

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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks: (Cont.)

(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
- Provision for premium deficiency
- Outstanding claims
- Less deferred acquisition costs

The provision for unearned premium reflects the premium component relating to the period after the balance sheet date, according to generally accepted accounting principles. This reserve does not reflect the actuarial liabilities of unexpired risks and therefore does not depend on any special assumptions.

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 Mr. Daniel Israeli, who stated, inter alia, that the valuations were performed in accordance with generally accepted actuarial principles, and the assumptions and methods of valuation of the provisions were determined by him, according to his best professional judgment, and in accordance with the relevant guidelines, directives and principles.

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 Commissioner 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (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:

In addition, according to the Commissioner's directives, provisions for premiums that do not cover the anticipated cost of the claims ("premium deficiency"), are included, if necessary, in the motor act, motor casco and comprehensive residential branches. This provision, if made, is reported under outstanding claims.

(b) In accordance with the Commissioner'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 (paid model) and in some of the branches it is based on the accumulated cost of the claims (the actual claims payment with the addition of individual valuations – incurred model). In analyzing the development of payments, the Company adds a tail as needed. The main assumption in these models is: the stability of the claims development, 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.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks: (Cont.)

(2) Principles for calculating actuarial valuations in general insurance: (Cont.)

(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 are not really expressed in the present claims payments. If it turns out that the actual experience will be different from the accumulated experience in the present claims payments, 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 affect the final results of the provision. Therefore, the actual claims cost might be higher or lower than the statistical estimate.

(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) Up to December 31, 2015 actuarial calculations did not include a reduction due to discounting of future claims payments. Following the continued decrease in the risk-free interest curve, there was an erosion of the conservative margins given that the reserves were not discounted, and therefore the Company performed tests to verify that the erosion of said margins did not result in a need to add to the reserve. Starting from December 31, 2015 the Company tests for the adequacy of liabilities in general insurance based on the best practice principles detailed in section b(d)(c)(5) below. Following this test the Company found it necessary to supplement the reserves based on the best practice principles in the third party and employers' liability branches, and accordingly the Company discounts future claim payments in these branches.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks: (Cont.)

(2) Principles for calculating actuarial valuations in general insurance: (Cont.)

(i) (Cont.)

The discounting is according to the risk-free interest rate curve, adjusting it to the illiquid nature of the insurance liabilities and taking into consideration the manner of revaluation of the assets held against these liabilities. Regarding the effect of the transition to best practice in these branches, see Note 2(j)(2)(d)(4).

(j) The provision for outstanding claims for residual insurance arrangements ("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 development (payment development and/or total claims development, development of the number of claims, etc.), in order to estimate the anticipated development of 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. If necessary, use is made of the Sherman Power Curve method which provides an appropriate curve for the Link Ratio.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (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 (a priori) 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 Bornhuetter-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) 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).

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (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:

(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 if necessary. 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, as follows:

In non-proportional reinsurance (excess of loss), the model for the old underwriting years is based on the treatment of individual claims. For recent underwriting years the model was based on the risk rate derived from the reinsurance premium and in 2015 on a large claims model that forecasts the number of claims that will surpass the excess as well as the average size of these claims. In proportional reinsurance, including facultative, the model is based on the estimate of individual outstanding claims for old years and recent years according to the loss ratio rate.

(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 for private and commercial vehicles up to 3.5 tons and for other kinds of vehicles. The data is at a gross level.

In the recent damage months, the Company uses the Bornhuetter Ferguson method, which is based on claim cost per policy.

The outstanding claims valuation is calculated on the gross level. The reinsurance component in this line of business is insignificant.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (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.)

(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.

(e) Lines of business in which non-actuarial provisions were set up:

In the following lines no actuarial model was applied due to the lack of statistical significance: comprehensive business premises insurance, engineering insurance, contractors insurance, marine insurance, aviation insurance and goods in transit insurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (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: (Cont.)

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 is immaterial.

- A provision for claims incurred but not yet reported (IBNR) based on past experience.

(5) Changes in principal assumptions and estimate used to calculate insurance liabilities in respect of general insurance contracts:

- The provisions for outstanding claims are made on the basis of cautious assumptions as to risk factors arising from regulatory changes as well as precedential and other court rulings in the course of the years, such as: the "lost years" rule, the National Insurance Institute's (NII) subrogation right, imposition of a duty of reporting to the NII, cancellation of agreement with the NII and signing of a new agreement at the end of 2014, transfer of insurance liability for the provision of medical services to the health funds, etc. If the claims due to the risk factors are not realized according to the estimates, a surplus or deficiency is created in the development of the outstanding claims. In addition, the Company did not discount outstanding claims, as an additional element of caution.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks: (Cont.)

(5) Changes in principal assumptions and estimate used to calculate insurance liabilities in respect of general insurance contracts: (Cont.)

- (Cont.)

  In the wake of these developments, the Company included in its assessments safety margins due to the uncertainty caused by them in the first years. With the passage of the years, following developments in the claim payments and assessments by the claims department, the actuary is increasingly able to estimate the claim development data, and accordingly in 2015 a positive development was recorded in the claim estimates (excluding the Pool) simultaneously with the decrease in uncertainty for the closed years, in an amount of NIS 80 million (2014 – NIS 28 million; 2013 – NIS 62 million).

  In the professional and product liability lines of business a continuing improvement was recorded in the rate of damages along with a positive development in claims, leading to a reduction in the safety margins simultaneously with the decrease in uncertainty. Accordingly, in 2015 a positive development was recorded for the closed years, in an amount of NIS 75 million (2014 – NIS 58 million; 2013 – NIS 19 million).

  In contrast, in the employers' liability and third party lines of business, there was a continued worsening in the rate of damages and in claim payments on retention, and accordingly a negative development was recorded in an amount of NIS 103 million (2014- NIS 110 million; 2013 – NIS 106 million).

- The Company introduced changes in the calculation of the insurance reserves in general insurance in accordance with the Commissioner's directives as set out in Note 2(j)(2)(d)(4).

  Among other things, the Commissioner's position on the best practice for calculating insurance reserves in general insurance was implemented, including the following determinations:

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks: (Cont.)

(5) Changes in principal assumptions and estimate used to calculate insurance liabilities in respect of general insurance contracts: (Cont.)

(a) "Caution" means that with respect to a reserve calculated by an actuary as "an adequate reserve for covering the insurer's liabilities" it is fairly likely that the insurance liability that was determined will be sufficient to cover the insurer's liabilities. As for outstanding claims in the motor act and liability branches, "fairly likely" refers to a probability of at least 75%. At the same time, if there are limitations in the statistical analysis, the actuary will exercise judgment and generally accepted actuarial methods may be used.

In this regard, account should be taken of the random risk and the systemic risk.

(b) Cash flow discount rate – to determine the rate for discounting the liabilities flow, the actuary must take into account the points detailed in the discounting standard of the Israel Association of Actuaries and present the considerations (including assumptions and limitations) in choosing the discount rates. According to said standard, the appropriate discount rate for the review will be based on the risk-free interest rate curve, adjusting it to the illiquid nature of the insurance liabilities.

(c) Grouping – for the purpose of calculating margins for uncertainty in 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 treated together.

(d) Determination of the amount of insurance liability for policies sold in proximity to the reporting date and for unexpired risks.

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:

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 Migdal Insurance'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 from a downgrading of the debtor's credit rating.

With respect to the rating sources, see d(2) below.

The carrying amount approximates the maximum credit risk. Therefore, the "total" column represents the maximum credit risk.

a) Debt assets credit risks:

(1) Breakdown of debt assets according to their location:

	December 31, 2015		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	6,472,512	21,957,056	28,429,568
Abroad	1,142,704	80,144	1,222,848
Total debt assets	7,615,216	22,037,200	29,652,416

	December 31, 2014		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	5,623,044	22,053,636	27,676,680
Abroad	517,198	-	517,198
Total debt assets	6,140,242	22,053,636	28,193,878

*) 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: (Cont.)

(2) Details of assets divided into ratings:

(a) Debt assets:

	Local rating *)				
	December 31, 2015				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets:					
Government bonds	4,669,262	-	-	-	4,669,262
Corporate bonds	1,143,629	615,601	3,988	40,032	1,803,250
Total quoted debt assets in Israel	5,812,891	615,601	3,988	40,032	6,472,512
Unquoted debt assets:					
Government bonds	19,780,084	-	-	-	19,780,084
Corporate bonds	257,291	291,813	851	14,870	564,825
Deposits in banks and financial institutions	690,030	-	-	-	690,030
Other debt assets according to security:					
Mortgages	-	-	-	15,018	15,018
Loans on policies	-	-	-	84,517	84,517
Loans against real estate charges	67,084	3,002	-	-	70,086
Loans against charges on shares conferring control	-	-	26,118	-	26,118
Other securities	264,833	310,666	-	150,879	726,378
Not secured	-	-	-	-	-
Total unquoted debt assets in Israel	21,059,322	605,481	26,969	265,284	21,957,056
Total debt assets in Israel	26,872,213	1,221,082	30,957	305,316	28,429,568
Of which debt assets according to internal rating	358,897	189,464	26,118	-	574,479
Includes debt assets in internal rating whose rating was reduced by the Migdal Insurance	60,993	74,824	-	-	135,817

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, 2015				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	55,917	-	-	-	55,917
Corporate bonds	48,189	642,310	391,599	4,689	1,086,787
Total quoted debt assets abroad	104,106	642,310	391,599	4,689	1,142,704
Unquoted debt assets:					
Corporate bonds	-	15,587	-	-	15,587
Deposits in banks and financial institutions	-	-	-	-	-
Other debt assets	33,977	10,150	-	20,430	64,557
Total unquoted debt assets abroad	33,977	25,737	-	20,430	80,144
Total debt assets abroad	138,083	668,047	391,599	25,119	1,222,848
Of which debt assets according to internal rating	33,977	-	-	-	33,977

*) 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, 2014				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets:					
Government bonds	3,693,794	-	-	-	3,693,794
Corporate bonds	1,101,689	779,058	13,783	34,720	1,929,250
Total quoted debt assets in Israel	4,795,483	779,058	13,783	34,720	5,623,044
Unquoted debt assets:					
Government bonds	19,481,929	-	-	-	19,481,929
Corporate bonds	291,814	396,925	2,154	16,430	707,323
Deposits in banks and financial institutions	865,692	-	-	-	865,692
Other debt assets according to security:					
Mortgages	-	-	-	25,337	25,337
Loans on policies	-	-	-	105,528	105,528
Loans against real estate charges	70,150	-	-	-	70,150
Loans against charges on shares conferring control	-	37,946	-	-	37,946
Other securities	215,647	255,111	-	265,573	736,331
Not secured	-	-	-	23,400	23,400
Total unquoted debt assets in Israel	20,925,232	689,982	2,154	436,268	22,053,636
Total debt assets in Israel	25,720,715	1,469,040	15,937	470,988	27,676,680
Of which debt assets according to internal rating	279,814	342,987	-	-	622,801
Includes debt assets in internal rating whose rating was reduced by the Migdal Insurance	69,853	60,544	-	-	130,397

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, 2014				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	61,218	-	-	-	61,218
Corporate bonds	22,592	256,924	176,464	-	455,980
Total quoted debt assets abroad	83,810	256,924	176,464	-	517,198
Unquoted debt assets:					
Deposits in banks and financial institutions	-	-	-	-	-
Total unquoted debt assets abroad	-	-	-	-	-
Total debt assets abroad	83,810	256,924	176,464	-	517,198

*) 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. 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, 2015				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	18,427	1,760	-	236,295	256,482
Deferred tax assets	19,358	-	-	-	19,358
Other financial investments	-	-	-	297,047	297,047
Cash and cash equivalents	1,927,889	117,543	-	-	2,045,432

	Local rating *)				
	December 31, 2014				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	-	-	-	214,463	214,463
Deferred tax assets	27,017	-	-	-	27,017
Other financial investments	-	-	-	235,007	235,007
Cash and cash equivalents	1,550,771	14,607	-	-	1,565,378

*) 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.)

(c) Credit risks in respect of off-balance sheet instruments (in Israel):

	Local rating *)				
	December 31, 2015				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	95,994	65,430	-	-	161,424

	Local rating *)				
	December 31, 2014				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	49,856	61,766	-	-	111,622

*) 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, 2015				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Loans to affiliates*)	-	-	-	20,430	20,430
Debtors and receivables, excluding balances of reinsurers	-	22,182	-	296	22,478
Deferred tax assets	-	-	-	-	-
Other financial investments	-	-	-	2,214,260	2,214,260
Cash and cash equivalents	157,312	-	-	-	157,312

*) See Note 38(h)(9).

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.)

(d) Credit risks in respect of other assets (abroad): (Cont.)

	International rating *)				
	December 31, 2014				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	-	15,112	-	316	15,428
Other financial investments	-	-	-	2,150,196	2,150,196
Cash and cash equivalents	41,049	36,224	-	-	77,273

*) Each rating includes all the ranges, for example: A includes A-up to A+.

(e) Credit risks in respect of off balance sheet instruments (abroad):

	International rating *)				
	December 31, 2015				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	7,109	-	-	-	7,109

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 August 2013, the Commissioner approved that Migdal Insurance will use an internal credit rating model ("the model"), which was developed 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 being equivalent to the risk rating of a rating company, subject to the following conditions:

(a) The model will be used within the framework of the structure, methodology and procedures that were presented to the Commissioner 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; holding/investment companies; companies operating in the fields of: banking, leasing and profit generating real estate - (not including companies from the field of entrepreneurial real estate).

(c) A significant change in the model's structure requires the Commissioner's prior approval.

(d) Migdal insurance is permitted to allocate capital in respect of non-quoted debt assets which are rated using the model and are not rated by external rating as from the financial statements for the third quarter of 2013.

(1) The capital allocation will be at rates stipulated in the Control of Financial Services Regulations (Insurance) (Minimum Shareholders' Equity required from an Insurer), 1998 ("the Capital Regulations").

(2) A reduction at a rate of 50% of the difference between the capital required under the Capital Regulations and the capital required for the rating given by the model is given. If an external rating is also available for a loan, then the capital allocation should be at the lower of the two ratings. In addition, the approval includes instructions as to immediate and periodic reports which Migdal Insurance must submit to the Commissioner with respect to the model.

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: (Cont.)

(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. In 2009, the rating companies published a comparative analysis between the local rating scale and the international rating scale.

(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 b(4)(1) below.

(5) The Group is also exposed in its activities to other receivables such as employers and policy holders. An increase in the insolvency of businesses in Israel may affect the amount of employer payment liabilities since the employers might not make deposits in pension funds in respect of their employees, which in turn, obliges the institutional entities in the Group to take action. With respect to the balance of outstanding premiums in the amount of NIS 569,423 thousand (2014 – NIS 579,335 thousand) see Note 10 above.

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: (Cont.)

(6) Details of exposure of market branches to investments in quoted and unquoted financial debt assets:

	December 31, 2015		
	Balance sheet credit risk		Off-balance sheet risk
	Amount	%	
	NIS in thousands	of the total	NIS in thousands
Economic sector:			
Industry	425,732	1.4	-
Construction and real estate	1,083,420	3.7	14,926
Electricity and water	311,714	1.1	78,537
Commercial	23,200	0.1	-
Transportation and storage	125,527	0.4	-
Communication and computer services	170,225	0.6	75,070
Banks	2,432,136	8.2	-
Financial services	175,957	0.6	-
Other business services	73,859	0.2	-
Holding companies	74,969	0.3	-
Private individuals	250,414	0.8	-
Other	-	-	-
Government bonds	24,505,263	82.6	-
Total	29,652,416	100.0	168,533

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: (Cont.)

(6) Details of exposure of market branches to investments in quoted and unquoted financial debt assets: (Cont.)

	December 31, 2014		
	Balance sheet credit risk		Off-balance sheet risk
	Amount	%	
	NIS in thousands	of the total	NIS in thousands
Economic sector:			
Industry	451,415	1.6	-
Construction and real estate	794,489	2.8	33,826
Electricity and water	164,582	0.6	77,796
Commercial	47,560	0.2	-
`Transportation and storage	130,251	0.5	-
Communication and computer services	67,670	0.2	-
Banks	2,509,658	8.9	-
Financial services	194,531	0.7	-
Other business services	20,313	0.1	-
Holding companies	156,630	0.6	-
Private individuals	419,838	1.5	-
Other	-	-	-
Government bonds	23,236,941	82.3	-
Total	28,193,878	100.0	111,622

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: (Cont.)

(7) Geographical risks:

Details of countries/regions the exposure to which exceeds 1% of the investment:

	December 31, 2015									
	Government bonds	Corporate bonds	Shares	ETFs	Mutual funds	Investment property	Other investments *)	Total balance sheet exposure	Derivatives in delta terms	Total
	NIS in thousands									
Israel	24,505,263	2,467,919	866,267	43,471	-	718,315	4,699,896	33,301,131	28,793	33,329,924
US	-	348,044	235,651	1,011,882	33,838	-	197,542	1,826,957	-	1,826,957
Switzerland	-	116,308	-	50,463	-	-	259,785	426,556	-	426,556
Other	-	538,178	79,025	774,368	97,022	-	622,956	2,111,549	192,316	2,303,865
Total amount	24,505,263	3,470,449	1,180,943	1,880,184	130,860	718,315	5,780,179	37,666,193	221,109	37,887,302

Details of countries/regions the exposure to which exceeds 1% of the investment:

	December 31, 2014									
	Government bonds	Corporate bonds	Shares	ETFs	Mutual funds	Investment property	Other investments *)	Total balance sheet exposure	Derivatives in delta terms	Total
	NIS in thousands									
Israel	23,236,941	2,184,631	864,437	57,592	-	630,890	4,864,672	31,839,163	-	31,839,163
US	-	37,006	139,282	1,046,909	-	-	195,926	1,419,123	(7,583)	1,411,540
Switzerland	-	68,241	247	156,943	-	-	177,641	403,072	-	403,072
Other	-	20,721	-	64,131	-	-	352,980	437,832	-	437,832
	-	280,743	109,386	594,820	45,976	-	433,889	1,464,814	20,066	1,484,880
Total amount	23,236,941	2,591,342	1,113,352	1,920,395	45,976	630,890	6,025,108	35,564,004	12,483	35,576,487

*) Other investments include reinsurance assets, investments in affiliates, cash and other financial investments not included in the other columns.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

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). Therefore, the financial stability of reinsurers and their ability to meet their financial obligations may affect the business results of the Company. 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 Commissioner'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.)

	December 31, 2015										
			Reinsurance assets							Debts in arrears (b)	
Rating group (d)	Total reinsurance premiums for 2015	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
AA and above											
Swiss Reinsurance Co	181,423	(48,110)	5,876	9,440	53,942	20,812	10,696	-	31,264	-	-
Munich Reinsurance Co.AG	45,636	(6,238)	3,827	5,768	12,902	37,042	-	-	53,301	-	-
Others	123,101	3,991	89,732	16,053	56,273	37,271	11,215	6,377	185,728	-	1
	350,160	(50,357)	99,435	31,261	123,117	95,125	21,911	6,377	270,293	-	1
A											
Assicurazioni Generali SpA (e)	102,142	(14,638)	1,694	522	137,182	100,054	2,460	839	221,515	-	-
Others	171,138	(15,069)	2,879	2,708	102,597	48,547	27,157	667	113,838	7	7
	273,280	(29,707)	4,573	3,230	239,779	148,601	29,617	1,506	335,353	7	7
BBB	1,713	(118)	-	-	1,207	-	317	-	772	3	-
Lower than BBB – or unrated (f)	4,873	(9,661)	206	-	1,492	6,267	-	-	(1,696)	76	294
Total	630,026	(89,843)	104,214	34,491	365,595	249,993	51,845	7,883	604,722	86	302

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 about NIS 2,141 thousand.
   (c) The total provision for doubtful debts plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,535 thousand which constitutes about 0.4% of the exposure at December 31, 2015.
   (d) The rating was mainly determined by AMBest and was converted for reporting purposes to S&P's rating 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 Generali (the Company's former controlling shareholder) include premiums in facultative reinsurance at a rate of 100% in the amount of about NIS 48 million in respect of one policyholder.
   (f) The unrated group includes balances for outstanding claims through brokers from business that was received up to and including 2003 in the amount of about NIS 3,321 thousand.
2. The total exposure of the reinsurers for an earthquake event in general insurance is about NIS 4,421 million, at a maximum probability of damage of mainly about 1.80% (MPL according to model adopted by the Company). For details see also Note 37(b)(3)(a). The most significant reinsurer is Swiss Re, whose share in this exposure is about NIS 1,088 million.
3. There are no other reinsurers apart from those detailed above in respect of which the exposure exceeds 10% of the overall exposure of reinsurers or in respect of which the premium exceeds 10% of the total premiums for reinsurance for 2015. There is also an exposure of about NIS 95 million to an Israeli insurance company with respect to life assurance reinsurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

4.1 Reinsurers' credit risks: (Cont.)

	December 31, 2014										
			Reinsurance assets							Debts in arrears (b)	
Rating group (d)	Total reinsurance premiums for 2014	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
AA and above											
Swiss Reinsurance Co	207,351	(49,047)	7,209	7,100	44,654	36,458	10,732	-	35,642	-	-
Munich Reinsurance Co.AG	49,975	(12,282)	5,224	1,890	12,556	77,819	-	-	85,207	-	-
Others	138,148	(11,047)	96,425	12,129	58,950	111,739	9,187	6,702	252,307	6	2
	395,474	(72,376)	108,858	21,119	116,160	226,016	19,919	6,702	373,156	6	2
A											
Assicurazioni Generali SpA (e)	128,665	(20,157)	2,685	222	146,976	205,900	5,673	837	329,116	-	-
Others (g)	131,438	(18,234)	1,867	44	88,747	64,472	28,225	317	108,354	3	2
	260,103	(38,391)	4,552	266	235,723	270,372	33,898	1,154	437,470	3	2
BBB (g)	1,045	(278)	-	-	889	-	324	-	287	-	-
Lower than BBB – or unrated (f)	4,787	(4,026)	210	-	1,484	28,058	-	-	25,726	188	175
Total	661,409	(115,071)	113,620	21,385	354,256	524,446	54,141	7,856	836,639	197	179

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 about NIS 1,512 thousand.
   (c) The total provision for doubtful debts plus the reduction in the reinsurers' share in outstanding claims and in reserves amounts to about NIS 2,240 thousand which constitutes about 0.3% of the exposure at December 31, 2014.
   (d) Starting from 2014 the rating was mainly determined by AMBest and was converted for reporting purposes to S&P's rating 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 Generali (the Company's former controlling shareholder) include premiums in facultative reinsurance at a rate of 100% in the amount of about NIS 35 million in respect of one policyholder.
   (f) The unrated group includes balances for outstanding claims through brokers from business that was received up to and including 2003 in the amount of about NIS 3,532 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 for an earthquake event in general insurance was about NIS 4,075, at a maximum probability of damage of mainly about 1.80% (MPL according to model adopted by the Company). For details see also Note 37b(3)(a) below). The most significant reinsurer is Swiss Re, and its share of this exposure is about NIS 1,025 million.
3. There are no other reinsurers apart from those detailed above in respect of which the exposure exceeds 10% of the overall exposure of reinsurers or in respect of which the premium exceeds 10% of the total premiums for reinsurance for 2014. There is also an exposure of about NIS 93 million to an Israeli insurance company with respect to life assurance reinsurance.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks:

a) Economic and employment conditions:

The employment rate has a significant impact on the Group's business in the life assurance and long term savings sector. A deterioration of the employment rate, a decline in the number of employed, an increase in the unemployment rate and a decline in the level of salaries of the employed, affects the amount of new sales and the cancellation rates in the portfolio. In addition, the general condition of the economy affects the Group's business in the different sectors in which it operates. A recession could result in an increase in bad debts, an increase in disability claims, a decline in the insurance coverage purchased in the policies and an increase in the level of fraud. The state of the economy is also liable to affect the market value of the Group's assets in Israel. The Group keeps track of developments in the economy and prepares itself according to market conditions.

b) Changes in regulation and compliance:

The Group companies are subject to widespread regulation is their activities. Changes in the law and in regulatory guidelines affect the substance of the activities of the companies and the profitability of the sale of various products sold by them and also on the financial reporting of the companies. Noncompliance with regulatory requirements, including unintentional, could lead to sanctions such as cancelling licenses and permits and levying monetary fines on the Group and might form the basis for potential claims against it.

The regulation in the insurance and long term savings has a significant impact on the prices and management fee rates collected on various products, sales processes, the nature of the products, the ability to differentiate products from the competition and the expense levels of the companies. The legal pronouncements, guidelines and agreements related to the structure of savings in the economy and primarily in respect of pension savings, including tax implications thereon, impact the changes in business volume in this sector and the level of product alternatives, including the possibility of the transfer of savings between products. Furthermore, changes in the law and in regulation may affect the Company with respect to products sold in the past, though retroactive implementation and by way of interpretation of agreements entered in the past and as a consequence of competition. Consequently, these pronouncements affect the life assurance and long term savings portfolio of the companies and the future sales of these products.

The great number of regulatory changes places a burden on the technology and operational systems and could increase the exposure to operational errors or affect the ability to comply with the new directives, due to the necessity of modifying processes.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks: (Cont.)

b) Changes in regulation and compliance: (Cont.)

In 2012, the reform in management fees affected the pension fund savings and their profitability.

Recently, several circulars and draft circulars were published that could impact on the Group's profitability, such as: circular on the marketing of life assurance policies that include guaranteed life expectancy annuity factors, circular of guidelines on the choice of a provident fund, draft circular aimed at translating into practical directives the temporary order established in the Provident Funds Law regarding the consolidation of existing pension accounts, etc.

The capital adequacy requirements are a key requirement for the insurance companies. Regulatory changes in capital requirements may affect the activities of the companies and the scope thereof. For details on the capital requirements applying to the Company, see Noted 7c to the financial statements.

Furthermore, Group insurance agencies are also subject to regulation, including regulations as to the holding of agencies by an insurance company and requirements placed on the marketer of pension products. Changes in the law with respect to the activities of insurance agencies affect the activities of the agencies and their profitability.

The Company keeps abreast of court rulings and new regulations in its areas of activity or in areas that could affect it, in order to identify basic principles and general directions the courts, the lawmaker or the regulator are endeavoring to establish, so that the plans made by the Company are consistent with these principles and directions even if they have not yet been given concrete expression in new case law or regulations. However, it is difficult to foresee new rulings/laws/ regulations, including changes in stresses or directions of the relevant authorities (the courts, the Knesset and the Insurance Commissioner), and there is also natural uncertainty regarding their inception (obtaining the required majority for a law, receiving required approvals, such as the approval of the Knesset Economic Committee or the Minister of Finance's approval for regulations, issues on which a petition will be filed with the Supreme Court and on which the Supreme Court might rule differently than in the past, etc.). Since by the nature of things this involves unknown and uncertain future occurrences, the risk in question can be managed or reduced only to a limited degree, especially when the new ruling/regulation applies to existing policies already issued by the Company.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks: (Cont.)

c) Increase in competition:

The increase in competition in the sectors in which the Group operates, may hurt Group profitability. The Commissioner, under regulatory organization, has been leading processes during the past decade to increase competition in the long term savings sector, in terms of the substitutability of products, the development of standard products and the structure of the management fees.

d) Changes in customer preferences:

The public's inclination to choose alternative products or not to purchase insurance or in the realization of annuities may affect the demand for the Group's products and the profitability of the various sectors. The Company deals with this risk by monitoring the public's preferences and adjusting its products accordingly.

e) Legal precedents and authority of the Commissioner to issue master decisions:

The Group companies are exposed to judicial decisions, including class action suits which are filed against other entities in the industry and against the Group companies, and quasi-judicial decisions given by the Commissioner within the framework of its powers to discuss policyholder complaints and/or conduct an audit, which constitute a binding legal precedent in relation to the Group's activities affecting the Group's operations in a manner that could result in a change of obligations and/or the bearing of costs that were not anticipated at the date of the transaction.

Regarding class actions, legal proceedings and other proceedings, see Note 39.1 to the financial statements.

There are claims and proceedings as aforementioned that are related to regulatory risks or operational risks – see in this regard Note 39.1.

In addition to the foregoing, the Company continuously examines work processes, documents and forms, where they apply to multiple instances of the same type or matter investing them with an inbuilt representative nature. The Company also reviews, to the extent possible, claims and proceedings that were filed against it or against other parties in its lines of business, as well as the rulings in these proceedings, and it attempts to draw lessons for the work processes applied by it, even with respect to rulings of courts other than the Supreme Court, in view of the powerful nature of the class action tool. Since the grounds for intervention by the courts are broad, including inter alia unjust enrichment, good faith, fairness, autonomy of the will and omnibus causes of action that are dependent on the circumstances and confer broad judicial discretion, and, regarding class action suits, the court's intervention depends on the judicial approach as to which matters merit adjudication as class actions, the risk in question can be managed or reduced only to a limited degree, especially with respect to processes that already existed and policies that were already issued by the Company prior to the issuance of a specific ruling and/or development of the class action tool.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks: (Cont.)

f) Legal proceedings:

The Group's financial institutions are party to legal proceedings, including class actions and decisions of the Commissioner within the framework of its powers to handle complaints and/or conduct audits, which can lead to their being charged significant sums and/or to require the Group to treat insurance/pension/provident plans in a manner different than in the past, including the imposing of financial sanctions. For ways of coping by the Company see b(5)(b) above.

g) Damage to reputation:

The Group's reputation and good name are an important factor in the conducting of transactions with new customers and retaining existing customers. Damage to the Group's reputation may significantly harm the Group's business.

NOTE 37:- RISK MANAGEMENT (Cont.)

c. Details of assets and liabilities distributed into linkage basis:

	December 31, 2015					
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,271,303	-	1,271,303
Deferred tax assets	-	-	-	19,358	-	19,358
Deferred acquisition costs	-	-	-	1,833,363	59	1,833,422
Fixed assets	-	-	-	723,235	-	723,235
Investments in affiliates	-	49	9,851	690,314	-	700,214
Investment property for yield dependent contracts	-	-	-	-	5,328,453	5,328,453
Other investment property	-	-	-	718,315	-	718,315
Reinsurance assets	140,700	584,178	22,681	-	6,734	754,293
Current tax assets	-	425,220	26,170	-	16,083	467,473
Debtors and receivables	219,905	7,072	70,529	20,903	163,011	481,420
Outstanding premiums	59,464	260,327	47,859	-	201,773	569,423
Financial investments for yield dependent contracts	-	-	-	-	70,126,455	70,126,455
Other financial investments:						
Quoted debt assets	2,541,848	3,876,833	1,196,535	-	-	7,615,216
Unquoted debt assets	197,857	21,693,599	145,744	-	-	22,037,200
Shares	-	-	-	1,180,943	-	1,180,943
Others	175	-	12,764	2,498,368	-	2,511,307
Total other financial investments	2,739,880	25,570,432	1,355,043	3,679,311	-	33,344,666
Cash and cash equivalents for yield dependent contracts	-	-	-	-	7,801,126	7,801,126
Other cash and cash equivalents	1,962,277	-	240,467	-	-	2,202,744
Total assets	5,122,226	26,847,278	1,772,600	8,956,102	83,643,694	126,341,900

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the Dollar and the Euro.

NOTE 37:- RISK MANAGEMENT (Cont.)

c. Details of assets and liabilities distributed into linkage basis: (Cont.)

	December 31, 2015					
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts	Total
	NIS in thousands					
Total equity	-	-	-	5,228,554	-	5,228,554
Liabilities						
Liabilities in respect of non-yield dependent insurance and investment contracts	781,252	31,493,835	51,119	-	-	32,326,206
Liabilities in respect of yield dependent insurance and investment contracts	-	-	-	-	83,312,486	83,312,486
Deferred tax liabilities	-	-	-	566,332	-	566,332
Liabilities for employee benefits, net	70,962	-	-	104,814	136,861	312,637
Liabilities in respect of current taxes	-	34,287	-	-	-	34,287
Creditors and payables	754,517	462,252	174,714	105,586	46,591	1,543,660
Financial liabilities	1,911,037	837,522	30,235	1,961	236,983	3,017,738
Total liabilities	3,517,768	32,827,896	256,068	778,693	83,732,921	121,113,346
Total equity and liabilities	3,517,768	32,827,896	256,068	6,007,247	83,732,921	126,341,900
Total balance sheet exposure	1,604,458	(5,980,618)	1,516,532	2,948,855	(89,227)	-
Exposure to base assets through derivative instruments in delta terms	2,434,708	-	(2,652,020)	217,312	-	-
Total exposure	4,039,166	(5,980,618)	(1,135,488)	3,166,167	(89,227)	-

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the Dollar and the Euro.

NOTE 37:- RISK MANAGEMENT (Cont.)

c. Details of assets and liabilities distributed into linkage basis: (Cont.)

	December 31, 2014					
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,359,895	-	1,359,895
Deferred tax assets	-	-	-	27,017	-	27,017
Deferred acquisition costs	-	-	-	1,769,245	71	1,769,316
Fixed assets	-	-	-	717,456	-	717,456
Investments in affiliates	13,547	337	6,114	624,468	-	644,466
Investment property for yield dependent contracts	-	-	-	-	4,898,057	4,898,057
Other investment property	-	-	-	630,890	-	630,890
Reinsurance assets	150,363	836,450	22,511	-	4,383	1,013,707
Current tax assets	-	188,403	16,032	-	10,824	215,259
Debtors and receivables	172,974	7,423	77,397	14,218	716,496	988,508
Outstanding premiums	48,890	285,190	39,990	-	205,265	579,335
Financial investments for yield dependent contracts	-	-	-	-	69,582,999	69,582,999
Other financial investments:						
Quoted debt assets	1,764,305	3,858,739	517,198	-	-	6,140,242
Unquoted debt assets	346,729	21,577,135	129,772	-	-	22,053,636
Shares	-	-	-	1,113,352	-	1,113,352
Others	10,395	-	14,598	2,360,210	-	2,385,203
Total other financial investments	2,121,429	25,435,874	661,568	3,473,562	-	31,692,433
Cash and cash equivalents for yield dependent contracts	-	-	-	-	3,289,969	3,289,969
Other cash and cash equivalents	1,512,005	-	130,646	-	-	1,642,651
Total assets	4,019,208	26,753,677	954,258	8,616,751	78,708,064	119,051,958

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the Dollar and the Euro.

NOTE 37:- RISK MANAGEMENT (Cont.)

c. Details of assets and liabilities distributed into linkage basis: (Cont.)

	December 31, 2014					
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Assets in respect of yield dependent contracts	Total
	NIS in thousands					
Total equity	-	-	-	5,278,073	-	5,278,073
Liabilities	-	-	-	-	-	-
Liabilities in respect of non-yield dependent insurance and investment contracts	695,896	30,658,197	49,638	-	-	31,403,731
Liabilities in respect of yield dependent insurance and investment contracts	-	-	-	-	78,046,216	78,046,216
Deferred tax liabilities	-	-	-	722,985	-	722,985
Liabilities for employee benefits, net	50,619	-	-	79,386	119,099	249,104
Liabilities in respect of current taxes	-	40,836	-	-	-	40,836
Creditors and payables	809,279	464,466	233,660	65,754	150,254	1,723,413
Financial liabilities	18,392	845,428	49,680	32,719	641,381	1,587,600
Total liabilities	1,574,186	32,008,927	332,978	900,844	78,956,950	113,773,885
Total equity and liabilities	1,574,186	32,008,927	332,978	6,178,917	78,956,950	119,051,958
Total balance sheet exposure	2,445,022	(5,255,250)	621,280	2,437,834	(248,886)	-
Exposure to base assets through derivative instruments in Delta terms	1,734,098	-	(1,746,581)	12,483	-	-
Total exposure	4,179,120	(5,255,250)	(1,125,301)	2,450,317	(248,886)	-

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the Dollar and the Euro.

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts:

1. Composition of investments according to linkage basis:

	December 31, 2015				
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto	Non-monetary items and others	Total
	NIS in thousands				
Cash and cash equivalents	5,116,340	-	2,684,786	-	7,801,126
Quoted assets	10,189,695	13,407,960	3,879,592	29,831,864	57,309,111
Unquoted assets	813,674	7,355,012	599,091	9,765,680	18,533,457
Total assets	16,119,709	20,762,972	7,163,469	39,597,544	83,643,694
Exposure to the base asset through derivative instruments in delta terms	16,441,949	-	(24,111,160)	7,669,211	-

	December 31, 2014				
	In unlinked NIS	In NIS linked to the CPI	Stated in foreign currency or linked thereto *)	Non-monetary items and others	Total
	NIS in thousands				
Cash and cash equivalents	2,371,339	-	918,630	-	3,289,969
Quoted assets	8,397,957	11,500,647	3,565,229	33,196,925	56,660,758
Unquoted assets	603,954	7,244,180	1,154,533	9,754,670	18,757,337
Total assets	11,373,250	18,744,827	5,638,392	42,951,595	78,708,064
Exposure to the base asset through derivative instruments in Delta terms	18,548,993	-	(22,775,937)	4,226,944	-

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts: (Cont.)

2. Credit risk for assets in Israel:

	Local rating *) December 31, 2015				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	14,620,707	-	-	-	14,620,707
Other debt assets - quoted	6,108,253	2,805,025	47,173	105,714	9,066,165
Other debt assets - unquoted	4,287,387	3,415,904	37,400	403,462	8,144,153
Total debt assets in Israel	25,016,347	6,220,929	84,573	509,176	31,831,025
Of which debt assets at internal rating	1,613,571	1,800,984	37,400	-	3,451,955
Includes debt assets at internal rating whose rating was reduced by the Company	278,528	592,894	-	-	871,422

	Local rating *) December 31, 2014				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	12,279,981	-	-	-	12,279,981
Other debt assets - quoted	4,788,544	3,469,233	71,663	75,139	8,404,579
Other debt assets - unquoted	3,008,439	3,451,262	-	430,111	6,889,812
Total debt assets in Israel	20,076,964	6,920,495	71,663	505,250	27,574,372
Of which debt assets at internal rating	1,177,256	2,284,848	-	-	3,462,104
Includes debt assets at internal rating whose rating was reduced by the Company	319,205	963,596	-	-	1,282,801

*) The sources for the rating level in Israel are Maalot 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 carrying amount approximates 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: (Cont.)

3. Credit risk for assets abroad:

	International rating *)				
	December 31, 2015				
	A and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	297,581	2,175,160	1,568,908	-	4,041,649
Of which debt assets with internal rating	121,829	-	-	-	121,829

	International rating *)				
	December 31, 2014				
	A and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	271,048	1,579,843	1,712,603	-	3,563,494

*) The sources for the rating level aboard are S&P, Moody's and Fitch, which were approved by the Commissioner of Insurance. Each rating includes all the ranges, for example: A includes A- through A+.

**) The carrying amount approximates –[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. Effective from October 29, 2012 ("the date of acquisition of control"),the Company's controlling shareholders are Mr. and Mrs. Shlomo and Haya Eliahu, who jointly hold shares in the Company directly and indirectly through Eliahu Insurance (collectively - "the controlling shareholder"). See details of the controlling shareholder's holdings in the Company in Note 1 above. See also details and data of transactions with the controlling shareholder, his relatives or companies controlled by it or of third party transactions in which the controlling shareholder has a personal interest ("controlling shareholder transactions") in c-e below.

2. As of the reporting date, Mr. Shlomo Eliahu directly and indirectly holds about 27% of the issued and paid-up share capital of Union Bank Ltd. ("Union Bank"). Accordingly, from the date of acquisition of control ,the transactions of the Company and/or its subsidiaries with Union Bank and/or companies controlled by it are classified as transactions in which the Company's controlling shareholder has a personal interest (this is in addition to being engagements in which a senior officer in the Company has a personal interest, starting from the date on which Mr. Shlomo Eliahu began serving as a director in the Company).

   Until January 2013, Bank Leumi was an interested party in the Company. In addition, on the date of acquisition of control in the Company and until October 2013, Mr. Shlomo Eliahu directly and indirectly held over 5% of the share capital in Bank Leumi (in addition to the holdings of Migdal Group in Bank Leumi, as they were at that time). Accordingly, from the date of acquisition of control, the transactions of the Company and/or its subsidiaries with Bank Leumi and/or companies controlled by it were classified as transactions in which the Company's controlling shareholder has a personal interest as well as engagements in which a senior officer in the Company has a personal interest. Starting from October 2013 and as of the reporting date, Bank Leumi is no longer classified as an entity whose engagements with the Company and/or its subsidiaries represent controlling shareholder transactions.

   According to the directives of the Antitrust Commissioner in an approval granted by him in connection with the acquisition of control, effective from the date of consummation of the transaction for the acquisition of control, the Company will not enter into any agreements (directly and indirectly) with trading companies in which the controlling shareholder holds at least 5% of the share capital, directly or indirectly[1], for conducting transactions in members' assets for which the consideration is paid from the members' assets but rather only through a competitive tender in which every trading company has a fair chance of participating under the terms set forth by the Antitrust Commissioner.

   On the date of acquisition of control, this directive applied to both Bank Leumi and Union Bank. As of the financial statement date, the directive is only applicable to Union Bank. See details and data of transactions with Bank Leumi and Union Bank ("other related parties") in c-d and f below (the data regarding the transactions with Bank Leumi relate to the period in which Bank Leumi was considered a related party).

[1] Excluding a trading company whose entire shares were directly or indirectly held by the Company on the date of consummation of the transaction, namely Migdal Capital Markets.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

a. General: (Cont.)

3. Before the date of acquisition of control, the controlling shareholder in the Company was Generali. In the context of the sale of control, Generali undertook towards the Company to allow Migdal Insurance to continue renewing its reinsurance contracts, at Migdal Insurance's discretion, for a period of five years, up to Generali's existing exposure threshold (as detailed in a report of October 29, 2012, reference no.: 2012-01-266412). In view of the transfer of control, Migdal Insurance's engagements with Generali no longer represent controlling shareholder transactions and therefore no longer require special approval for controlling shareholder transactions. However, in view of the ISA's position regarding other contexts according to which transactions with former controlling shareholders are viewed as transactions in which the new controlling shareholder has a personal interest, the Company decided, on the basis of a legal opinion received, that although Generali is no longer the controlling shareholder of the Company and although there is no reason to consider Mr. Shlomo Eliahu as having a personal interest in the transactions with Generali, and for caution sale only, to approve transactions with Generali through legal procedures applied to controlling shareholder transactions until the end of 2014 (two calendar years from the date of acquisition), all as detailed in a report of May 28, 2013 and a revised report of June 23, 2013 (references no.: 2013-01-075304 and 2013-01-071268, respectively).

   See details and data of transactions and engagements with Generali in c, d and g below (the data regarding the transactions with Generali relate to the period in which transactions with Generali were considered transactions with a controlling shareholder).

4. Details and data of engagements with affiliates are presented in c, d and h below.

   This Note does not include a description of controlling shareholder transactions and/or transactions with other related parties which occurred before they became related parties. Financial data regarding these transactions in the reporting period are included in the data in c and d below. Balances and transactions between the Company and interested and related parties which occurred when those parties were related and/or interested and in the reporting period ceased being related and/or interested parties, including in this context Bank Leumi, as described in a(2) above and Generali as described in a(3) above, are disclosed in this Note in comparative figures presenting previous periods.

b. The Company's policy on immaterial transactions:

1. In its ordinary course of business, the Group performs or is likely to conduct transactions with interested parties and/or controlling shareholder transactions, including, but not limited to, the following types of transactions: reinsurance contracts and facultative agreements, purchase of assets, rental of real estate properties, purchase of products and services through the controlling shareholder, joint ventures, including joint investments and receipt of financial or economic services. Please note that the above transactions do not constitute a closed list.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. The Company's policy on immaterial transactions: (Cont.)

2. As detailed in 4 below, the Company's Board has adopted certain guidelines and rules for classifying the transactions of any of the Group companies pursuant to Regulation 41(a)(6) to the Securities Regulations (Preparation of Annual Financial Statements), 2010 ("the immaterial transactions procedure"). These guidelines and rules serve in examining the scope of disclosure and reporting required from public companies in connection with transactions with interested parties and/or controlling shareholder transactions according to the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Reporting Regulations"), including the reporting framework in interim financial statements (as stated in Regulation 22 to the Reporting Regulations) and examining the need for immediate reporting of such transactions, according to Regulation 37(a)(6) to the Reporting Regulations.

3. The financial data included in c and d below consist of immaterial transactions. The details of transactions with other related parties and/or controlling shareholder transactions do not include a description of transactions that are classified as immaterial according to the Board's immaterial transactions test.

4. On March 26, 2012, the Company's Board decided to update the guidelines and rules for classifying transactions as immaterial. According to this decision, which was readopted by the Board on March 24, 2015, a transaction will be viewed as immaterial if it meets all the following conditions:

    1) It is not an irregular transaction (as defined in the Companies Law).

    2) In the absence of any special qualitative considerations that arise from the relevant circumstances, a transaction will be viewed as immaterial if:

        a) The scope of the individual transaction does not exceed NIS 8 million and in a reinsurance transaction (the scope of premiums transferred to the insurer less the commissions paid to the Company) - the controlling shareholder's share does not exceed NIS 4 million, adjusted to the rate of increase in the CPI in relation to the known CPI for January 2012).

        And

        b) The result of measuring the transaction against the relevant benchmark(s) as discussed below is less than 0.5%. The relevant benchmarks for classifying a certain transaction with the controlling shareholder as an immaterial transactions are:

            - In the sale of insurance or purchase of reinsurance - premium ratio.
            - In the purchase of an asset - asset ratio; in the sale of an asset - profit ratio, asset ratio.
            - In the purchase/sale of products or other services - expense ratio or service income ratio, as applicable.
            - In assuming a financial liability - liability ratio.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. The Company's policy on immaterial transactions: (Cont.)

4. (Cont.)

2) (Cont.)

b) (Cont.)

In this context:

Premium ratio:	The premium underlying the event divided by the total annual premiums in the relevant operating segment (life assurance and long-term savings, health insurance, general insurance), calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.
Asset ratio:	The scope of the assets underlying the event (purchased or sold assets) divided by the total assets; the ratio is measured separately for the members' funds that are managed by the Group and for Nostro funds. In the event of a joint venture of the members' funds and Nostro funds, the relevant ratio of each type of assets will be measured separately according to the amount of the portion of the members' funds/Nostro funds, as applicable, in the transaction against the total amount of the assets - members' funds/Nostro funds are measured according to the latest known reviewed/audited financial statements.
Profit ratio:	The profits or losses attributable to the event divided by the average annual comprehensive income or loss (including changes in capital reserves) in the three last calendar years.
Liability ratio:	The liability underlying the event divided by the total liabilities according to the latest known reviewed/audited financial statements.
Equity ratio:	The increase or decrease in equity divided by the equity according to the latest known reviewed/audited financial statements.
Service income ratio:	The scope of income underlying the event divided by the total average annual income in the last three years that is not from premiums, calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.
Service expense ratio:	The scope of expenses underlying the event divided by the annual general and administrative expenses calculated on the basis of the last four quarters for which reviewed or audited financial statements have been issued.

5. Regarding multiannual transactions, the scope of the transaction is calculated on an annual basis for the purpose of testing immateriality, thus, for example in a multiannual insurance transaction, the scope of the transaction will be viewed as the annual insurance fees that are paid or collected.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. The Company's policy on immaterial transactions: (Cont.)

6. In cases in which, at the Company's discretion, all the quantitative benchmarks mentioned above do not apply to testing the immateriality of a controlling shareholder transaction, the transaction will be viewed as immaterial based on another applicable benchmark determined by the Company provided that this benchmark is at a rate of at least 0.5% and the scope of the transaction does not exceed NIS 8 million, linked to the CPI as discussed above.

7. The examination of the qualitative considerations of a controlling shareholder transaction may lead to the classification of the transaction as material despite the above mentioned. So for instance, and only for example, a controlling shareholder transaction will not generally be considered immaterial 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 transaction the controlling shareholders are expected to receive benefits which must be reported to the public.

8. A transaction that was classified by an investee of the Company as immaterial will also be considered as immaterial for the Company. Such a transaction which was classified by the investee as immaterial will be examined against the relevant benchmarks at the Company's level.

9. The Company's Board will review the need to update this procedure from time to time, considering the controlling shareholder transactions entered into by the Company and changes in the applicable legal provisions.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

c. Balances with interested and related:

Interested parties, related parties and key management personnel in the Company and/or in the subsidiaries in which they serve as officers, including the controlling shareholder and/or his relatives serving as officers, may purchase, from time to time, insurance contracts, investment contracts or other financial products that were issued by the Group and/or that are sold by the Group members, at market terms and in the ordinary course of business. Details on these transactions are not included in this note.

Composition:

	December 31, 2015		
	Eliahu Group	Union Bank and other related parties *)	Affiliates
	NIS in thousands		
Debtors and receivables	-	50	402
Debt assets **)	-	178,385	201,752
Shares	-	408,566	57,161
Creditors and payables	(81)	(316)	-
Financial liabilities	-	(888)	-

*) The highest balance of debt assets of an interested party during the year amounted to NIS 323,552 thousand.

**) In the context of their current investment activity, the Company and its subsidiaries purchase bonds of various companies and inter alia conduct trading activities in the bonds of Amot, an affiliate of the Company. Prior to the acquisition of control in the Company, the Company and its subsidiaries purchased bonds and shares of Union Bank and from the date of acquisition of control and as of the reporting date they do not purchase any securities of Union Bank but occasionally sell these holdings in the course of ordinary trading activity.

	December 31, 2014			
	Eliahu Group	Union Bank and other related parties *)	Generali	Affiliates
	NIS in thousands			
Reinsurance assets	-	-	355,832	-
Debtors and receivables	-	-	2	1,285
Debt assets **)	-	463,913	149,958	207,191
Shares	-	3,947	-	67,710
Creditors and payables	(37,996)	(102)	(25,828)	(1)
Financial liabilities	-	(26,804)	-	(5,137)

*) The highest balance of debt assets of an interested party during the year amounted to NIS 618,221 thousand.

**) In the context of their current investment activity, the Company and its subsidiaries purchase bonds of various companies and inter alia conduct trading activities in the bonds of Generali and Amot, an affiliate of the Company. Prior to the acquisition of control in the Company, the Company and its subsidiaries purchased bonds and shares of Union Bank and from the date of acquisition of control and as of the reporting date they do not purchase any securities of Union Bank but occasionally sell these holdings in the course of ordinary trading activity.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Transactions with interested and related parties:

	December 31, 2015		
	Eliahu Group	Union Bank and other related parties	Affiliates
	NIS in thousands		
Premiums received	2,445	1,248	7
Commissions and profit participating in group insurances	-	162	-
Claims paid	4	387	95
Distribution and operating agreements	-	1,232	-
Agent commission and other commissions	-	858	6,626
Leasing fees/usage fees	-	-	189
Management fees	-	-	900
Transaction costs	2,206	-	-
Other	-	(425)	907

	Year ended December 31, 2014			
	Eliahu Group	Union Bank and other related parties	Generali	Affiliates
	NIS in thousands			
Premiums earned - reinsurance	-	-	133,538	-
Reinsurance commissions	-	-	18,722	-
Reinsurance claims and outstanding claims	-	-	128,481	-
Premiums received	-	-	13,675	-
Commissions and profit participating in group insurances	-	225	-	-
Distribution and operating agreements	-	1,217	-	-
Agent commission and other commissions	-	501	-	9,099
Leasing fees/usage fees	-	-	-	168
Transaction costs	975	-	-	-
Other	3,088	722	-	36

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Transactions with interested and related parties: (Cont.)

	December 31, 2013			
	Eliahu Group	Union Bank and other related parties	Generali	Affiliates
	NIS in thousands			
Premiums earned - reinsurance	-	-	208,390	-
Reinsurance commissions	-	-	34,562	-
Reinsurance claims and outstanding claims	-	-	63,857	-
Premiums received	-	-	9,994	-
Commissions and profit participating in group insurances	-	10,518	-	-
Distribution and operating agreements	-	21,274	-	-
Agent commission and other commissions	-	7,641	-	7,073
Leasing fees/usage fees	-	2,518	126	260
Transaction costs	-	836	-	-
Other	-	286	-	-

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Description of controlling shareholder transactions:

Following is a description of controlling shareholder transactions classified as extraordinary and non-extraordinary transactions pursuant to Section 270(4) to the Companies Law:

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
1	Mr. Eliahu Eliahu	March 6, 2013 - approval of the Company's general meeting	Terms of employment of the central region's director of the general insurance business, Mr. Eliahu Eliahu, the brother of Mr. Shlomo Eliahu, who began working at Migdal Insurance on January 1, 2013 as central region's director of the general insurance business for a monthly salary of NIS 50 thousand and related benefits such as recreation, vacation and sick pay, vehicle maintenance, reimbursement of expenses, social benefits, occupational disability insurance and advanced study fund. The overall remuneration paid to Mr. Eliahu Eliahu in 2015 approximated NIS 916 thousand (cost to employer and before salary tax effect). The legal approval is in effect until January 1, 2016. See more details of the terms of Mr. Eliahu Eliahu's tenure in immediate reports of February 19, 2013 and February 28, 2013 (references no.: 2013-01-042837 and 2013-01-050631, respectively) regarding the convening of the general meeting and immediate report of March 11, 2013 (reference no.: 2013-01-002080) regarding the results of the general meeting.
		February 23, 2016 – approval of the Company's board of directors	Approval of the terms of employment of the general insurance business director for the central region – On February 23, 2016 the Company's board of directors approved the terms of employment of Mr. Eliahu Eliahu, effective as of January 1, 2016 until January 1, 2019. The terms of service will be materially unchanged from those approved for him in 2013. The Company convened a general meeting of the shareholders having on its agenda a proposal to approve the terms of service of Mr. Eliahu Eliahu as aforementioned. For further details, see immediate report of March 23, 2016 (reference no.: 2016-01-013122).
		October 27, 2014 - approval of the Company's general meeting	Bonuses for 2013-2016 - approval of an annual bonus for 2013 totaling NIS 150 thousand and approval of a normative annual bonus to Mr. Eliahu Eliahu for each of the years 2014-2016 based on the remuneration policy, which is performance dependent. The amount of the bonus in each calendar year will be determined based on a normative bonus of NIS 200 thousand, according to a performance scale of 70% to 140%. At a scale of 100%, the bonus will be equivalent to the normative bonus; at a scale below 70%, the director will not be entitled to any bonus; at a scale of 140% and above, the director will be entitled to a maximum bonus of NIS 280 thousand a year. See more details of the annual and normative bonuses in immediate report of September 22, 2014 (reference no.: 2014-01-161913) regarding the convening of the general meeting and immediate report of October 27, 2014 (reference no.: 2014-01-181653) regarding the results of the general meeting..

[1] Throughout this Note, refers to the last date of approval by the relevant entity for the purpose of the Companies Law and the identity of the approving entity. Transactions approved in the general shareholders' meeting were previously approved by the Company's Audit Committee and Board. Where an update and/or change is made to a previous transaction, the description of the entire transaction will be made at the earlier date of the two abovementioned dates.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Description of controlling shareholder transactions: (Cont.)

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[2]**	**Nature and description of the transaction**
2	Eliahu Insurance	September 30, 2013 - approval of the Company's general meeting	Acquisition of the general insurance portfolio (renewals) - Migdal Insurance signed an agreement for the acquisition of a new general insurance business from Eliahu Insurance effective from 2013. The transaction price was set at NIS 260 million and paid on October 1, 2013 (the balance of intangible assets as of December 31, 2015 amounts to about NIS 221 million). In order to approve the transaction, the Board appointed a special independent committee. The transaction was accounted for as a business combination. In the transaction, no intangible assets were purchased and no liabilities were assigned to Migdal Insurance. See more details in Note 4 above. Migdal Insurance bore the directly attributable costs of the acquisition in an immaterial amount and included them in general and administrative expenses in the income statement in 2013. In the transaction, compensation was established in favor of Migdal Insurance for any liability that will apply to Migdal Insurance or for any claim or argument filed against it or for any damage caused to it in respect of Eliahu Insurance's customers whose grounds predate the date of issuance of a new policy by Migdal Insurance; any liability or duty towards Eliahu Insurance's agents that is not related to new policies or in connection with Migdal Insurance's activities with these agents regarding new policies; claims of any of Eliahu Insurance's employees who were not relocated to Migdal Insurance, or rights of Eliahu Insurance's employees who were relocated to Migdal Insurance arising in the period predating their employment in Migdal Insurance; any other third party liability or duty whose grounds originate in the period before January 1, 2013; any other exposures of Migdal Insurance in respect of Eliahu Insurance's past or future activities. A report on the convening of a general meeting for approving this transaction (final version) was issued on September 25, 2013 (reference no.: 2013-01-150849) and a report on the results of the general meeting was issued on September 30, 2013 (reference no.: 2013-01-152673).
		February 3, 2016 – approval of the Company's general meeting	Agreement for the acquisition of run-off general insurance portfolio – Migdal Insurance entered into an agreement with Eliahu Insurance Ltd. ("Eliahu Insurance") under which sole responsibility for the run-off of Eliahu Insurance's general insurance portfolio will be transferred to Migdal Insurance, including policies issued by Eliahu Insurance up to December 31, 2012 ("the insurance portfolio"). Concurrently with the transfer of the insurance portfolio, Eliahu Insurance will transfer to the Company a cash amount equal to the actuarial assessment of the liabilities included in the insurance portfolio (intended for funding the handling of the insurance portfolio), subject to the adjustments specified in the agreement (the actuarial assessment of the exposure to claims included in the insurance portfolio, as of June 30, 2015, according to Eliahu Insurance's financial statements, amounted to NIS 393 million, and it will transfer, in addition, 3% of the actuarial assessment before reinsurance (intended for payment of indirect costs of handling the insurance portfolio).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Description of controlling shareholder transactions: (Cont.)

Extraordinary controlling shareholder transactions			
#	Party to the transaction with the Company	Date of approval/ approving entity[2]	Nature and description of the transaction
			In consideration for handling the insurance portfolio, Migdal Insurance will be entitled to 71% of the profits, if any, generated by the insurance portfolio, but not less than NIS 7 million (profit guaranteed by Eliahu Insurance, which will be transferred as an advance payment on the transaction closing date). Together with the agreement, and as a condition thereof, a reinsurance agreement was signed between Migdal Insurance and Swiss Re ("Swiss"), pursuant to which Swiss is to grant insurance coverage for the insurance portfolio, covering all of Migdal Insurance's insurance liabilities ("the Swiss reinsurance"). Under the reinsurance agreement with Swiss, Swiss will be entitled to a premium of NIS 11 million (to be transferred as an advance payment immediately after the closing of the transaction, according to the mechanism provided for) as well as (in addition to said premium) 29% of the profits, if any, arising from the insurance portfolio. The agreement also establishes arrangements regarding Eliahu Insurance's duty of indemnification and payment in the event that the amount of the actuarial assessment and the Swiss reinsurance do not suffice to cover the claims and expenses connected with the insurance portfolio, said indemnification to be included in the accounting between the parties. Furthermore, Eliahu Insurance gave a separate undertaking to indemnify Migdal Insurance in the event that the amounts deposited in the expense account do not suffice to cover the indirect expenses of the insurance portfolio, said indemnification to be deducted from the Company's profits, if any, from the insurance portfolio. In addition to the indemnification undertaking, on the transaction closing date Eliahu Insurance is to provide an autonomous bank guarantee of an Israeli bank in favor of Migdal Insurance, at 5% of the amount of the actuarial assessment ("the bank guarantee"). The bank guarantee will be valid up to the year 2020 at least, and the amount of the bank guarantee will be adjusted annually, based on the assessed amount of the claims in the insurance portfolio, as reported in Migdal Insurance's financial statements. Likewise, the agreement establishes various indemnification arrangements in circumstances where the Swiss reinsurance does not apply (e.g. due to exclusions set in the Swiss reinsurance terms), and in the event of various claims, demands and proceedings as specified between the parties, and the indemnification pursuant to these arrangements will not be included in the accounting. The closing of the transaction is subject to conditions precedent, which as of the date of signing of the financial statements had all been fulfilled, except for the court's approval of the transaction. For further details see the report of December 29, 2015 regarding the convening of the general meeting to approve this transaction (reference No.: 2015-01-081583) and the report of February 3, 2016 regarding the results of the general meeting (reference no.: 2016-01-022456).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Description of controlling shareholder transactions: (Cont.)

Extraordinary controlling shareholder transactions			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[2]**	**Nature and description of the transaction**
3	Israel Eliahu	November 19, 2013 – approval of the Company's Board	Terms of service - Mr. Israel Eliahu, the son of Mr. Shlomo Eliahu, serves as director in the Company and in Migdal Insurance, as Chairman of the Nostro Investment Committee of Migdal Insurance and as Chairman of the Board of Migdal Capital Markets (1965) Ltd. ("Capital Markets"). In respect of his service in the Company and in Migdal Insurance, Mr. Israel Eliahu is entitled to annual remuneration of NIS 123 thousand and a fee of NIS 4,740 for participating in each Board and/or committee meeting, which is identical to the fee paid to other directors, including external directors (not including the Chairman of the Board). Mr. Israel Eliahu does not receive any other remuneration for his service as Chairman of the Board of Capital Markets. VAT as required by law is added to the above amounts and the amounts are updated twice a year based on the increase in the CPI. These terms were approved in accordance with Regulation 1b(3) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 ("the Reliefs Regulations"). The overall remuneration paid to Mr. Israel Eliahu for his service in the Company and in Migdal Insurance in 2015 and 2014 amounted to about NIS 283 thousand and NIS 257 thousand, respectively (overall cost). See more details in immediate report of November 19, 2013 (reference no.: 2013-01-196653).
4	Ofer Eliahu	April 13, 2014 - approval of the Company's general meeting	Terms of service - Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, serves as CEO of Migdal Insurance and Chairman of Makefet and Yozma. See details of the terms of employment of Mr. Ofer Eliahu in these capacities in j(4)(d) below.
5	Mr. Yossi Ben Baruch (former officer in Eliahu Insurance)	May 27, 2014 - approval of the Company's Board	Terms of service - Mr. Yossi Ben Baruch served as Acting CEO, comptroller, legal consultant and director of the investment division in Eliahu Insurance until June 30, 2014. In addition, from February 1, 2014 through June 30, 2014, Mr. Ben Baruch served as director in Capital Markets. In respect of his service as director, Mr. Ben Baruch received in 2014 overall remuneration of about NIS 62 thousand. These terms were approved in accordance with Regulation 1b(3) of the Reliefs Regulations - see immediate report of May 27, 2014 (reference no.: 2014-01-074892). On July 1, 2014, Mr. Ben Baruch began serving as CEO of Capital Markets - see immediate report of June 20, 2014 (reference no.: 2014-01-103440). Starting from the date of termination of Mr. Ben Baruch's tenure at Eliahu Insurance (June 30, 2014), his service as CEO of Capital Markets or as director in any of its subsidiaries does not represent a controlling shareholder transaction.
6	The controlling shareholder and his relatives serving as officers in the Company	January 27, 2015 and February 24, 2015 - approval of the Company's Board	Officers' insurance – For details of the Company's and its subsidiaries' officers' insurance policy and of Capital Markets' officers' insurance policy, including in respect of officers who are the controlling shareholder or his relatives, see j(4)(g) below. This insurance coverage for the controlling shareholder and/or his relatives was approved in accordance with Regulation 1b to the Reliefs Regulations. As of the reporting date, the controlling shareholder and/or his relatives who serve as officers have not received a letter of indemnification from the Company. See details of letters of indemnification granted to officers who are the controlling shareholder or any entity in which the controlling shareholder has a personal interest in Note 39(2)(d) below.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

e. Description of controlling shareholder transactions: (Cont.)

Controlling shareholder transactions that are neither extraordinary nor immaterial			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[2]**	**Nature and description of the transaction**
1	Eliahu Insurance	May 7, 2014 - approval of the Company's Audit Committee	Monetary investment in a limited partnership, MGT Hedge Fund, L.P., a hedge fund founded on January 1, 2014 ("the Fund") by Capital Markets and managed by it through a general partner wholly owned and controlled by it. The investors in the Fund, in equal parts, are Capital Markets and Eliahu Insurance, each of which invested a total of NIS 35 million with a possible increase of each partner's investment to up to NIS 50 million and in return for carried interest and management fees as approved by the Company's Audit Committee based on market terms. There is no mutual undertaking between Capital Markets and Eliahu Insurance to invest in the Fund. Eliahu Insurance notified Capital Markets that its investment would be limited to up to 50% of the Fund's assets. Eliahu Insurance's outstanding investment as of December 31, 2014 approximated NIS 38 million. In the first quarter of 2015, Eliahu Insurance and Capital Markets filed applications for withdrawal of their entire investments in the Fund. During the reporting period Eliahu Insurance and Capital Markets withdrew their entire investment in the Hedge Fund, and its activity was terminated. In August 2015 Capital Markets' Board approved the Fund's liquidation. A report on the approval of the transaction was issued on May 8, 2014 (reference no.: 2014-01-059139).

f. Description of transactions with other related parties:

Following is a description of transactions with other related parties classified separately as extraordinary transactions in accordance with Section 270(4) of the Companies Law and non-extraordinary transactions not in accordance with Section 270(4) to the Companies Law:

Extraordinary transactions with other related parties			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[2]**	**Nature and description of the transaction**
1	Bank Leumi	January 14, 2013 - approval of the Company's Board	Operation of provident funds - an agreement for receiving operating services for all the provident and study funds managed by Makefet (including funds managed by other operators) from Leumi Capital Markets Ltd., a company controlled by Bank Leumi ("Leumi Capital Markets") in return for a commission calculated as a function of the scope of the operated assets which will not exceed 0.07% of Makefet's assets operated by Leumi Capital Markets. The agreement is for a period of three years from the date of approval. For caution sake, the transaction was recognized as an "extraordinary transaction" in view of the materiality of the transaction and was approved in accordance with Regulation 1(5) to the Reliefs Regulations. The overall amount paid to Bank Leumi for the operating services in 2013 is NIS 7,504 thousand. See more details in an immediate report of January 15, 2013 (reference no.: 2013-01-013635).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

f. Description of transactions with other related parties: (Cont.)

Extraordinary transactions with other related parties			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[2]**	**Nature and description of the transaction**
2	Bank Leumi Union Bank	January 29, 2013 - approval of the Company's Board for the Company, Migdal Insurance and Migdal Insurance's subsidiaries April 25, 2013 - approval of the Company's Board for Migdal Capital Markets and its subsidiaries	Current banking activity - engagements with Union Bank and with Bank Leumi and their related parties in the context of the current treasury and investment activities of the Group companies in the ordinary course of business and at arm's length. The approval stipulates various conditions for securing market terms that do not deviate from standard terms underlying similar transactions with other banks. For caution sake, due to the scope of the assets being managed and/or deposited in the Banks and/or the scope of activity in unquoted derivatives performed through them, the Company decided to classify the engagement for managing the bank account, placing deposits, receiving security custodian services and OTC unquoted derivative transactions as extraordinary transactions (in view of their materiality). In addition, for caution sake, engagements between the Banks and funds that only manage a single bank account were classified as material transactions. The transactions were approved in accordance with Regulation 1(5) to the Reliefs Regulations. The engagements will be reapproved every three years, if and to the extent required. See details in immediate reports of January 30, 2013 and April 28, 2013 (references no.: 2013-01-025002 and 2013-01-046258, respectively). The scope of payments made by the Group companies to Union Bank for brokerage and custodian services in 2015, 2014 and 2013 totaled about NIS 323 thousand, NIS 9 thousand and NIS 4 thousand, respectively. The scope of payments made by the Group companies to Bank Leumi for brokerage and custodian services in 2013 totaled about NIS 430 thousand.
1	Bank Leumi	January 10, 2013 - approval of the Company's Audit Committee	Insuring the assets of Bank Leumi's borrowers - Migdal Insurance entered into a transaction for insuring the assets of Bank Leumi's borrowers. The insurance period is for 12 months starting from January 1, 2013. The premium approximates NIS 10,518 thousand in respect of which Migdal Insurance will pay Bank Leumi the maximum commission prescribed in the law in this respect. The transaction premium does not exceed 2% of Migdal Insurance's total general insurance premiums, in this context, the total annual premiums for 2012 and for September 2013, calculated on an annual basis. See additional information in an immediate report of January 13, 2013 (reference no.: 2013-01-011751).

Transactions with other related parties that are neither extraordinary nor immaterial			
#	**Party to the transaction with the Company**	**Date of approval/ approving entity[2]**	**Nature and description of the transaction**
1	Bank Leumi	January 10, 2013 - approval of the Company's Audit Committee	Insuring the assets of Bank Leumi's borrowers - Migdal Insurance entered into a transaction for insuring the assets of Bank Leumi's borrowers. The insurance period was for 12 months starting from January 1, 2013. The premium approximates NIS 10,518 thousand in respect of which Migdal Insurance paid Bank Leumi the maximum commission prescribed in the law in this respect. The transaction premium did not exceed 2% of Migdal Insurance's total general insurance premiums. See additional information in an immediate report of January 13, 2013 (reference no.: 2013-01-011751).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Description of transactions with Generali:

Following is a description of controlling shareholder transactions with Generali classified separately as extraordinary transactions in accordance with Section 270(4) of the Companies Law and non-extraordinary transactions not in accordance with Section 270(4) to the Companies Law:

Extraordinary transactions with Generali		
#	**Date of approval/ approving entity[2]**	**Nature and description of the transaction**
1	January 23, 2014 - approval of the Company's Board for engaging in reinsurance treaties for 2014	Reinsurance treaties - annual approval for signing all reinsurance treaties in the Company's various operating segments: life assurance, health insurance and general insurance (property and liability insurance) for 2014. These transactions were classified as extraordinary transactions due to their material cumulative scope. In the context of this approval, the Company and Migdal Insurance have set forth criteria and standards according to which Migdal Insurance will verify that all the reinsurance treaties entered into with the Generali Group based on the annual approval are at arm's length. These transactions were approved in accordance with Regulation 1(5) to the Reliefs Regulations, see additional information and the criteria for 2013 and 2014 see immediate reports of January 14, 2013 and January 23, 2014 (references no.: 2013-01-013173 and 2014-01-023344, respectively). The total reinsurance premiums paid to the Generali Group in 2014 in connection with the reinsurance coverage is comprised as follows: <u>General insurance</u> - about NIS 14 million, representing about 8% of total reinsurance premiums to all reinsurers; total exposure to earthquakes of about NIS 91 million in MPL terms, representing about 4% of total exposure to earthquakes for to reinsurers as of December 31, 2014. <u>Life assurance and health insurance, including LTC</u> - about NIS 11 million, representing about 4% of total reinsurance premiums to all reinsurers in connection with assurance and health insurance, including LTC, in 2014.
2	July 2, 2013 - approval of the Company's general meeting	Master approval - facultative reinsurance agreements with Generali for 2013-2014 - master approval for engaging in facultative reinsurance agreements in general insurance ("the master approval"). The master approval consists of parameters for examining market terms and materiality as the general and cumulative master conditions underlying all engagements. In addition, the master approval prescribes various conditions and limitations, including with respect to transferred premiums and the overall scope of facultative transactions each year; insurance amounts transferred to the Generali Group (exposure); and a single transaction in property and liability insurance policies. Each facultative agreement with the Generali Group which meets the general master conditions and the market and materiality conditions set forth in the master approval will be viewed as an ordinary transaction that does not require additional approval of the Audit Committee and Board. In any event that the general master conditions are met but due to circumstances the market terms or materiality tests in the master approval are not met, the transaction will be viewed as an extraordinary transaction and will be submitted for approval pursuant to Regulation 1(3) to the Reliefs Regulations. The master approval forms a continued approval for the master approval for 2010-2012 and replaces the monthly approvals that were needed for entering into facultative reinsurance agreements based on the master agreement for 2010-2012. The period of the master approval also represents the end of the period in which the Company will take steps with respect to transactions with Generali as transactions that require approvals as controlling shareholder transactions. See details in a report on summoning a general meeting of June 23, 2013 (reference no.: 2013-01-071268).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Description of transactions with Generali: (Cont.)

Extraordinary transactions with Generali		
#	Date of approval/ approving entity[2]	Nature and description of the transaction
		The total amount of reinsurance premiums paid to the Generali Group in connection with reinsurance coverage in respect of facultative reinsurance agreements in general insurance that are included in the approval for 2013 approximates NIS 125 million, representing about 53% of total reinsurance premiums in that year and in 2014 - about NIS 102 million, representing about 45% of total reinsurance premiums in that year. The total insurance amount in respect of the exposure to earthquakes paid to the Generali Group in insurance coverage in respect of facultative agreements in general insurance as of December 31, 2013 is about NIS 34 billion, representing about 40% of total exposure to earthquakes in connection with reinsurance coverage in respect of facultative agreements in general insurance as of December 31, 2013 and about NIS 34 billion, representing about 35% of total exposure to earthquakes in connection with reinsurance coverage in respect of facultative agreements in general insurance as of December 31, 2014.
3	November 25, 2013 - approval of the Company's Board	A transaction for the purchase of an old reinsurance portfolio of occupational disability from Generali and the sale of the portfolio to Swiss Re - an agreement according to which starting from January 1, 2013, Generali will cease being the reinsurer of occupational disability policies for Migdal Insurance from 1970 through 2012 ("the reinsurance treaty") and the parties will release each other of any liability and/or warranty towards the other party according to the reinsurance treaty. The mutual release also includes Generali waiving its rights in connection with all the reserves held by Migdal Insurance, including reserves held against Generali's obligations with respect to existing and outstanding claims (IBNRs). Simultaneously and on the same date, Migdal Insurance signed a reinsurance treaty with another reinsurer, Swiss Re, according to which Swiss Re will pay Migdal Insurance an amount of about NIS82 million for assuming all of Generali's obligations, as is, for the reinsurance portfolio. After the exit agreement with Generali and the alternative engagement with Swiss Re were adopted, Generali's insurance liability for the sold portfolio was fully assigned to Swiss Re back-to-back with no change in the reinsurance coverage terms. As a result of these transactions, Migdal Insurance derived a pre-tax gain of about NIS 52 million in the income statement for the year ended December 31, 2013. The transactions were approved pursuant to Regulations 1(2) and 1(5) to the Reliefs Regulations. See details in immediate reports of November 26, 2013 (references no.: 2013-01-203196 and 2013-01-203211).
4	November 29, 2011 - approval of the Company's Audit Committee	Limitation of liability exemption and indemnification obligation - the Audit Committee decided to limit the term of the Company's existing exemption and indemnification arrangements until November 30, 2020 (a period of another nine years from the date of making the decision by the Audit Committee and in total about 14 years from the date of the original decision regarding the exemption and indemnification arrangements), to the extent that the existing arrangements are not replaced with different arrangements, as well as the letters of exemption or indemnification granted from time to time by the Company pursuant to the existing exemption and indemnification arrangements regarding officers in the Company when the Company's controlling shareholder may be viewed as having a personal interest in granting those officers who serve in the Company or will serve in it from time to time letters of exemption and indemnification. See additional information in an immediate report of November 29, 2011 (reference no.: 2011-01-344328).
5	February 7, 2012 - approval of the Company's general meeting	Letters of indemnification to officers in the Company when Generali may be viewed as having a personal interest in granting those officers letters of indemnification - updating and approving the letters of indemnification granted to officers in the Company which the controlling shareholder in the Company may have a personal interest in granting. The relevant officers are two directors - Alessandro Corsi and Sergio Balbinot - and an officer - Livio Steindler. See additional information in a report of summoning a meeting for the approval of the letters of indemnification of February 2, 2012 (reference no.: 2012-01-032109) and Note 39(2)(d) below.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Description of transactions with Generali: (Cont.)

Transactions with Generali that are neither extraordinary nor immaterial	
Date of approval/ approving entity[2]	**Nature and description of the transaction**
September 22, 2008 - approval of the Company's Audit Committee January 19, 2012 - reexamination (for caution sake) and approval of the Company's Audit Committee	Lease contract in Aachen, Germany - extension of the lease contract between Migdal Insurance and AMB Generali, a subsidiary of Generali in Aachen, Germany, regarding the backup site in Aachen which provided Migdal Insurance services for its computing unit. The engagement ended at the end of 2013. Migdal Insurance paid lease fees in 2013 in an amount of about NIS 126 thousand.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

h. Affiliates:

1. Regarding investments in affiliates and dividends distributed by affiliates see Note 7 above on investment in investees and Note 40 below on events after the reporting date.

2. During June 2009, Migdal Real Estate Holdings Ltd. ("Real Estate Holdings") was issued capital notes by an affiliate, Ramat Aviv Mall Ltd. ("Ramat Aviv") totaling NIS 76 million par value for a period of at least five years. This amount is not linked to the CPI and does not bear interest. In June 2014, capital notes were repaid in the amount of about NIS 61 million, see 3.c) below. During the reporting period the outstanding balance of the capital notes was repaid.

3. a) In November 2010, Ramat Aviv granted a loan to its shareholders pro rata to their holdings. Real Estate Holdings' share is about NIS 64 million. This amount is linked to the CPI and bears annual interest at a rate of 4.2%. The principal and interest will be repaid in five equal annual installments beginning from November 2011. On July 1, 2014, the entire outstanding loan was repaid, including interest and linkage, see c) below.

   b) In January 2013, Ramat Aviv provided additional loans to its shareholders pro rata to their holdings. Real Estate Holdings' share is about NIS 75 million. The loans bear annual interest at a rate of Prime + 0.6% and are intended to be repaid in a lump sum on June 30, 2014. Under the loan agreement there is an option for early repayment under certain conditions specified in the agreement.

   c) In the first quarter of 2014, part of the loan mentioned in b) above was repaid in the amount of about NIS 45 million. On July 1, 2014, the outstanding balance of the loans received from Ramat Aviv in 2010 and 2013, as detailed in a) and b) above, was repaid against the repayment of some of the capital notes held by Real Estate Holdings. The total loans repaid amounted to about NIS 59 million, including interest and linkage.

   d) In the second half of 2014, Ramat Aviv granted a loan to its shareholders pro rata to their holdings. Real Estate Holdings' share is about NIS 5 million. The loan is not linked to the CPI and bears fixed nominal interest of 3.23%. As of December 31, 2014, the outstanding balance of the loan amounted to about NIS 5.1 million. At the beginning of 2015 the outstanding balance of the loan was repaid.

   e) At the beginning of 2015 Ramat Aviv provided loans to its shareholders, pro rata to their holding rate, the share of Real Estate Holdings being NIS 7.5 million. These loans are not linked to the CPI and bear fixed nominal interest of 3.05%. These loans were repaid by the end of the year.

   f) In respect of the loans received from Ramat Aviv, finance expenses were recorded in 2015, 2014 and 2013 totaling about NIS 30 thousand, NIS 1.6 million and NIS 4.4 million, respectively.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

h. Affiliates: (Cont.)

3. (Cont.)

g) In respect of the capital notes issued by Ramat Aviv, finance expenses were recorded in 2015, 2014 and 2013 totaling about NIS 240 thousand, NIS 2.2 million and NIS 3.4 million, respectively.

4. Migdal Insurance paid an affiliate, Reshef Insurance Agency (2004) Ltd., up to the sale of the company at the end of the third quarter, commissions for marketing insurance products and pension products in 2015, 2014 and 2013 in the amount of about NIS 2,130 thousand, NIS 4,706 thousand and NIS 3,263 thousand, respectively.

5. Migdal Insurance paid an affiliate, Orlan Insurance Agencies (1994) Ltd., commissions for marketing insurance products and pension products in 2015, 2014 and 2013 in the amount of about NIS 4,052 thousand, NIS 3,980 thousand and NIS 3,370 thousand, respectively.

6. In addition to the aforementioned in 4 and 5 above, Migdal Insurance pays commissions on the marketing of insurance products and pension products to other affiliates in immaterial amounts.

7. In July 2012, Migdal Holding and Management of Insurance Agencies Ltd. ("Migdal Agencies"), a subsidiary of the Company, provided Orlan Insurance Agencies (1994) Ltd., an affiliate, a loan of NIS 1 million, linked to the CPI and bearing annual interest of 3.5%. The loan will be repaid in equal annual installments until January 2016. The balance of the loan as of December 31, 2015 and 2014 is NIS 48 thousand and NIS 341 thousand, respectively. Finance income was recorded in respect of the loan in 2015, 2014 and 2013 in the amount of about NIS 5 thousand, NIS 17 thousand and NIS 40 thousand, respectively.

8. In August 2013, Migdal Insurance provided a loan to a foreign affiliate in the amount of about NIS 5,958 thousand to be repaid in a lump sum at the end of five years. In the course of the year Migdal Insurance provided another two loans to the affiliate in the amount of about NIS 3,549 thousand. The balance of the loan as of December 31, 2015 and 2014 is about NIS 9,802 thousand and NIS 6,497 thousand, respectively. Finance income was recorded in respect of these loans in 2015, 2014 and 2013 in the amount of about NIS 413 thousand, NIS 455 thousand and NIS 158 thousand, respectively.

9. In 2015 Migdal Insurance provided loans to foreign affiliates in an amount of about NIS 20,162 thousand to be repaid by the end of 2025. The balance of the loans as of December 31, 2015 is NIS 20,430 thousand. Finance income was recorded in respect of these loans in the amount of about NIS 266 thousand. These loans are presented as unquoted debt assets under other financial assets.

10. The Company owns various real estate properties. Some of these properties are used by the Company and some are leased to the Group companies, including companies that are not wholly owned by the Company, for immaterial fees.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. Remuneration and benefits to key management personnel (including directors):

Some of the key management personnel of the Company are entitled to a salary, a bonus and non-cash benefits (such as a vehicle, medical insurance, etc.).Some of the key management personnel also participate in the Company's share option plan. For more information, see Note 33 above regarding share-based payments.

j. Data of the remuneration and benefits to key management personnel:

1. Benefits to key management personnel:

	Year ended December 31,					
	2015		2014		2013	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Short-term benefits	10	15,176	12	(* 18,234	9	20,379
Post-employment benefits	9	1,416	12	4,150	9	957
Other long-term benefits	8	-	10	26	7	460
Share-based payment (see Note 33)	4	74	5	61	7	117
		16,666		22,471		21,913

*) For officers serving in Migdal Insurance, the amount of short-term benefits includes a provision for an annual bonus for 2014 to officers actually serving in Migdal Insurance in 2014.

2. Benefits to directors not employed by the Company:

	Year ended December 31,					
	2015		2014		2013	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Management fees to directors who are not employed by or on behalf of the Company	10	4,451	9	5,775	14	8,454
Share-based payment (see Note 33)		-		-	1	2
		4,451		5,775		8,456

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

3. The remuneration policy for the Company's officers in 2014-2016:

a) On June 30, 2014, the boards of the institutional entities approved an institutional remuneration policy for 2014-2016, in keeping with the Commissioner of the Capital Market's circular of April 10, 2014 ("the original Commissioner's circular"), and in December 2015 and February 2016 the boards of the institutional entities approved a revision to said policy in accordance with the Commissioner's circular of October 7, 2015 on the remuneration policy in institutional entities - amendment ("the revised remuneration policy circular"; the original Commissioner's circular and the revised remuneration policy circular are referred to together in this section as "the Commissioner's circular") ("the institutional remuneration policy").The institutional remuneration policy sets forth specific provisions regarding the salary components of "key officers" identified as such in the Commissioner's circular, including, among others, all the officers in institutional entities pursuant to the Companies Law, officers defined as such in the Commissioner's circular, relatives of the controlling shareholder, investment entities and officers identified by the institutional entities as key officers, if the officer's function is liable to have a material impact on the risk profile of the institutional entities or if that officer manages a group of employees who are subject to the same remuneration arrangement whereby the variable component of the remuneration, when measured on a cumulative basis, may expose the institutional entity or the savings funds retained therein to material risk. In the context of the adoption of the institutional remuneration policy, it was decided to adopt the Commissioner's position of June 9, 2014 and the bill regarding the remuneration of officers in financial corporations (special approval and limitation of expenses due to irregular remuneration), 2014, and accordingly, remuneration will not be paid in excess of the ceiling proposed in the law memorandum ("the Commissioner's position"), unless in special and irregular cases. According to the Commissioner's position, the governing bodies must examine the policy on an annual basis and such examination and an update were carried out in the institutional entities in December 2015 and February 2016. See details of the institutional remuneration policy in an immediate report of June 30, 2014 (reference no.: 2014-01-103386).

b) On October 27, 2014, the Company's general meeting approved the change and update of the Company's remuneration policy for 2013-2014 which had been approved by the Company's general meeting on September 2, 2013 ("the original policy") by adopting the a new remuneration policy that is adjusted to the institutional remuneration policy for 2014-2016 and that will supersede the original policy for all intents and purposes ("the remuneration policy"). The remuneration policy applies to all officers in the Company. All the Company's officers also serve as officers in the institutional entities. The Company's remuneration policy was adapted to the institutional remuneration policy. See details of the Company's remuneration policy in immediate reports of June 30, 2014, September 22, 2014 and October 27, 2014 (references no.: 2014-01-103386, 2014-01-161913 and 2014-01-181653, respectively).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

3. The remuneration policy for the Company's officers in 2014-2016: (Cont.)

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the remuneration policy with respect to officers are as follows:

The ratio of fixed salary components to variable salary components: limitations have been placed on the ratio of the variable salary component out of the total remuneration and the measurement of this ratio with respect to the other variable salary components to a maximum rate of 50% for the, 40% for dual position officers and non-control related officers and 30% for control related officers. In addition, according to the remuneration policy, the maximum rate for officers other than the CEO may be increased provided that it does not exceed 66.6% of the annual remuneration, as specified in the Commissioner's circular and in the remuneration policy.

Fixed component (limitations on monthly salary, related benefits, linkage, perseverance etc.): the monthly salary limit was set at NIS 170 thousand for the CEO, NIS 100 thousand for senior executives and NIS 70 thousand for other officers (subject to possible modifications, as explained below). The remuneration policy provides for a perseverance bonus of up to six (6) times the monthly salary under special circumstances and certain limitations as well as linkage to the CPI, salary updates, related benefits, current salary etc. As of the reporting date, implementation of the provision regarding the grant of a perseverance bonus will be suspended, and the bonus will not be granted to new key personnel up to the completion of the clarification regarding this component in light of the Commissioner's position that was received by the Company. For further details on the Commissioner's position as aforementioned, see section j(4)(b) of this note.

Multiplication ratio for the Chairman of the Board of institutional entities: In accordance with revised remuneration policy circular, the remuneration of the Chairman of the Board is to be determined relative to the remuneration of an external director in an institutional entity (a theoretical remuneration calculated based on the minimum number of meetings of the Board and its committees required by law). In this framework, the policy set a maximum ratio by which the remuneration of an external director is to be multiplied for the purpose of determining the remuneration of a chairman in the institutional entities (ratio of up to 15 at Migdal Insurance and up to 10 at Makefet and at Yozma).

Variable component/annual bonus:

1) Excluding the transition period as defined below, the annual bonus will be measured on the basis of three years in such a manner that the last year in the measurement will account for 50%, the year before that 30% and the year before that 20%. For a period of three years from the date of adoption of the remuneration policy for 2014-2016 ("the transition period") and excluding with respect to investment entities for which the past measurement period was also three years, the bonus for 2014 was measured on the basis of 2014 only and the 2015 bonus, if granted, will be measured on the basis of 2014 and 2015 at 30%/70%.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

3. The remuneration policy for the Company's officers in 2014-2016: (Cont.)

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the remuneration policy with respect to officers are as follows: (Cont.)

2) At least half of the annual bonus will be paid in 36 installments from the year of grant based on the level of seniority of the officers. According to the remuneration policy, the deferred installments cannot be accelerated or affected by employee retirement during the payment period.

3) Minimum conditions were prescribed for the receipt of the annual bonus that consist of a 7% return on capital, compliance with a safety cushion established by the board of Migdal Insurance and compliance with a liquidity ratio and lateral reduction or cancellation criteria that are related to the rating of the debentures of the institutional entities in the Group.

4) The variable component of the salary of control officers (risk management, control, compliance and enforcement, actuary, internal audit) will not be affected by the performances of the entities which they audit or control. Moreover, the variable component of the salary of dual officers (control officers who also serve in administrative, professional, organizational or other positions (HQ, legal counseling, finance) and have been defined as such prior to the adoption of the remuneration policy) will not be directly affected by the performances of the entities which they audit or control.

5) The remuneration policy establishes the Company's targets as follows: (1) comprehensive income before taxes in general insurance, (2) comprehensive income before taxes not in general insurance, and (3) NBV (new business value) at the same weight as that accorded to each of these targets in the original policy of 20%, 40% and 40%, respectively. The Company's targets were determined as relative/comparative targets which measure the Company's relative share in the results of said parameters out of the results of the five largest insurance groups in Israel in each of the years 2014 through 2016. These relative/comparative targets substantiate dynamic targets through predefined business parameters while expressing the results of the other companies and mitigating the effect of exogenous factors in the national insurance market which might not have been observed when the work plans were formulated.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

3. The remuneration policy for the Company's officers in 2014-2016: (Cont.)

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the remuneration policy with respect to officers are as follows: (Cont.)

6) In addition to the Company's targets component, the bonus includes a component of personal targets and a component of overall evaluation and judgment. The maximum weight of the judgment component is 20%. The personal targets component accounts for 20% to 50% (excluding control officers and dual officers for whom the personal targets component accounts for 60% to 80%). With respect to the investment entities that are also included as key officers in the institutional remuneration policy, in addition to the Company's targets component, the personal targets component and the personal evaluation component, a divisional target component was established which is defined as a weighted average result based on each investment portfolio's total assets, including negative yields compared to the benchmark targets.

7) Each of the parameters included in each of the bonus components defines a performance range, namely a minimum performance score of 70% below which no bonus is awarded and which is marked as zero for the relevant target and component ("zeroing"); a performance score of 100% ("the normative target") for the relevant target and component; and a maximum performance score of 140% for the relevant target and relevant specific components ("cutoff"). With respect to all of the Company's targets, the performance range between the minimum score and the maximum score is 25% above or below the normative target. Accordingly, the actual performance score regarding the Company's targets component between the minimum score and the 100% score varies at a 1:1.2 ratio (30%/25%) and between the 100% score and the maximum score at a 1:1.6 ratio (40%/25%). The actual performance score between the minimum score and the maximum score regarding the personal/divisional targets component and the personal evaluation component ranges between 40% above the normative target or 30% below the normative target. Accordingly, the actual performance score in the personal/divisional targets component and the personal evaluation component varies at a 1:1 ratio.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

3. The remuneration policy for the Company's officers in 2014-2016: (Cont.)

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the remuneration policy with respect to officers are as follows: (Cont.)

7) (Cont.)

In addition to the relative targets measured as described above, the Company's targets component also prescribes absolute targets according to which meeting a capital return target of 13% or above earns an overall performance score of at least 90 in the Company's targets component (even if the overall performance score in the relative targets based on the weighted ratios of the other parameters is lower) and meeting a capital return target of 17% earns a maximum performance score of 140%.

In cases where the final score does not entitle to a bonus, as set out above, but the components of targets of the Company and personal evaluation entitling to a bonus have been met, and the Company has decided to distribute a bonus to all its employees, it will be possible to pay, on the CEO's recommendation and with the approval of the governing institutions, a bonus for the components of targets of the Company and personal evaluation only, where called for by and in accordance with the circumstances, as determined by the governing institutions.

8) The performance score of the targets in the component of targets of the Company and the component of personal evaluation is weighted according to their relative weight in that component and represents the weighted score for that component. The score obtained as above in all the bonus components is weighted based on the relative weight of each component and represents the overall performance score ("the overall performance score"). Once the overall performance score is obtained, it is multiplied by the normative target and represents the "calculated bonus amount". An overall performance score of 100% earns a calculated bonus amount that is identical to the normative bonus. An overall performance score that is lower than 70% earns a calculated bonus amount of zero. An overall performance score of 140% earns a calculated bonus amount that is at a rate of 140% of the normative bonus but in any event the maximum calculated bonus amount (even when the overall performance score exceeds 140%) will not be higher than 140% of the normative bonus ("the maximum bonus").

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

3. The remuneration policy for the Company's officers in 2014-2016: (Cont.)

c) The main arrangements prescribed in the institutional entities' remuneration policy and in the remuneration policy with respect to officers are as follows: (Cont.)

8) (Cont.)

Based on the aforementioned, a normative bonus maximum was prescribed in the amount of NIS 714 thousand for senior executives, other than the CEO, and of NIS 321 thousand for other officers. Accordingly, the maximum calculated bonus amount for an overall performance score of 140% in the Company's targets component, the personal/divisional targets component (if any) and the personal evaluation component is NIS 1,000 thousand for a senior executive and NIS 450 thousand for other officers.

9) The grant of a variable component is not included in the employment agreement but rather in the remuneration policy, subject to the advance approval of the eligibility for a normative bonus by the governing bodies. In addition, even after approval is granted for the eligibility for the normative bonus, each grant awarded in accordance with the policy is subject to obtaining the approval of the governing bodies and the calculated bonus amount constitutes the maximum bonus that may be awarded by the governing bodies.

10) Furthermore, a signing bonus may be granted in the amount of up to three (3) times the monthly salary as well as a special bonus of up to three (3) times the monthly salary per officer (excluding the CEO or Chairman of the Board).

Provisions regarding the termination of employment - maximum advance notice periods of up to six months were determined for the CEO and the Chairman of the Board and up to three months for the other officers (regarding officers other than the CEO or the Chairman of the Board, the period of advance notice can be extended by up to three (3) months, with the approval of the competent function as determined in the policy). The policy allows granting an adjustment bonus of up to nine (9) times the monthly salary whereby half of this amount will be deferred for a period of 42 calendar months from the date of termination of employment for the CEO and the Chairman of the Board and 36 months for the other officers. The deferred portion of the adjustment bonus is performance contingent and in some cases event in the absence of alternative employment on the date of payment of the deferred bonus.

Any deviation of up to 10% of the amounts specified in the remuneration policy will not constitute a violation of the policy.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

4. Interested party - Chairman of the Board/CEO of the Company and of Migdal Insurance:

a) Mr. Shlomo Eliahu served as Chairman of the Company's Board from October 1, 2013 through February 18, 2015. On February 24, 2014, Mr. Shlomo Eliahu reported to the Board of Directors of the Company and to the Board of Migdal Insurance that he waives any salary in connection with his service as Chairman of the Board and as a director of Migdal Insurance and will not demand remuneration for these positions. The Company's remuneration policy provides the details of the remuneration payable to the Chairman of the Board including a fixed monthly salary, social and other related benefits and a variable component of the annual bonus, subject to the approval of the governing bodies of the Company. According to the remuneration policy, the maximum annual bonus to which the Chairman of the Company's Board, Mr. Shlomo Eliahu, is entitled could reach up to NIS 4.3 million, before salary tax. As mentioned above, Mr. Shlomo Eliahu decided to waive his remuneration in connection with his tenure or the termination of his tenure. See an immediate report of February 24, 2014 (reference no.: 2014-01-046135).

b) Mr. Yohanan Danino was appointed Chairman of the Board of Migdal Insurance on November 2, 2015. On November 24, 2015 Mr. Yohanan Danino was appointed as a director of the Company, and on December 16, 2015 he was appointed Chairman of the Company's Board. The terms of service as approved for his position at Migdal Insurance were approved, without change, also for his position as Chairman of the Company's Board, including a perseverance bonus for a minimum tenure of 24 months (which is included in the Chairman's remuneration as part of the fixed component, in accordance with the institutional entities' remuneration policy), and they will continue to apply to his position at Migdal Insurance.

Mr. Yohanan Danino holds a 90% position and his services are provided through a company fully controlled by him (according to the provisions of the legislative arrangement, a director can be paid remuneration through a company controlled by him). For his said position Mr. Danino is entitled to monthly management fees of NIS 187 thousand linked to the CPI and adjustable every year (the base index will be the index of October 2015, which was the relevant index on the date of approval of the management fees at Migdal Insurance). The cost of the management fees will be borne by the Company and Migdal Insurance according to a procedure established pursuant to the revised remuneration policy circular. In addition to management fees, Mr. Danino will be entitled to reimbursement of expenses and a car allowance from the Company (including grossing up of the tax on the car allowance) or to reimbursement of expenses and use of a company car, in an amount not exceeding the aforementioned car allowance, including tax gross up. Said amounts will be paid to Mr. Danino with the addition of statutory VAT.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

4. Interested party - Chairman of the Board/CEO of the Company and of Migdal Insurance:

b) (Cont.)

On February 8, 2016 the Commissioner sent the Company a letter stating that in her opinion the perseverance bonus approved for Mr. Danino constitutes a variable component which may not be paid to a Chairman of the Board. The Commissioner also stated her position that in the circumstances described in connection with Mr. Danino's terms of employment, the Company should properly pay him the remuneration directly and not through a company controlled by him. The Commissioner's letter included the proviso that it does not exhaust her consideration of Mr. Danino's employment agreement or the remuneration policy. The Company is studying the matter and conducting talks with the Commissioner

The total remuneration paid to Mr. Yohanan Danino for 2015 stood at NIS 511 thousand (employer's cost before VAT). For further details on the terms of service and employment of Mr. Yohanan Danino, see immediate report dated December 31, 2015 (reference no.: 2015-01-192060) regarding the convening of a general meeting of Migdal Holdings, having on its agenda the approval of the terms of employment of Mr. Yohanan Danino, immediate report of Migdal Holdings dated January 21, 2016 (reference no. 2016-01-015373) regarding the convening of a general meeting, and immediate report dated February 8, 2016 (reference no.: 2016-01-025075).

c) Prof. Oded Sarig served as director in the Company as of January 27, 2015 and from February 18, 2015 until December 16, 2015 he also served as Chairman of the Company's Board. During his tenure at the Company, Prof. Sarig was employed by and received a salary from Eliahu Insurance. Prof. Sarig did not receive a salary from the Company. It should be noted that according to the decision of the Company's Board and based on the limitation accepted by Prof. Sarig, for caution sake, during his tenure at the Company Prof. Sarig was not involved in and did not handle matters pertaining to the institutional entities in the Group, including the subsidiaries Migdal Insurance and Makefet, other than as legally required in his capacity in the Company.

See details in a report on summoning a meeting of February 2, 2015 (reference no.: 2015-01-023161) and immediate report of September 10, 2015 (reference no.: 2015-01-118014).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

4. Interested party - Chairman of the Board/CEO of the Company and of Migdal Insurance:

d) Mr. Amos Sapir served as Chairman of the Board of Migdal Insurance as of December 10, 2014 until November 2, 2015. For his service, Mr. Sapir received monthly management fees of NIS 125 thousand, linked to the CPI and updated annually. In addition to management fees, Mr. Sapir was entitled to reimbursement of expenses and a car allowance. Upon the termination of his tenure as Chairman of the Board of Migdal Insurance, Mr. Amos Sapir received a payment during the period of advance notice, which ended on January 31, 2016, in the amount of NIS 375 thousand. These amounts were paid to Mr. Sapir with the addition of VAT as required by law. The overall remuneration paid to Mr. Amos Sapir in 2015 for his service as Chairman of the Board of Migdal Insurance stood at NIS 1,668 thousand (employer's cost and before VAT). The amount for 2015 includes the advance notice payment. At the end of the period for which Mr. Amos Sapir received advance notice payment, Mr. Sapir began to receive remuneration like the rest of the directors at Migdal Insurance.

e) Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, has served as an officer in Migdal Insurance since January 29, 2013. Effective from February 11, 2014 he serves as CEO of Migdal Insurance (he served as acting CEO from January 1, 2014). Before that he served as Deputy CEO in Migdal Insurance from January 29, 2013, first as director of the general and reinsurance insurance business division and later as director of the customer, distribution channel and service division of the Migdal Group.

In 2013, Mr. Ofer Eliahu did not receive any remuneration from the Company and/or Migdal Insurance for his service in Migdal Insurance. According to Mr. Ofer Eliahu's employment terms as CEO of Migdal Insurance, starting from January 1, 2014, he is entitled to a monthly salary of NIS 170 thousand, linked to the CPI and updated annually. In addition, his remuneration includes social and related benefits, occupational disability insurance in the context of a group insurance policy of Migdal Insurance's employees, vacation and recreation days, reimbursement of telephone expenses, subsistence, a vehicle as specified below, daily newspapers etc. According to his employment agreement, Mr. Ofer Eliahu is not entitled to an adjustment bonus. The monthly salary will represent the entire remuneration for Mr. Ofer Eliahu's entire positions in the Group and he will not be entitled to any other remuneration for his service or any other position filled by him in the Group in the future. Migdal Insurance will provide Mr. Ofer Eliahu an executive car for the purpose of his work. Migdal Insurance will bear the entire costs of the vehicle's use and maintenance, including the income tax imposed in respect of the vehicle and its use.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

4. Interested party - Chairman of the Board/CEO of the Company and of Migdal Insurance:

e) (Cont.)

Each party may terminate the agreement at any time by providing an advance notice of three months under the conditions stipulated between the parties. Migdal Insurance will be entitled to demand that Mr. Ofer Eliahu terminate his service before the end of the early notice period and sever all employer-employee relations with him effective immediately, for whatever reason, without paying for the early notice period. Mr. Ofer Eliahu has affirmed that he has no and will have no claims, arguments or demands towards Migdal Insurance relating to the period of his service as CEO in Eliahu Insurance prior to his employment by Migdal Insurance and has no and will have no rights, cumulative or based on seniority, arising from his service in Eliahu Insurance. The terms of Mr. Ofer Eliahu's employment comply with the Commissioner's circular of April 10, 2014 regarding the remuneration policy in institutional entities. The overall remuneration paid to Mr. Ofer Eliahu in 2015 approximated NIS 2,731 thousand (employer's cost before payroll tax). No annual bonus to Mr. Ofer Eliahu was approved by the governing bodies. See a report of summoning a general meeting of March 31, 2014 (reference no.: 2014-01-032985).

f) Mr. Eran Czerninski has served as the Company's CFO and as Migdal Insurance's director of the finance and actuary division since April 1, 2009. Mr. Eran Czerninski has served as acting CEO of the Company since November 1, 2014 and since March 24, 2015 serves as the Company's CEO.

Mr. Eran Czerninski is employed by Migdal Insurance for an indefinite term based on an employment agreement signed on September 19, 2002, as amended by agreements and addenda to the agreements signed in the years 2014-2015. Each of the parties may terminate the employment agreement at any time for whatever reason by providing an early notice of 60 days.

Effective from March 1, 2015, Mr. Czerninski's monthly salary is NIS 100,000, linked to the CPI with the linkage updated once a year. Mr. Czerninski's monthly salary in the period from January 2015 until the latest salary update was NIS 89,000. In addition, Mr. Czerninski's employment terms include social and related benefits, occupational disability insurance in the context of a group insurance policy, study fund (which is deducted from the salary and not in addition to the salary), vacation and recreation days, reimbursement of subsistence expenses, a vehicle (90% included), daily newspaper, medical insurance etc.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

4. Interested party - Chairman of the Board/CEO of the Company and of Migdal Insurance:

f) (Cont.)

In any event of termination of the agreement, Mr. Czerninski will be entitled to an adjustment bonus in the amount of nine times his monthly salary. The adjustment bonus will be paid based on the terms and arrangements specified in the general comments above.

The terms of employment of Mr. Eran Czerninski as the Company's CEO were approved by the Company's general meeting on June 7, 2015. See immediate reports of the Company dated April 30, 2015 (reference no.: 2015-01-009801) and June 7, 2015 (reference no.: 2015-01-041994).

The overall remuneration to Eran Czerninski in 2015 stood at NIS 2,086 thousand (employer's cost before payroll tax). The cost of the annual bonus for 2015 is NIS 183 thousand, consisting of NIS 18 thousand in respect of the deferred amount of the bonus for 2013 plus NIS 165 thousand for the differential between the estimate and actual amount paid as the annual bonus for 2014.

Under a long-term remuneration plan for 2010, Mr. Czerninski was allocated 89,238 eligibility deeds and 69,616 shares in accordance with the plan terms, see Note 33 above.

g) Officers' liability insurance policy, including for officers who are the controlling shareholder or his relatives:

The Company's directors and officers, including the controlling shareholder and his relatives, are insured under the Group's D&O liability insurance policies for a period of 17 months starting from February 1, 2015 until June 30, 2016 ("the new policy"), after having approved the extension of the policy which was in effect until January 31, 2015. The new policy's liability limit is US$ 100 million per event and for the period with an annual premium that does not exceed US$ 270,000.

The D&O liability insurance policy of Migdal Capital Markets and its subsidiaries (collectively - "the Capital Markets Group") covers the controlling shareholder and his relatives who serve as officers in the Capital Markets Group for a period of 17 months starting from January 1, 2015 until May 30, 2016 with a liability limit of US$ 50 million per event and for the period and for an annual premium that does not exceed US$ 112,000.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. Data of the remuneration and benefits to key management personnel: (Cont.)

4. Interested party - Chairman of the Board/CEO of the Company and of Migdal Insurance:

g) (Cont.)

According to the remuneration policy, signing D&O liability insurance policies by the Company and by the Migdal Holdings Group for the directors and officers, including the controlling shareholder and his relatives who serve as officers in the Group, will not exceed an insurance limit of US$ 120 million. The approval of such insurance coverage states that the overall insurance amount which directors who serve and/or have served as directors both in the Capital Markets Group and in the Company and/or its subsidiaries (excluding the Capital Markets Group) will be entitled to receive on an aggregate basis in respect of all said policies will not exceed US$ 120 million. This insurance coverage was approved in accordance with Regulation 1b to the Reliefs Regulations. See more details of the Company's and the Capital Markets Group's approval for entering into said insurance policies in immediate reports of January 27, 2015 and February 24, 2015 (references no.: 2015-01-020140 and 2015-01-037816, respectively).

h) See details of letters of waiver and letters of indemnification granted to directors and other officers in the Company by the Company and interested parties therein (Generali, Bank Leumi, Leumi Real Holdings Ltd. (formerly: S.A.L. Holding Company Ltd.) owned by Bank Leumi) in Note 39(d)(2).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities

a. Legal and other proceedings – general

Paragraphs (b) to (g) (inclusive) below provide details regarding material legal and other material proceedings against the Company and/or its consolidated subsidiaries which are not in the ordinary course of their business. Paragraph (b) below details pending motions to certify claims as class actions, including claims that were certified to be filed as class actions ("class actions"); paragraph (c) below details class actions that ended during the reporting period and up to the report publication date; paragraph (d) below details class actions that ended before the reporting period and in which a subsequent development occurred during the reporting period; paragraph (e) below details other material legal proceedings and actions; paragraph (g) below details additional legal and other proceedings, Insurance Commissioner directives and events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure, and paragraph (h) below details legal proceedings against former consolidated subsidiaries in respect of which the Company and/or its consolidated subsidiaries have a contingent liability (such as an indemnification obligation, etc.).

Recent years have seen significant growth in the number of class actions filed against the Company and/or its consolidated subsidiaries, as part of the general increase in motions to certify claims as class actions in general, and as part of the increase in motions of this kind against companies operating in the lines of business of the consolidated subsidiaries. This trend has significantly heightened the potential exposure of the Company and/or its consolidated subsidiaries to losses in the event of the acceptance of a class action against them. The class actions are in different stages of adjudication, from the stage of hearing the class action certification motion through to the stage of certification and adjudication of the class action. Some of the class actions are under appeal.

In respect of legal proceedings or class action certification motions in which, in the Company's assessment, based among others on legal opinions it received, it is more likely than not (i.e. a probability of more than 50%) that the plaintiff's claims will be accepted and the case decided in his favor (or in the case of a class action certification motion – that the court will certify a class action), provisions were included in the statements of claim to cover the exposure estimated by the Company and/or its consolidated subsidiaries.

In respect of class action certification motions in which a class action was certified by the court, provisions were included in the financial statements to cover the exposure estimated by the Company and/or its consolidated subsidiaries, where, in management's assessment, based among others on legal opinions it received, it is more likely than not that the plaintiff's claims will be accepted in the action itself. Where a class action was certified by the court and the plaintiff submitted an appeal to expand the judgment that was issued, provisions were included in the financial statements to cover the exposure estimated by the Company and/or its consolidated subsidiaries due to the appeal, where, in management's assessment, based among others on legal opinions it received, it is more likely than not that the plaintiff's arguments in the appeal will be accepted.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

a. Legal and other proceedings – general (Cont.)

In the event of the parties' willingness to settle in any proceeding, a provision was included in the amount of the proposed settlement, even where, based on the foregoing, no provision would have been included in the financial statements if not for the settlement or the willingness to settle. In cases where, based on the foregoing, a provision must be made in the financial statements and the parties are willing to settle, a provision was included in the financial statements to cover the higher of the exposure estimated by the Company and/or its consolidated subsidiaries or the amount of the proposed settlement. In cases where a settlement was approved, a provision was included in the financial statements in the amount of the cost of the settlement estimated by the Company and/or its consolidated subsidiaries.

In respect of legal proceedings (or class action certification motions) to which, in management's assessment, based among others on legal opinions it received, the foregoing does not apply, as well as legal proceedings (or class action certification motions) which are in the preliminary stages and the chances of the claim cannot be assessed, no provision was included in the financial statements.

It is not possible at this preliminary stage to assess the chances of the class action certification motions listed in section 26 to 34 (inclusive) below, and therefore no provision was included in the financial statements for these motions.

In management's assessment, based among others on legal opinions it received, adequate provisions were included in the financial statements, where necessary, to cover the exposure estimated by the Company and/or its consolidated subsidiaries or in respect of the amount the Company and/or its companies are prepared to pay for a settlement, as the case may be.

b. Class actions – class action certification motions and certified class actions

Following are details of class action certification motions and certified class actions that are pending against the Company and/or its consolidated subsidiaries, in chronological order according to date of filing:

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
1.	9/1999 Central District Court	Life insurance policyholder v. Migdal Insurance	Use of an outdated mortality table to determine the life insurance premium, which is not adjusted to life expectancy. The remedies sought include a declaration that the applicant is entitled to cancel the insurance agreements and/or to receive remedies due to breach of contract.	Anyone who purchased a life insurance policy from the effective date of the law – August 5, 1997	On November 10, 2011, the District Court ruled as follows: (a) the case is subject to limitation and accordingly the class was narrowed to anyone who purchased policies that include a risk component from August 1997 until the date of updating of the mortality tables in June 2001 only; (b) the grounds of the claim were limited to deception and exploitation. On February 7, 2016 the court issued a decision dismissing the class action certification motion. At the plaintiff's request, the deadline for submitting an appeal was deferred by consent to May 8, 2016.	-
2.	5/2006 Central District Court	Accidental disability insurance policyholder v. Migdal Insurance and other insurance companies	Payment of reduced compensation to an accidental disability insurance policyholder in respect of partial disability, making a proportional adjustment to the disability rates granted by the National Insurance Institute, without proper disclosure in the policy.	Anyone who received and/or will receive partial compensation for accidental disability due to the adjustment of the compensation to the disability rates granted by the National Insurance Institute in the last seven years.	On February 27, 2014 the District Court issued a ruling accepting the plaintiff's position and ordering the insurance benefits for policyholders with permanent partial disability to be completed to the amount insured stipulated in the policy for total disability, for anyone who was involved in an insured event in the three years prior to the date of filing of the claim (excluding exceptional cases). The plaintiffs filed an appeal with the Supreme Court against the decision not to set a seven-year limitation period, against the ruling that the relief does not include payment of special interest and against the award made to them and to their attorney. On May 1, 2015 the Insurance Commissioner announced that he does not intended to continue dealing in the framework of the draft directive issued by him on August 29, 2013 with the subject of payment of insurance benefits in accidental disability insurance policies. On March 26, 2016 the Supreme Court gave the effect of a judgment to the agreement reached by the parties on the court's recommendation, that the fee of the plaintiffs' attorney would stand at 10% without the distinction made in the ruling of the District Court, and the lead plaintiffs would each be paid a sum of NIS 200,000, and that subject to the foregoing the appeal would continue without an order for costs. The payment by Migdal under this agreement is not material.	Not estimated

1 The date of filing of the actions and the motions is the original date of filing and the court is the original court of filing.
2 Laws are cited by their full name but without the year of their enactment.
3 The class the plaintiff is seeking to represent, serving as the basis for the estimate of the amount claimed in the statement of claim.

3-286

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
3.	1/2008 Tel-Aviv District Court	Life insurance policyholder v. Migdal Insurance and other insurance companies	Collection of a premium component known as the "sub-annual" component in life insurance policies in an amount that exceeds the permitted amount. The remedies sought include an order for reimbursement of the amounts collected unlawfully from the class members as a sub-annual component and a mandatory injunction ordering the respondents to change their method of operation.	Anyone who was charged for a "sub-annual" component in non-permissible circumstances and amounts.	Awaiting the court's decision on the class action certification motion.	NIS 2,300 million, of which NIS 827 million attributed to Migdal Insurance
4.	4/2008 Jerusalem Regional Labor Court	Female life insurance policyholders v. Migdal Insurance and other insurance companies	Payment of a monthly annuity to women that is lower than the one received by a male policyholder with the same profile, on their reaching the retirement age, on the grounds that women's life expectancy is longer, although the premium collected from female policyholders for the death risk is identical to that collected from male policyholders and despite the fact that women's mortality rates are lower. The remedies sought include declaratory relief by the court stating that this discrimination is wrong and that female policyholders will be entitled to choose between the following alternatives: (a) equalizing the annuity factors to those applied to male policyholders, or (b) reducing the risk amounts collected, putting them at the risk amounts appropriate for female policyholders.	All women who purchased executive insurance policies that distinguish between men and women in the payment of annuities without distinguishing between the risk premiums.	In its decision of August 17, 2014, the Regional Labor Court certified the claim as a class action. An application for leave to appeal the decision was filed with the National Labor Court, which allowed the application. The National Labor Court directed that the Insurance Commissioner's position should be received on the matter.	"Hundreds of millions of NIS"
5.	2/2010 Tel-Aviv District Court	Motor insurance policyholder v. Migdal Insurance and other insurance companies	Failure to indemnify the policyholders for damage caused to the vehicle's protection means installed at the demand of the respondents, in the event of total loss, constructive total loss or theft ("total loss"), and having policyholders prima facie unlawfully sign letters of settlement. The remedies sought include payment for the damage caused to all the class members, whether directly or through compensation to the general public.	All policyholders who received insurance benefits from February 2, 2007 which did not include compensation for protection means installed at the respondents' demand.	The court approved in principle the settlement agreement, subject to amendments ordered by it. The agreement regulates the compensation in respect of protection means in the event of total loss as well as the restitution payable retroactively for such events, subject to deduction of 14% depreciation per year. On February 21, 2016 the court ordered an amended settlement agreement to be submitted, waiving the necessity of publishing the agreement. The agreement will be submitted for examination to the court-appointed examiner, after which it will be submitted to the court for final approval.	NIS 82 million attributed to Migdal Insurance

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
6.	4/2010 Central District Court	Israel Consumer Council v. Migdal Insurance and other insurance companies	Violation of the respondents' duties to identify holders of rights in insurance policies, failure to separately manage unrequested funds, failure to transfer unrequested funds to the Administrator General, collection of management fees in excess of the permitted amounts and unjust enrichment from the returns on the unrequested funds. The remedies sought include ordering the respondents to transfer the funds to the holders of rights, to transfer unrequested funds to the Administrator General, to make restitution of management fees and returns and to establish a fund for managing unrequested funds in a separate account for each policy.	All holders of policies who were not notified by the respondents of their entitlement to funds in accordance with the duties imposed on them.	A regulatory change was enacted by the Commissioner in this regard. A position paper was submitted in the case by the Attorney General in which he did not take a stand on the issue but noted that some of the remedies are contrary to the new law. On February 25, 2016 a settlement agreement was submitted in the case for approval as a class action settlement. In its decision of March 17, 2016 the court stated that it does not summarily reject the motion to approve the settlement agreement; that it orders the agreement to be published and submitted to the Insurance Commissioner and the Attorney General, and that it schedules a hearing on June 23, 2016 for objections, if any, to the settlement agreement.	-
7.	4/2010 Central District Court	Life insurance policyholders v. Migdal Insurance and other insurance companies	Failure to refund premiums after discontinuance of insurance policies during the month, in cases where the premium is collected in advance at the beginning of the month, and/or the refund of premiums in nominal values (without interest and linkage differences). The remedies sought include reimbursement of the excess premiums unlawfully collected from policyholders and a mandatory injunction ordering the respondents to change their method of operation and refund premiums to policyholders from the day of creation of the right to a refund together with interest and linkage differences.	Any policyholder of the respondents (excluding holders of property insurance policies) whose policy was discontinued, whether due to cancellation or upon the occurrence of an insured event.	On June 23, 2015 the claims was certified as a class action, with respect to the remedy of reimbursement of premiums collected in respect of the month in which the insurance coverage was discontinued (excluding property insurance policies), for the part of the month after the date of discontinuance of the insurance coverage, in cases where the policy includes a provision stating that the cancellation will take effect immediately or where the policy was cancelled due to the occurrence of the insured event, and also with respect to payment of interest and linkage differences in accordance with the Insurance Contract Law on premiums that were refunded to policyholders at nominal value, all the above with respect to policyholders who cancelled their policy or received a premium refund during seven years prior to the filing of the motion (April 18, 2010) and up to March 14, 2012. The court ordered the plaintiff against Migdal to be replaced, since he had no cause of action against it. The parties are conducting negotiations for a settlement based on the District Court's decision, with a mutual waiver of appeals.	NIS 225 million (for a period of ten years)

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
8.	4/2011 Central District Court	Life insurance policyholder v. Migdal Insurance and other insurance companies	Charging for a "policy factor" without having contractual consent and without providing proper disclosure thereof. The remedies sought include compensation/reimbursement in the amount of the "policy factor" actually collected from the class members, with the addition of the return on that amount of which they were deprived and a mandatory injunction ordering to cease collecting these amounts.	Anyone who is and/or was insured by the respondents and charged any amount as "other management fees" and/or "policy factor".	On June 10, 2015 a settlement agreement was submitted to the court, in which agreement was reached on the refund of amounts in respect of the past, to be distributed to class members holding of "Adif" and "Yoter" policies in accordance with the provisions of the settlement agreement, in a total amount of NIS 100 million, of which Migdal Insurance's share is NIS 44.5 million. As to the future, agreement was reached on a discount of 25% in the amount of the policy factor actually collected in those policies. The award to the plaintiff and his attorney has been submitted to the approval of the court in the framework of the settlement agreement and is NIS 43 million plus VAT, Migdal's share being 44.5%. The examiner appointed by the court found difficulty in approving the settlement agreement in its present format and recommended applying the arrangement for the future to the years 2013 to 2015. On October 18, 2015 the court clarified to the parties its definite inclination not to approve the settlement agreement at the terms according to which it was submitted, given the significant disparity between the arrangement proposed in the settlement agreement that was submitted for approval and the settlement agreement it considered appropriate in the circumstances of the case. The court suggested significantly increasing both the amount of the refund for the past and the future discount offered in the settlement agreement. On February 26, 2016 the Attorney General submitted his position on the settlement agreement, stating that he is of the opinion that the settlement agreement should not be approved in its present format, but leaving it to the court's discretion to determine the appropriate amount of the compensation with respect to the refund component in the settlement agreement. The Attorney General's position paper includes various general comments relating to the implementation of the settlement agreement and the notification in regard thereto to the policyholders. Regarding the future discount component of the settlement agreement, the Attorney General's position is that this together with the continued collection of the remaining part of the policy factor presents a legal difficulty, due to the inbuilt problem of representation in class actions, reflected in the difficulty the representative plaintiff would have in waiving in advance future causes of action of the members of the class. In this regard, the Attorney General leaves the question of the continued collection to the court's discretion. As to the component of the award to the lead plaintiff and his attorney, the Attorney General's position is that the amount requested is unreasonable and disproportionate, and he leaves it to the court's discretion to determine the amount of the award and the fee that is reasonable in the circumstances of the case, while suggesting that if the court reduces the amounts of the fee and the award, it should be agreed that such amounts will be transferred in favor of the compensation for the class members.	NIS 2,325 million (for a period of seven years)

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
9.	6/2011 Central District Court	Compulsory motor insurance policyholder v. Migdal Insurance and other companies	Payment of funds withheld by the respondents due to attachments and paid at nominal value without interest and linkage differences for the withholding period. The grounds for the claim are the benefit derived by the respondents during the withholding period pursuant to Section 1 of the Unjust Enrichment Law and/or Section 28 of the Insurance Contract Law. The remedy sought is payment of interest and linkage differences reflecting the benefit derived by the respondents during the withholding	Anyone who was paid insurance benefits after June 1, 2008 after the withholding of funds due to a third party attachment and did not receive the returns earned on the withheld funds during the withholding period.	On December 2, 2012, the District Court certified the claim as a class action. The parties held a mediation proceeding that ended on November 6, 2014. The case is in the class action adjudication stages, and the parties are conducting contacts in an attempt to conclude the case by agreement.	NIS 350 million
10.	5/2012 Jerusalem District Court	Potential policyholders who submitted an insurance proposal and were rejected v. Migdal Insurance and other insurance companies	Sweeping refusal to insure people with disabilities, without examining the application on the merits based on the data relevant to the insurance risk of the applicant for insurance, and failure to give notice as required by the Equal Rights for People with Disabilities Law. The remedies sought include a declaratory order stating that the respondents violated the Equal Rights for People with Disabilities Law, a mandatory injunction requiring to perform an underwriting process on each application and based on personal data, to explain any rejection of an application based on defined procedures, to grant retroactive coverage to those found eligible and to pay compensation for injury to feelings and	Anyone who applied for insurance and the respondents refused to sell them an Individual insurance policy due to an illness or disability, as well as people with disabilities who did not apply in the knowledge that they would be refused insurance.	The proceeding is in the stage of clarification of the class action certification motion. The parties held a mediation proceeding that failed. It should be noted that in February 2014 the Commissioner issued a directive containing guidelines on the delivery of a written reasoned notification to policyholders with disabilities who received different treatment as defined in the of Equal Rights for People with Disabilities Law.	NIS 934 million
11.	1/2013 3/2014 Central District Court	Compulsory motor insurance policyholders v. Migdal Insurance, the Israel Motor Vehicle Insurance Pool and other compulsory motor insurance	Collection of premium in compulsory motor insurance without granting insurance cover, when the insurance certificate is paid by the policyholder at a later date than that specified in the insurance certificate. The remedy sought is refund of excess premium that was collected unlawfully together with interest and linkage differences.	Holders of compulsory motor insurance policies of the respondents in the seven years before the claim who paid premiums after the date specified in the insurance certificate.	Two class action certification motions on the same grounds were consolidated into a single motion which is in the clarification stage. The Commissioner's position was submitted in the case, whereby the court's proposal for changing the wording of the insurance certificates is undesirable. The case is awaiting the court's decision in the class action certification motion.	NIS 34 million5, of which NIS 9 million attributed to Migdal Insurance.

5 The claim amount relates to the later claim that was filed in March 2014, in which Migdal was sued specifically and attributed a specific compensation amount as specified in the table. The amount of the claim filed in January 2013 is lower and estimated for all the defendant companies at NIS 26 million.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

   b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
12.	5/2013 Tel-Aviv District Court	Health insurance policyholders v. Migdal Insurance and other insurance companies	Failure to pay linkage differences on insurance benefits from the date of occurrence of the insured event until the date of payment and failure to pay interest differences on insurance benefits from 30 days after the date of filing of the claim until the date of payment. The remedy sought is payment of interest and linkage differences that were not paid as required by law.	Anyone who received in the seven years preceding the date of filing of the claim or will receive up to the date of the issuance of the judgment insurance benefits without interest and linkage differences as required by law.	On August 7, 2015 the court issued a decision rejecting the class action certification motion as regards linkage differences, but accepting it as regards the payment of interest starting 30 days after the first demand for payment of insurance benefits, for a period of three years prior to the filing of the action. On October 19, 2015 an application was submitted to the Supreme Court by Migdal Insurance and the other defendants for leave to file an appeal on the decision of the District Court to certify the class action as aforesaid. On February 2, 2016 the Supreme Court accepted the motion to stay proceedings in the class action in the District Court up to a decision in the application for leave to appeal and also scheduled a hearing for the application for leave to appeal.	NIS 807 million attributed to Migdal Insurance
13.	10/2013 Central District Court	Life insurance policyholder v. Migdal Insurance and other insurance companies	Adjustment of the premium due to a change in age and due to a change in the consumer price index, on the first of each calendar month and not on the policyholder's birthday in that month (in age changes), or on the day of the policyholder's application for an insurance policy instead of on the actual day of his acceptance (in CPI adjustments). The remedy sought is refund of the excess premiums charged.	Anyone who joined a plan in which the premium adjustment date is earlier than the date on which the premium should be adjusted.	The case is awaiting the court's decision in the class action certification motion.	NIS 399 million
14.	5/2014 Tel-Aviv District Court	Holder of a motor insurance policy that includes substitute vehicle coverage v. Migdal Insurance and other insurance companies	Failure to provide a substitute vehicle to a young driver without disclosure of this fact in the schedule, contrary to the duty of disclosure imposed on insurers. The remedies sought include declaratory relief holding negligence and breach of duties towards the plaintiffs and order directing the respondents to provide the coverage in question, to make proper disclosure and to pay compensation.	Anyone who purchased young driver and substitute vehicle coverage in the seven years preceding the date of the claim and was not provided such coverage.	The proceeding is in the stage of clarification of the class action certification motion. The court requested to receive the Insurance Commissioner's position on the action. On March 9, 2016 the Commissioner submitted his position which supports the position of Migdal Insurance and the other defendants.	NIS 28 million, of which NIS 8 million attributed to Migdal Insurance

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
15.	6/2014 Jerusalem District Court	Mortgage life insurance policyholder v. Migdal Insurance and other insurance companies	Setting amount insured for payment in mortgage life insurance policies that exceeds the loan balance at the bank, causing policyholders to pay a higher premium. The remedies sought include, among others, paying the difference between the premiums paid and the premiums that should have been paid based on the bank loan balance plus compensation for emotional distress, ordering the respondents to cease their method of operation and adjustment of the amount insured based on the accurate bank loan data.	Policyholders who purchased mortgage life insurance policies in the last seven years, where the amount insured from which the premium is derived exceeded the loan balance at the bank.	The proceeding is in the stage of clarification of the class action certification motion. The court addressed several questions on the subject to the Insurance Commissioner, and on March 23, 2016 the Insurance Commissioner submitted his position which supports the position of the insurance companies.	NIS 1,182 million, of which NIS 523 million attributed to Migdal Insurance
16.	7/2014 Central District Court	Associations and organizations acting to benefit senior citizens v. Migdal Makefet and another four pension fund management companies	Bad faith use of the right under the bylaws to raise the management fees to the maximum allowed rate when members retire, and failure to give notice before retirement. The remedies sought are an order to refund to retired members or to the pension fund the excess management fees that were and/or will be collected from them unlawfully, and alternatively, to refund to the pension fund all the management fees collected from retired members and redistribute the funds that were collected unlawfully fairly and equally among all the retired members, forbidding the respondents to raise the management fees for any member immediately before his retirement, deciding that the condition in the defendants' bylaws that allows them to raise the management fees from time to time is (prima facie) a discriminatory condition in a standard contract, and ordering the cancellation or change thereof in a manner that eliminates the alleged discrimination.	Any member of the respondents' new comprehensive pension fund who is and/or will be entitled to old age pension.	The proceeding is in the stage of clarification of the class action certification motion. In the framework of the proceeding, questions will be addressed to the Insurance Commissioner on the regulator's intentions regarding the issues in dispute in the action.	At least NIS 48 million, without quantifying the other remedies at this stage
17.	12/2014 Central District Court	Long-term care insurance policyholder v. Migdal Insurance	Failure to pay the surrender value in the event of cancellation of the policy due to non-payment or death or at the policyholder's initiative, contrary to the Commissioner's explicit directives. The remedies sought include declaring that the respondent is not entitled to hold the surrender amounts, it must provide to the court and the applicant the surrender value calculation formula, it must inform all the relevant policyholders that certain clauses in the policy are discriminatory conditions and should be cancelled, and it must reimburse to the class members the surrender values with interest and linkage differences.	Holders of the respondent's LTC insurance policies under fixed premiums.	The proceeding is in the stage of clarification of the class action certification motion.	NIS 28.5 million

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
18.	1/2015 Tel-Aviv District Court	Holders of units of mutual funds v. Migdal Mutual Funds Ltd. ("Migdal Mutual Funds"), a subsidiary of Migdal Capital Markets and other mutual fund management companies and mutual fund trustees	Failure to make efforts to reduce brokerage commissions paid out of the mutual funds' assets, such that the commissions charged were higher than their true price and/or also covered operating services that were given free of charge to some of the fund managers, involving breach of the fiduciary duty and duty of care, negligence, breach of a statutory duty and unjust enrichment. The remedies sought include reimbursement of the excess amounts collected in the period up to February 27, 2011 (the effective date of Amendment 14 to the Joint Investments in Trust Law).	Any holder of units in a mutual trust fund that was managed by any of the respondent fund managers, among them Migdal Mutual Funds, in the period up to December 21, 2011 (with no time limitation), who was charged brokerage commissions and/or directly or indirectly required to pay for operating services.	The proceeding is in the stage of clarification of the class action certification motion.	NIS 220 million, of which NIS 22 million is attributed to Migdal
19.	4/2015 Tel Aviv District Court	Ward (through his guardian) who was insured under a group life insurance policy v. Bank Leumi Le-Israel Ltd. and Migdal Insurance Company	Obligating persons above the age of 55 who take out a mortgage to purchase a life insurance policy, in the knowledge that they are at an uninsurable age, and obligating persons holding a mortgage to continue paying for life insurance even after they have passed the age of 65 – the age at which the insurance period ends. The remedies sought are as follows: ceasing to collect premium for life insurance from borrowers who have reach the age at which the insurance period ends, and refund of life insurance premiums collected from mortgage holders who when taking out the mortgage were above the age of 55 and from policyholders who have passed the age at which the insurance period ends.	All customers of Bank Leumi who joined a group life insurance policy after they reached the age of 55, as well as policyholders who continued to be charged premium after they reached the age at which the insurance period ends.	The proceeding is in the stage of clarification of the class action certification motion.	NIS 360 million
20.	5/2015 Tel Aviv District Court	A disabled person who sought to park in the Weizmann Center parking lot in Tel Aviv v. Migdal Insurance and Ariel Pro-Mall Malls Management Ltd.	Failure to allow a person with disabilities to park free of charge at the Weizmann Center in Tel Aviv in accordance with the Parking for Disabled Persons Law, 5754-1993. The reliefs sought include ordering the respondents to install prominent signs at all the entrances to the Weizmann Mall, explaining about disabled persons' rights, as well as ordering the respondents to compensate the class in the amount of the parking fees that were collected from the class members during the period in question.	Anyone who owned a disabled parking tag and used the Weizmann Center parking lot from My 17, 2008 until the date of filing of the motion.	The proceeding is in the stage of clarification of the class action certification motion.	NIS 7 million

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
21.	5/2015 Central District Court	Home insurance policyholder v. Migdal Insurance	Failure of the respondent to pay insurance benefits and/or indemnity for the VAT component in cases where the damage was not actually repaired. The reliefs sought include ordering the respondent to pay the VAT applying to the cost of the repair even when the damage was not actually repaired, and ordering the respondent to compensate all the class member who submitted claims in the relevant period, by paying VAT at the rate applying to the amount of the damage with linkage and interest in accordance with the law.	Any policyholder and/or beneficiary and/or third party in any type of insurance who did not repair the damage for which he submitted a claim and received insurance benefits or indemnity without the VAT component, including all the class members who are entitled to partial deduction of input tax.	No answer has been submitted yet to the class action certification motion. The plaintiff's motion to allow him to file the claim by splitting the VAT relief from another claim filed by him in the same case was rejected, and he has filed an application for leave to appeal the decision. The Insurance Commissioner issued on June 30, 2015 a directive on this issue directing that VAT must be paid also in cases in which the damage was not actually repaired.	NIS 91 million
22.	6/2015 Central District Court	Collective health insurance policyholders v. Migdal Insurance	Failure to link the insurance benefits in health insurance policies which specify an amount of participation in expenses, from the date of conclusion of the insurance contract and up to the entitling event. Together with the certification motion, a motion was filed to transfer the case in accordance with the Class Action Law to another panel that is hearing a similar case against another insurer.	Any health insurance policyholder who received insurance benefits, where the amounts insured specified as the limit in the policy were not linked to the relevant basic index up to the date of the entitling event.	No answer has been submitted yet to the class action certification motion. See also claim No. 12 in this section.	NIS 5 million
23.	8/2015 Tel Aviv District Court	Life insurance policyholder v. Migdal Insurance	Failure to pay a profit-participation bonus pursuant to a rider to the insurance policy called "Kefula" ["Multiple"], and conversion thereof into an additional amount insured without notifying the policyholders; payment of a much lower amount than the amount the policyholders are entitled to under the aforementioned rider; failure to set the rate of the policyholder's participation in profits each year during the life of the policy, and setting an unreasonably low uniform rate for this participation.	Anyone who purchased a life insurance policy from Migdal Insurance entitling him to payment of his share of the policy's profits in cash on reaching the age of 65.	The proceeding is in the stage of clarification of the class action certification motion.	NIS 600 million

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
24.	9/15 Central District Court	Long-term care insurance policyholder v. Migdal Insurance and other insurance companies	Breach of the terms of the policy, when examining policyholders' entitlement to long-term care benefits, by interpreting "incontinence" as entitling to points only when it is caused by urological or gastroenterological diseases, whereas it is argued that points for this condition should be awarded also in the case of functional incontinence, as well as failure to comply with the duty of disclosure in this connection prior to the purchase of the policy. The reliefs sued for include ordering the defendants to pay compensation. Regarding the draft circular on the settlement of insurance claims, which relates to long-term care claims, see section G.9) of this note.	Any long-term care insurance policyholder who upon the occurrence of the insured event was not awarded the appropriate number of points for incontinence due to the said interpretation.	No answer has been submitted yet to the class action certification motion. Migdal Insurance filed a motion for dismissal in limine of the class action against it. No decision has been made as yet in this motion.	Tens and even hundreds of millions of shekels
25.	9/15 Tel Aviv District Court	Pension fund member v. Migdal Insurance and pension fund management companies	Claim that the defendants split the management fees with agents and brokers who bring the customers to them, resulting in the payment of inappropriately high management fees by fund members. The reliefs sued for are declaratory relief stating that the defendants must change their arrangement with agents and bring it into compliance with the law, reimbursement of all the management fees that were collected in excess, and any other relief as the court deems right and equitable in the circumstances of the case.	Members of provident funds of the management companies who were charged management fees from which the agents' commission is derived based on the amount of the fees.	No answer has been submitted yet to the class action certification motion. Separate proceedings are being conducted on this issue between the insurance companies and the Insurance Commissioner in connection with the position paper published by him in this regard – see section G.5) of this note.	NIS 2 billion
26.	9/15 Central District Court	Migdal Makefet fund members v. Migdal Insurance and Migdal Makefet	Damage caused by the acts of a former trader at Migdal's share trading desk who was convicted, on his admission in a plea bargain, of fraud involving market manipulation of securities. Regarding the criminal proceedings in this matter, see section G.1) below. The reliefs sued for include compensation for the damage caused to fund members in any manner the court deems fit.	Each of the members/ customers of Migdal Insurance and/or Migdal Makefet who was harmed by the alleged acts between the years 2006 and 2011.	On January 1, 2016 the defendant filed a motion for dismissal in limine of the motion to certify the claim as a class action and a motion to postpone the hearing in the class action certification motion up to a decision in the motion for dismissal in limine.	Tens of millions of shekels if not more

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
27.	9/15 Central District Court	Policyholder v. Migdal Insurance and other insurance companies	Collection of the full premium from army reserve soldiers, ignoring the fact that a reserve soldier is granted partial and incomplete coverage that excludes insured events occurring during army service, including reserve duty, as well as allegations of insufficient disclosure regarding the limitations applying in the policy. The reliefs sued for are issuing an order to the relevant authorities and to the insurance companies to provide information among others regarding the number of reserve days, the relevant policies and the premiums that were collected from the class members, refunding premiums for periods of reserve duty, and refraining in the future from collecting premium for periods of reserve duty.	Any holder of an insurance policy that included an exclusion with respect to reserve duty and who paid in the seven years prior to the claim premiums for periods in which he did reserve duty.	No answer has been submitted yet to the class action certification motion.	Tens of millions of shekels
28.	12/15 Central District Court	Policyholder v. Migdal Insurance	Argument against the limitation on liability in a health insurance policy according to which the coverage for pregnancy-related tests is conditional on the female policyholder's spouse also holding a health insurance policy of the Migdal Group. According to the plaintiff, this limitation should be cancelled as an unlawful condition under the Contracts Law, since it is a discriminatory condition in a standard contract, it is contrary to good faith, it was not given sufficient disclosure, it conflicts with public policy and accordingly Migdal Insurance may not rely on it. The reliefs sued for are financial damages in the amount of the insurance benefits that were withheld together with linkage differences and interest, declaratory relief, mandatory injunctions for the cancellation of the limitations and injunction prohibiting the inclusion of such clauses in the policy.	Regarding the declaratory relief: anyone who holds or held a health insurance policy of Migdal including the limitation in respect of which the claim was filed and whose spouse does/did not hold a health insurance policy of the Migdal Group; and regarding the financial relief: policyholders as aforesaid to whom the insured event occurred, and who, if not for the existence of the limitation, would have been entitled to insurance benefits, whether they submitted in the past a demand for payment of insurance benefits that was rejected, or not.	No answer has been submitted yet to the class action certification motion.	Over NIS 3 million but not possible to estimate at this point

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
29.	1/16 Central District Court	Pension fund member v. Migdal Makefet and other management companies	Argument regarding the holding of bonds with a low credit rating in excess of the permitted percentage according to the investment restrictions applying to such bonds under Section 41D2 of the Income Tax Regulations (Rules for the Approval and Management of Provident Funds), 5724-1964 ("the Provident Funds Regulations") at the times relevant to the claim, and collection of management fees on these excess amounts contrary to the provisions of the Provident Funds Regulations, The reliefs sued for are among others: reimbursement of the management fees that were collected by the respondents in violation of the Provident Funds Regulations, as in effect at that time, compensation for the damage caused to the class members due to the alleged violation of the Provident Funds Regulations, and any other relief for the benefit of all or a part of the class or for the benefit of the public, as the court deems rights and equitable in the circumstances of the case.	Members of the provident funds managed by the defendants, who had holdings in the funds the subject of the claim, from January 1, 2009 until July 4, 2012.	No answer has been submitted yet to the class action certification motion.	Cannot be estimated
.30	1/16 Central District Court	Pension fund member v. Migdal Makefet and other management companies	Increasing members' management fees without any notification being sent to them before or after such increase, thereby acting in breach of the fiduciary duty and duty of care as well as the duty of disclosure and reporting by law, The plaintiff is seeking to base his claim, among others, on the Tel Aviv District Court's decision certifying a class action in Class Action Case No. 16623-04-12 Levy v. Psagot. The reliefs sought are: compensation and/or reimbursement in the amount of the management fees collected in excess; compensation in the amount of the loss of the return on the management fees paid in excess, and financial relief for violation of autonomy; declaratory relief stating that the difference between the management fees paid after the increase without any notice and the management fees that would have been paid if not for the increase form part of the member's assets, and the fund violated the provisions of the law, and alternatively any other relief as the court deems right and equitable in the circumstances of the case.	Anyone who was a member of Migdal Makefet and the membership fees collected from him were increased without notice, during the seven years preceding the date of filing of the action and up to the issuance of a final judgment therein.	No answer has been submitted yet to the class action certification motion. See also claims Nos. 6 and 16 in this section.	Not estimated

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
31.	1/16 Central District Court	Policyholder v. Migdal Insurance	Violation of policyholders' rights in connection with the implementation of Amendment No. 3 to the Control of Financial Services Law (Provident Funds) 5768-2008 ("Amendment 3 to the Provident Funds Law"), since, it is argued, the defendant did not assign to policyholders who, prior to the entry of Amendment 3 to the Provident Funds Law into effect, held a capital (lump-sum) policy the annuity factors they had in a previous annuity policy (if any) that was held by them with the defendant or with another insurance company ("earlier annuity policy"), and did not inform the policyholders of the changes it had made in their policies and the implications thereof, as well as the damages it allegedly was causing to their pension rights. The Plaintiff is seeking to base his claim among others on the Central District Court's decision to certify a class action in Class Action Case No. 48006-03-10 Granit v. Clal. The reliefs sued for include the following: to order the defendant to assign to the capital (lump-sum) policies of its policyholders the annuity factor they had prior to Amendment 3 to the Provident Funds Law in the earlier annuity policy with the preferable annuity factor; alternatively, to order the defendant to allow the plaintiff and the other class members to set aside the full amount of the pension savings, retroactively from the date of entry of Amendment 3 to the Provident Funds Law into effect and prospectively, in the earlier annuity policy with the preferable annuity factor; alternatively, to order the defendant to compensate the plaintiff and the other class members in the amount of the alleged damage to their pension rights and the amount by which it became enriched at the expense of the class members due to its above policy; regarding policyholders already retired since January 1, 2008 who began to receive a lower annuity than they were entitled to (according to the plaintiff) based on the preferable annuity – to order the defendant, in addition to correcting the situation henceforth, to reimburse to said policyholders the difference between the annuity they were entitled to, based on the preferable factor and the annuity actually received by them, with the addition of interest and linkage differences.	Anyone who held, prior to the effective date of Amendment 3 to the Provident Funds Law, both a capital (lump-sum) policy of the defendant and an annuity policy (whether of the defendant or of another insurance company), and who, following the above amendment to the law, was not assigned an annuity factor in the capital policy or was assigned in the capital policy an annuity factor inferior to the annuity factor in his old annuity policy.	No answer has been submitted yet to the class action certification motion.	NIS 50 million per year The cumulative damage will be equal to the annual damage multiplied by the number of relevant years that will be determined in the judgment.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
32.	2/16 Central District Court	Financial management company v. Mivtach Simon and other insurance agencies	Argument that the defendants by their activity as insurance agencies (pension arrangement managers) caused the class members financial damage, since up to the recent legislation amendments (legislation amendments recently made in the Control of Financial Services Law (Pension Advice, Marketing and Clearing Systems), 5765-2005, and the Control of Financial Services Law (Provident Funds), 5765-2005, in the framework of the Economic Plan Law (Legislation Amendments for Implementation of the Economic Policy for the 2015 and 2016 Budget Years), 5776-2015), the operating costs of the pension arrangement services provided by the defendants to employers were subsidized by the employees of those employers, and the defendants favored the employers, with whom they had entered into service agreements, over the employees, who actually paid for those operating services via excessive management fees that were collected from them. The alleged damage to the class members is the excess payment for the operating services, which, it is contended, was loaded onto the class members via excessive management fees that were collected from them. The reliefs sued for are: reimbursement of the excess management fees collected (according to the plaintiffs) from the class members and any other relief as the court deems right and equitable in the circumstances of the case.	Anyone who was employed by an employer who received pension arrangement management services from one or more of the defendants during the period beginning seven years prior to the filing of the claim.	No answer has been submitted yet to the class action certification motion.	NIS 368.15 million of which NIS 88.71 million attributed to Mivtach Simon

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
33.	1/16 Central District Court	Registered association acting on behalf of weak populations and special-needs people v. Migdal Makefet, Migdal Makefet Pension and Provident Funds	Collection of management fees on disability and survivor annuities paid by the pension fund, without disclosing to the members that they will be charged management fees on these annuities and that management fees at the maximum rate will be charged on these annuities from when the disability or survivor annuity begins to be paid, exploiting these annuitants' distress since they are unable to transfer the balance of their personal account or the amount of the annuity reserves the fund holds on their behalf. The reliefs sued for are as follows: financial relief of reimbursement to each of the disability annuitants of the entire amount of the management fees that were and/or will be collected from them unlawfully; alternatively, reimbursement to the pension fund of the entire amount of the management fees that were and/or will be collected from them annuitants unlawfully, for making a fair and equitable distribution thereof; prohibition on the collection of management fees on disability and survivor annuities, and alternatively, to order the defendants to reduce the management fees that are collected to an appropriate rate; to order the defendants to refund the difference to the annuitants and/or to the fund and to disclose at their initiative the management fees on these annuities, and to establish that the condition in the fund's bylaws that allows the defendants to unilaterally set the management fees from time to time is a discriminatory condition in a standard contract.	Anyone who receives and/or is entitled to receive a disability annuity of any kind, and anyone who receives and/or is entitled to receive a survivor annuity, and anyone who is an active plan holder and/or insured and/or member in any of the defendants' new pension funds, and who was harmed as a result of the collection of management fees on disability and survivor annuities.	No answer has been submitted yet to the class action certification motion. See also claims Nos. 6, 16 and 30 in this section.	Cannot be estimated at this stage.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

b. Class actions – class action certification motions and certified class actions (Cont.)

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
34.	2/16 Central District Court	Study fund member v. the Company	Argument that the Company failed to notify and update the plaintiff and others like him with whom contact has been lost regarding funds that are held by it, did not bother to send them reports, notices and updates and did not bother to obtain their consent to changes in the bylaws and in the management fees collected on their assets as had been determined between the parties. The plaintiff is seeking to base his claim, inter alia, on the Tel Aviv District Court's decision to certify a class action in Class Action Case 16623-04-12 Levy v. Psagot. In addition, the plaintiff cites in his motion claim 30 in this section and argues that the motion in that case is similar to his motion in this case, and therefore he believes that the claims should be linked or the hearings in them should be consolidated before the same bench. The damages alleged in the certification motion are: (a) unlawful collection of exaggerated management fees, having regard to the loss of contact, the absence of willingness and consent, the exceeding of the rates stipulated in the law and the unilateral changes made in them; (b) denial of the class member's proprietary right and denial of his autonomy to manage his money as he pleases. The reliefs sued for are ordering the Company to make restitution and to pay compensation.	Anyone who had or has rights or an interest in funds or assets that are held or managed by the Company, including plan holders, beneficiaries, insured persons, heirs and assignees, and with whom contact was lost or who did not receive from the Company notices, reports and updates.	No answer has been submitted yet to the class action certification motion. See also claims Nos. 6, 16, 30 and 33 in this section.	NIS 123 million (reimbursement of funds), and NIS 245 million (compensation for violation of the autonomy of will)

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

c. Class actions that ended in the reporting period and up to the report publication date

No.	Date	Parties	Substance of the Claim	Amount	Details
1.	1/2008 Tel Aviv District Court	Life insurance policyholder v. Migdal Insurance and other insurance companies	Collection of management fees in "profit participating" insurance policies at a rate that exceeds the maximum allowed rate, in violation of the Control of Insurance Business Regulations, as well as variable management fees on a monthly basis instead of at year end, in a manner that denies policyholders the return on the management fees collected during the year.	NIS 244 million, of which about NIS 101 million attributed to Migdal Insurance	On March 18, 2015 the court approved a settlement agreement obligating Migdal Insurance to repay the class members (other than in defined exceptional cases) 53% of the difference between the plaintiffs' calculation method and the defendants' calculation method.
2.	8/2007 Tel-Aviv District Court	Motor insurance policyholder v. Migdal Insurance and other insurance companies	Violation of the Commissioner's directive that requires Migdal to make in the insurance proposal stage full written disclosure of the depreciating variables in the pricelist that might affect the value of the insured vehicle in the calculation of insurance benefits in the event of total loss. The absence of such disclosure results in unlawful reduction of the insurance benefits paid in these cases from the full value of the vehicle.	NIS 122 million attributed to Migdal Insurance	On May 11, 2015 a settlement agreement was approved that includes entitlement to one month or three months (according to the type of policyholder) of free insurance (in kind or in an equivalent) for the class members in respect of property insurance for vehicles up to 3.5 tons, as well as Migdal's undertaking to update its procedures in connection with special variables.
3.	8/2012 Central District Court	Life insurance policyholder v. Migdal Insurance and other companies	Collection of management fees by Migdal from the premium for endowment life insurance policies issued from 2004, although the Commissioner had allowed the collection of such management fees.	NIS 570 million[1]	On July 2, 2015 the court approved the plaintiff's application for abandonment, and the certification motion was struck.
4.	12/2014 Kfar Saba Magistrate Court	Compulsory motor insurance policyholder v. Migdal Insurance	False advertising of compulsory motor insurance calculator rates on the Commissioner's website compared to the price actually charged by Migdal Insurance.	NIS 2.5 million	On August 10, 2015 the court approved the plaintiff's application for abandonment.
5.	8/2015 Central District Court	A person alleging that a marketing communication was made to him v. the company and communication companies	Communication of a marketing offer based on a telephone number provided as part of the HOT company's service, the transfer of said telephone number as well as the communication of the marketing offer being, according to the plaintiff, in violation of the Protection of Privacy Law.	Left to the court's determination	On December 13, 2015 the court approved the plaintiff's application to strike the motion.
6.	3/2014 Tel-Aviv District Court	Motor insurance policyholder v. Migdal Insurance	Renewal of an insurance policy without the knowledge and/or consent of the policyholder and/or unauthorized use of policyholders' credit card information.	NIS 36 million	On September 17, 2015 the court approved the plaintiff's application for abandonment.
7.	4/2006 Tel Aviv District Court	Occupational disability insurance policyholder v. Migdal Insurance and other insurance companies	Collection of premium in occupational disability insurance policies for the last three months of the insurance period, although during this period the policyholders cannot receive insurance benefits even if an insured event has occurred, in view of the waiting period.	NIS 48 million, of which NIS 19 million attributed to Migdal Insurance	On February 10, 2016 the court approved the plaintiff's application for abandonment.

[1] Alternatively NIS 65 million for a calculation from above and NIS 132 million for the risk components.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

d. Class actions that ended before the reporting period, in which a subsequent development occurred in the reporting period

In a claim filed with the Central District Court against Migdal Insurance in July 2011 in respect of the collection of credit fees in nonlife insurance at a higher rate than the maximum interest rate permitted under the legislative arrangement or at a higher interest rate than it represented to its policyholders, in an amount estimated between NIS 253 million and NIS 869 million (from May 1984 until the date of filing of the certification motion), a settlement agreement was approved on July 24, 2014 at a cost of NIS 5 million, including fees and the lead plaintiff's award.

On July 13, 2015 a motion for instructions was submitted to the court against Migdal Insurance, on grounds of violation of the settlement agreement. During the court hearings in said motion, and further to examinations conducted by Migdal Insurance, it emerged that due to an error the settlement agreement had not been fully implemented, and it was also found, further to examinations of the statutory compliance of the interest rate, that with respect to business owners' policies to which the statutory provision regarding the maximum permitted interest rate does not apply, interest was charged at a higher rate than represented in the policy. On December 10, 2015 a consent motion was submitted to amend the settlement agreement. The motion was forwarded to the Attorney General for his response, which has still not been received.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

e. Legal proceedings and other material actions

Following are details of other material actions. The claim amounts are stated as of the date of filing of the claims.

Date and Court	Parties	Cause of Action, Relief and Amount	Details
5/2/14 8/4/14 Tel-Aviv District Court	All members of the Clalit and Maccabi health funds v. Migdal Insurance, other insurance companies, Clalit Health Services and Maccabi Health Services	Derivative actions on behalf of members of the Clalit and Maccabi health funds who have private health insurance for the realization of the right of participation of the Clalit and Maccabi health funds, in respect of expenses incurred by them in the framework of supplementary health plans and in respect of operations performed by them in the framework of the basic or supplementary basket, due to overlapping of liabilities between the supplementary health plans and the commercial health insurance policies. The remedy sought is indemnification of the health funds for 60% of the cost of an operation in a supplementary health plan and 33.3% in the basic basket and 50% for all other cases of overlapping of liabilities. The amount of the claim with respect to the Clalit health fund is NIS 3,518 million, and with respect to the Maccabi health fund – NIS 1,714 million.	On June 11, 2015 the court issued a decision on the question of the standing of the applicants to file a derivative action, holding that a member of an Ottoman society may file a derivative action on behalf of the society. On July 14, 2015 the District Court referred the case to the Attorney General for a response to the position of the Ministry of Finance, the Insurance Commissioner and the Ministry of Health on all the issues arising in the case, as required of him in view of the public implications and complexity of the issues, which cannot be easily decided and central to which is the question whether it would not be appropriate for the subject matter of the case to be regulated by the executive authority or the legislative authority. The health funds submitted to the Supreme Court on July 16, 2015 an application for leave to appeal the court's decision on the question of the standing of the applicants, which was joined by the insurance companies. In its decision of November 11, 2015, the Supreme Court ruled that it would be necessary to wait until the position of the Attorney General was received in the matter, after which a decision would be made on the further handling of the application for leave to appeal. On March 2, 2016 the Attorney General submitted his position, that the applicants in the case are not entitled to file a derivative action on behalf of the health funds, and that in the circumstances of the case there is no room for approving the claim on the merits, inter alia because it is not possible to determine in advance the existence per se of a right of subrogation or its monetary significance; considering the possibility that approving the claim as a derivative action would result in the submission of legally complex individual subrogation claims on an unreasonable scope, imposing a heavy and unreasonable burden on the legal system, and the possibility that the gain from mutual claims between insurers and the health funds might not exceed the resources invested in conducting them; there is a significant advantage to establishing a set and defined legal norm and creation of a general and global mechanism between the commercial insurance system and that of the health funds, that will enable a balance without dealing with each individual case – however, such a norm does not exist, and this issue is being examined by the government ministries, which intend to regulate the matter, to the extent that disparities requiring regulation are found. The proceeding in the Supreme Court has been set for a hearing by an expanded panel on June 7, 2016

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

f. Summary of Legal Claims

1) Following is a summary table of the amounts claimed in pending motions to certify claims as class actions, claims that were certified as class actions and other material claims against the consolidated subsidiaries, as stated by the plaintiffs in the pleading filed on their behalf. It should be noted that the amount claimed is not necessarily a quantification of the amount of exposure estimated by the Company and/or its consolidated subsidiaries, since these are estimates made by the plaintiffs that will be considered in the legal proceeding. It should also be noted that the table below does not include proceedings that have ended.

Type	Number of Claims	Amount Claimed in NIS in Thousands (1)
Claims certified as class actions (2) (3)	**5**	**1,382,491**
Stated amount attributed to the Group	1	807,000
The claim relates to a number of companies and no specific amount was attributed to the Group	2	575,491
The claim amount was not stated	2	-
Pending motions to certify claims as class actions (4) (5)	**29**	**8,723,588**
Stated amount attributed to the Group	11	2,561,474
The claim relates to a number of companies and no specific amount was attributed to the Group	8	6,162,114
The claim amount was not stated	10	-
Other material claims	**1**	**5,232,000**
The claim relates to a number of companies and no specific amount was attributed to the Group	1	5,232,000

(1) All the amounts are approximate amounts in NIS in thousands as of the date of filing of the motions or the claims, as the case may be.

(2) Including a claim certified as a class action. A judgment was issued which requires compensating the policyholders, and an appeal was filed on the judgment (line 2 in the table in B above).

(3) Including a claim which does not state an exact claim amount (line 4 in the table in B above), the amount of the claim being estimated there at hundreds of millions of NIS without stating the amount of the claim.

(4) Where the amount attributed to the Group is specified, the amount taken into account is in respect of the Group and not in respect of all the defendants.

(5) Including two class actions certification motions in which the hearing was consolidated. The amount taken into account is the amount attributed to the Group in one of the claims (line 11 in the table in B above).

2) The total amount of the provision in respect of class actions and other material claims that were filed against the Group, as detailed in the summary table in E above, is about NIS 75 million (as of December 31, 2014 – about NIS 69 million).

3) Total provisions in respect of all proceedings against the Group, including class actions and other material claims, including in respect of the proceedings detailed in F below, is about NIS 104 million (as of December 31, 2014 – about NIS 93 million).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

g. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure

Below is a description of additional legal and other proceedings pending against the Company and/or the consolidated subsidiaries:

1) On July 27, 2015, a former employee in the Group's institutional entities' capital market trading division ("the institutional bodies," "the employee," respectively) was convicted in a plea bargain in the Tel Aviv-Jaffa District Court. The indictment to which the employee admitted was filed on February 11, 2015 by the Tel Aviv Central District Attorney's Office (Taxation and Economics) against the employee and another defendant who, according to the indictment, collaborated with the employee ("the other defendant"). According to the indictment, the employee and the other defendant exploited the employee's knowledge and control in his capacity and position in the institutional entities for deriving a personal gain, by trading in securities on their own behalf, whether by buying shares in conjunction with the institutional entities' sale orders and/or selling shares in conjunction with the institutional entities' purchase orders or before such orders were executed for the institutional bodies' account, and/or by a combination of the above.

In addition, according to the indictment, the employee and the other defendant fraudulently traded in dozens of different securities through the transmission of information by the employee to the other defendant regarding orders in the accounts of the institutional entities and making advance securities transactions at lower selling prices and higher buying prices than for the institutional entities' account. According to the indictment, in doing so, the former employee committed fraud and breach of the fiduciary duty and also accepted bribes for actions pertaining to his office as a public employee, and in return for these bribes he used his position and status in the institutional entities to make a profit for himself and the other defendant. In addition, according to the indictment, the defendants' actions fraudulently affected the price fluctuations of some 59 securities, and they obtained fraudulently under aggravating circumstances profits of NIS 11.5 million. Regarding a claim in this matter together with a motion to certify it as a class action see B.26 above.

2) Regarding tax assessments for the 2007, 2009 and 2010 tax years totaling about NIS 68 million, and the appeal filed by Migdal Real Estate Holdings Ltd. with the Tel-Aviv District Court on the taxation of dividends received by the Company from revaluation gains, see Note 21.D.2 above. Regarding tax assessments for 2011 totaling about NIS 0.7 million, and the appeal filed by Migdal Insurance with the Tel Aviv District Court on the liability to profit tax on dividends received by the Company from investees through the chain of ownership, see Note 21.D.1.b. The provision in respect of these matters is not included in the provision detailed in paragraph F.3) of this note.

3) The Company and/or its consolidated subsidiaries are party to additional claims which do not involve coverage under insurance policies, filed by customers, former customers and various third parties in immaterial amounts totaling NIS 64 million in the aggregate (as of December 31, 2014 – NIS 76 million). The grounds for the claims against the Company and/or its consolidated subsidiaries in the context of these proceedings vary.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

g. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure (Cont.)

4) From time to time complaints are filed against the Group, including complaints to the Insurance Commissioner with respect to rights of policyholders under insurance policies and/or the law. These complaints are handled regularly by the Group's public complaints departments. At times, the Commissioner's decisions on these complaints are rendered as across the board decisions relating to a class of policyholders.

Furthermore, from time to time, and also following policyholders' complaints, the Commissioner conducts audits on his behalf at the Group's institutional entities and/or requests to receive information on different issues of management of the institutional entities and management of the rights of the institutional entities' policyholders and members, as well as audits to verify the implementation of regulatory directives and/or lessons from previous audits, wherein, among others, demands are received to make changes in various products and instructions are given for implementing circulars and/or guidelines and/or for rectifying deficiencies or for the taking of actions by the institutional entities, including making refunds to policyholders and members. On the basis of the audit findings or the information provided, the Commissioner sometimes imposes financial sanctions pursuant to the Enforcement Authority Law.

5) In August 2013, the Commissioner published a decision in principle on the subject of raising management fees without notice. According to the decision, management companies are required to check all accounts in which management fees were raised during the period from January 1, 2006 through December 31, 2009 and to refund to all members excess management fees collected from them during this period (to which none of the exceptions listed in the draft decision applies), in contravention of Regulation 53B of the Income Tax Regulations (Rules for Approval and Management of Provident Funds). Amounts credited to a member under this decision will bear annual interest at the average shekel interest rate in the refund period, published by the Accountant General pursuant to the Adjudication of Interest and Linkage Law (a rate of about 5.1%) from the date when excess management fees were collected through the date of payment under the decision. Also stated in the decision are cases in which exemption will be given from specific examinations and from refunds. The decision also sets general guidelines for making the refunds. On December 18, 2014 the Commissioner issued a directive for deferring the dates for implementing the refunds according to the above decision to August 31, 2015 instead of January 1, 2015. The date for reporting by the internal auditor also was deferred to the end of 2016. The management company has begun implementing the provisions of the decision. For details of the class action certification motion regarding notification of the raising of management fees see B.25 above.

6) In December 2012, a draft decision was issued regarding one-time deposits in guaranteed yield policies of Migdal Insurance. According to the draft decision, the Commissioner is of the opinion that the insurance companies should have informed about and/or obtained consent to crediting the yield of the profit sharing portfolio with respect to one-time deposits made in guaranteed yield policies. According to the Commissioner's draft decision, certain actions must be performed for dividing the policyholders into two groups – one group consisting of policyholders whose one-time deposits bore yields equal to or higher than the guaranteed yield, and the other group consisting of policyholders whose one-time deposits bore yields lower than the guaranteed yield. Migdal Insurance submitted its response to the draft decision, a hearing was held, data was provided to the Commissioner at his request, but to date no decision has been rendered.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

g. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure (Cont.)

7) On August 29, 2013, the Commissioner issued a draft decision concerning accidental disability insurance policies. According to the draft decision, in the event of partial disability due to an accident, Migdal Insurance applies a formula which reduces the rate of compensation to the insured ("the adjustment"). In the event of disability of a number of organs, Migdal Insurance weights the disabilities in accordance with the National Insurance Regulations, without there being an appropriate provision in the policy ("the weighting"). Accordingly, the draft decision informs Migdal Insurance that the Commissioner intends to order the reimbursement of funds in the amount of the reduction that was made, to policyholders who submitted a claim for insurance benefits from May 17, 2006 onwards. It should be noted that as regards the adjustment, a judgment was issued against Migdal Insurance in a class action that requires it to compensate policyholders. In addition, an appeal was filed on the judgment by the lead plaintiff (see B.2) above). It should be noted that the draft decision relates to the period from the issuance of a similar ruling against another insurance company on the same issue and after the date of the filing of the above class action. Migdal Insurance submitted its position in relation to the two subjects of the draft decision. During the clarification of its position on the subject of the adjustment, Migdal Insurance was requested to provide additional data and a plan for reimbursement of the adjustment. On May 1, 2015, in light of the judgment in the class action, the Commissioner stated that he saw no reason to continue dealing with the matter, as regards the adjustment formula. Migdal Insurance is awaiting the Commissioner's response to its position on the weighting issue. In this regard, see also the claims settlement draft circular discussed in paragraph 9 below, which prescribes inter alia that an insurance company may not calculate cumulative disability for a policyholder in cases where the policyholder was assigned disability in more than one organ, by way of weighting of disabilities, as is done by the National Insurance Institute, if this was not explicitly provided for in the policy.

8) In June 2015 the Insurance Commissioner published a decision in principle that regulates the payment of VAT in the event of the payment of insurance benefits when the vehicle is not repaired. This decision prescribes that in a case where the insurer has chosen to compensate the policyholder by paying the value of the damage, or in a case where a third party claims direct damages for the repair of the vehicle, after the loss adjuster has determined the amount of the damage and if the insurance company has not contested the amount, it must pay the claimant insurance benefits that include inter alia the decrease, if any, in the value of the vehicle, as well as the applicable VAT, if any, even if the claimant did not actually repair the vehicle. See in this regard B.21 above.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

g. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure (Cont.)

9) On September 10, 2015 the Insurance Commissioner issued a first draft and on February 9, 2016 he issued a second draft of the appendix to Institutional Entities Circular 2011-9-5: Clarification and Settlement of Claims and Handling of Public Inquiries ("Claims Settlement Draft Circular"), which sets forth various provisions regarding the conduct of an institutional entity vis-à-vis policyholders in claim settlement proceedings and the manner of settling claims, inter alia, with reference to he policyholder's notifications, information based on which the claim is settled, notice of rejection of a claim, approval of a claim, clarification of a claim where there is a debt to the institutional entity, clarification of a claim with the help of investigation reports, etc. In addition, specific provisions were set with respect to the nonlife, health and long-term care insurance lines, relating also to non-procedural aspects of the settlement of claims, including inter alia provisions in long-term care policies regarding incontinence, mobility problems, lack of equilibrium or lack of stability in association with mobility problems, or in nonlife insurance the prohibition to deduct the balance of the licensing fee from the insurance benefits in the event of total loss, including constructive total loss, for the period from the occurrence of the insured event until the end of the vehicle licensing period, and such like provisions for the settlement of insurance claims to their substance. For details regarding the approval of a class action certification motion on the subject of the interpretation of ADL– incontinence, see B.24 above.

10) On October 25, 2015 the Insurance Commissioner issued draft directives for the correction of defects in the marketing of personal accident insurance policies, by virtue – as stated in the draft – of his authority under Section 65 of the Control of Insurance Business Law. On February 7, 2016 an updated draft of these directives was submitted for comments to the insurance companies in the Association of Life Insurance Companies of Israel Ltd. and the Israel Insurance Association, the title of the draft having been changed to "Decision in Principle under Section 62 of the Control of Financial Services Law (Insurance), 5741-1961 ("the draft decision"). According to the draft decision, the Commissioner had received complaints that there are companies that market personal accident insurance policies in a misleading manner. Hence, the draft contains provisions for correcting defects in the marketing of personal accident insurance policies as well as guidelines for the application of insurance companies to policyholders with various necessary clarifications and a requirement to document the agreement to the insurance. According to the draft decision, the Company will be required to cancel the coverage and to refund premiums that were collected for any policyholder who notifies it that he does not agree to the insurance, with the addition of interest and linkage differences. Guidelines are included for cases where agreement is not obtained, including the sending of reminders. The Company must submit to the Commissioner a plan for the identification of the policyholders within 21 days from the date of publication of the decision in principle, including details of the Company's preparations for implementing the policyholder identification stages, application to them and relevant timetables, such that by July 31, 2016 (according to the draft decision) the reimbursement process will have been completed. In addition, the Company must submit for prior approval by the Commissioner's representatives the text of conversation scenarios and of notices that will be sent to the policyholders. At the end of the process, the Company's auditor must submit to the Commissioner a report on the implementation of the reimbursement directives.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

g. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure (Cont.)

11) There is a general exposure which cannot be estimated and/or quantified, due to, among others, the complexity of the services provided by the Group to its policyholders. The complexity of these arrangements entails, among others, a potential for interpretation and other arguments resulting from disparities 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 savings and long-term insurance, including health insurance, in which the Group operates. In these areas the policies are managed over years during which there are changes in policy, regulatory requirements and legal trends, including in court rulings. These changes are implemented by automated systems that undergo frequent changes and adjustments. The complexity of these changes and application of changes 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, by the procedural mechanism established in the Class Action Law.

12) The Commissioner acts to outline principles for drafting insurance plans, and in this context, he publishes and updates a list of guiding principles and guidelines for the formulation of insurance plans which includes a list of improper practices which should not be included in an insurance plan and proper practices which should be included in insurance plans. It is not possible to predict whether and to what extent insurers are exposed to claims regarding the interpretation of provisions in insurance plans and the proper application of the said principles and practices, that can arise in part through the procedural mechanism set forth in the Class Action Law.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

g. Additional legal proceeding and other proceedings, Insurance Commissioner directives, events and developments in respect of which the Company and/or its consolidated subsidiaries are subject to exposure (Cont.)

13) Long-term savings products are characterized by a prolonged lifespan and extreme complexity, particularly in view of the legislative arrangements relating both to management of the products and to taxation, attribution of the deposits, investment management, the policyholder's employment status, his deposit payments, etc. As part of the changes in regulation and legal trends, in December 2011, Institutional Entities Circular No. 2011-9-10: "Data cleansing with respect to rights of members in the institutional entities" was published. This circular was replaced by Circular No. 2012-9-16.

The circular sets out the actions that an institutional entity must perform in relation to members' rights – data specified in the holdings interface, in the framework of the "Circular on a uniform structure for the transfer of information and data in the pension savings market" (Institutional Entities Circular No. 2014-9-13), and it obligates the institutional entity to cleanse the data that confer rights on members, in order to ensure that the record of members' rights in the information systems is as reliable, complete, available and retrievable as possible. With respect to members who joined before 1997, the data must be cleansed at least from 1997, and for provident funds that are not insurance funds or provident funds that pay an annuity, it is necessary to cleanse the data on deposits, transfers and withdrawals made at least as of January 1, 2005 and thereafter. The circular contains instructions for the gradual implementation of its guidelines during the period from December 31, 2012 through June 30, 2016.

The Group's institutional entities are continuously studying and handling the cleansing of the data on policyholders' rights, in connection with the management of the products by the institutional entities, based on gaps that are discovered from time to time. The institutional entities have completed the survey of gaps required by the circular. This activity is being conducted according to an approved work plan and is to conclude during the year 2016. The institutional entities are unable at this stage to estimate and quantify the scope and costs of the aforementioned handling and cleansing processes and their implications also with respect to past activity. The institutional entities have made certain provisions as necessary. At this stage, it is impossible to fully assess whether additional provisions are needed in connection with the process of cleansing the data on members’ rights as required by the circular.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2015

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

h. Legal proceedings against former consolidated subsidiaries in respect of which the Company and/or its consolidated subsidiaries have a contingent liability

No.	Date and Court[1]	Parties	Main Arguments, Causes and Reliefs[2]	Class[3]	Details	Claim Amount
1.	4/2007 Tel-Aviv District Court	Owners of participation units in mutual funds v. Migdal Stock Exchange Services (N.E.) Ltd. ("Migdal Stock Exchange Services"), a subsidiary of Migdal Capital Markets (1965) Ltd. ("Migdal Capital Markets"), banks and TASE members	Collection of securities brokerage commissions at rates that exceed the rates collected from other customers, and agreement on the unlawful collection of commissions in violation of Section 69 of the Joint Investments in Trust Law in transactions for the purchase of mutual funds from banks as securities brokers. The remedies sought include ordering the respondents to refund the amounts alleged by the applicants to have been collected unlawfully and a mandatory injunction ordering the respondents to change their method of operation and cease collecting these amounts unlawfully.	Anyone who purchased, holds, and/or held at the times relevant to the claim participation units in mutual funds managed and/or controlled by the respondents .	The Attorney General stated that he sees no need to express a position in this case since the claim is based on a legal situation that no longer exists in view of the changes in the Joint Investments in Trust Law. The summation stage has ended and the case is awaiting the court's decision in the class action certification motion. Regarding an indemnity undertaking given by Migdal Capital Markets, a wholly owned and controlled subsidiary of the Company, to Israel Brokerage and Investments IBI Ltd. ("IBI") in the merger transaction between Migdal Stock Exchange Services and IBI, in connection with legal proceedings against Migdal Stock Exchange Services on grounds arising before the merger date – see Note 39.2.E.3).	NIS 386 million, of which NIS 49 million attributed to Migdal Capital Markets from January 1, 2014[4].
.2	2/2012 Tel-Aviv District Court	Owner of a securities account v. Migdal Stock Exchange Services	Collection from customers of a commission for foreign correspondent services in excess of the commission actually paid by the respondent and/or due to the foreign correspondent. The remedy sought is compensation and/or indemnification of the class for the excess commissions and/or excess charges.	All customers of the respondent who executed through it in the seven years before the filing of the claim overseas transactions in which foreign correspondent commissions were collected from them, including mutual funds managed by the Migdal Group.	Further to an agreement in principle reached between the parties, the parties submitted to the court a motion to approve a compromise settlement for a final and inclusive sum (including a recommendation for an award to the lead plaintiff and her attorneys) that is immaterial, with one half of the compromise amount which is to be paid to the class members being entitled persons as defined in the settlement agreement to be in cash and the other half in future discounts in the commissions on overseas share transactions which they will execute in their account with the respondent, subject to the terms, amounts and limits prescribed in the settlement agreement submitted to the court for approval. Regarding an indemnity undertaking given by Migdal Capital Markets, a wholly owned and controlled subsidiary of the Company, to IBI in the merger transaction between Migdal Stock Exchange Services and IBI, in connection with legal proceedings against Migdal Stock Exchange Services on grounds arising before the merger date – see Note 39.2.E.3). Further to this indemnity undertaking, Migdal Capital Markets and IBI signed a specific indemnity arrangement with respect to the settlement agreement, whereby IBI signed the settlement agreement against Migdal Capital Markets' undertaking to indemnify it for all that stated in the settlement agreement and its consequences, with respect to amounts in excess of the amount of the provision that was already recorded in respect of the settlement in the financial statements of Migdal Stock Exchange Services immediately prior to the merger.	NIS 43 million

1 The date of filing of the actions and the motions is the original date of filing and the court is the original court of filing.
2 Laws are cited by their full name but without the year of their enactment.
3 The class the plaintiff is seeking to represent, serving as the basis for the estimate of the amount claimed in the statement of claim.
4 The part of this amount attributed to Migdal is attributed to it under joint and several liability with First International Bank of Israel Ltd.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments

a. For details regarding the acquisition of the run-off business of Eliahu Insurance, see Note 38.e.2.

b. Commitments for investments and granting of credit:

1) The balance of Migdal Insurance's commitments for additional investments in investment funds as of December 31, 2015 amounts to about NIS 1,405 million, of which about NIS 1,135 million in respect of yield-dependent contracts (in 2014 – about NIS 978 million, of which about NIS 751 million in respect of yield-dependent contracts).

2) The balance of Migdal Insurance's commitments for additional investments in acquired corporations as of December 31, 2015 amounts to about NIS 267 million, of which about NIS 236 million in respect of yield dependent contracts (in 2014 – about NIS 128 million, of which about NIS 112 million in respect of yield-dependent contracts).

3) The balance of Migdal Insurance's commitments to provide credit upon demand as of December 31, 2015 amounts to about NIS 1,274 million, of which about NIS 1,105 million in respect of yield-dependent contracts (in 2014 – about NIS 971 million, of which about NIS 860 million in respect of yield-dependent contracts).

c. Commitments for acquisition of real estate assets:

The balance of Migdal Insurance's commitment for investments in real estate as of December 31, 2015 amounts to about NIS 235 million, of which about NIS 210 million in respect of yield-dependent contracts (in 2014 – about NIS 407 million, of which about NIS 342 million in respect of yield-dependent contracts). Some of the above amounts are based on the accounting mechanism prescribed in the agreement.

d. Letters of indemnity and waiver to officers:

1) Letters of indemnity granted up to 2006:

a) The Company granted letters of indemnity to officers of investees and other corporations in which they serve by virtue of their being officers of the consolidated subsidiary, as well as to a number of the Group's employees, whereby Migdal will indemnify them in the amount, under the circumstances and subject to the qualifications detailed in the letters of indemnity, for a financial liability imposed on them due to actions done by them in their capacity as officers of the aforementioned corporations, or for actions as detailed in the letter of indemnity.

b) The Company granted letters of waiver to officers of investees and other corporations in which they serve by virtue of their being officers of Migdal Insurance Company Ltd., a subsidiary of the Company ("Migdal"), and of subsidiaries of Migdal, whereby the Company waived, under the circumstances and subject to the qualifications detailed in the letter of waiver, any claims against those officers with respect to any act and/or omission done by them as officers of the aforementioned corporations.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

1) Letters of indemnity granted up to 2006: (Cont.)

c. The Company granted letters of indemnity to officers of Migdal, subsidiaries of Migdal and investees, whereby they will be indemnified, in the amount, under the circumstances and subject to the qualifications detailed in the letters of indemnity, for any financial liability imposed on them in connection with the following matters:

(1) Prospectus of the Company from the year 1996.

(2) Liabilities applying 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 listed on the stock exchange, provided that the indemnification obligation will apply only to liabilities arising from actions done during a period of up to one year from the date of the prospectus.

d. The Company granted letters of waiver and undertaking for dismissal of claims against officers in corporations that belong to the Migdal Group, whereby it waived, under the circumstances and subject to the qualifications detailed in the letters of waiver and undertaking, claims against the officers with respect to any act and/or omission that done by them as officers in each of the corporations, including actions with respect to the areas detailed below:

1) The Company's prospectus from 1996.

2) Liabilities applying to the corporation due to the fact that the Company is a company whose shares are held by the public and listed on the stock exchange.

The Company also undertook, under the circumstances and subject to the qualifications detailed in the letters of waiver and undertaking, to cause the dismissal of any claim filed against the corporations or any one of them, if as a result of such claim the officers are sued by any of the corporations in a claim that is not dismissed in limine.

2) Letters of release and indemnity granted in 2006:

In November 2006, an extraordinary general meeting of the Company approved the grant of an undertaking to exempt and indemnify officers of the Company. Accordingly, the Company informed its officers as follows:

Undertaking for release – the Company releases its officers from any liability towards it, to the extent that this is permitted by law, for any damage that is and/or may be caused to it due to breach of the duty of care owed to it by the officers in their bona fide activity by virtue of being officers of the Company officers and/or at its request as officers 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 ("the other company"), as specified in the letter of release and indemnity given to the officer.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

2) Letters of release and indemnity granted in 2006: (Cont.)

Indemnity undertaking – the Company undertakes in advance to indemnify the Company's officers including officers of the other company in accordance with the wording of the letter of waiver and indemnity given to the officers. In accordance with the letter of indemnity and subject to the provisions of the law, the Company undertakes to indemnify the officers for any liability or expense as specified in the letter of indemnity that is imposed on them or incurred by them due to actions done by them (including actions prior to the date of the letter of indemnity) and/or that they may do in their capacity as officers of the Company and/or the other company, provided that the action relates, directly or indirectly, to one or more of the categories of events listed in the addendum to the letter of indemnity, and provided that the maximum amount of indemnity under Section 2.1.1 of the letter of indemnity, inclusively and in the aggregate, payable by the Company cumulatively to all the officers under all the letters of indemnity issued and/or to be issued by the Company, does not exceed in the aggregate an amount equal to 25% of the Company's (consolidated) equity according to the last consolidated annual financial statements before actually giving the indemnity, for each of the officers and for all of them jointly, for a single event and cumulatively, all the above in addition to amounts, if any, received from an insurance company as part of the insurance purchased by the Company.

3) Limit to release from liability and indemnity undertaking granted in 2011:

In November 2011, the Company's Audit Committee decided to limit until November 30, 2020, the period of events during which the Company's existing release and indemnity arrangements will apply, insofar as they are not replaced by other arrangements, as well as letters of release or indemnity that will be granted from time to time by the Company according to the Company's existing release and indemnity arrangements, with respect to officers of the Company who are serving or may serve from time to time, where the controlling shareholder of the Company might be considered to have a personal interest in granting letters of release and indemnity to these officers. See the Company's immediate report dated November 29, 2011 (reference no.: 2011-01-344238).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

4) Updated letters of indemnity granted in 2012:

On February 7, 2012, the general meeting of the Company approved the following:

- To grant updated letters of indemnity to directors serving on the date of approval and as may be appointed from time to time. The update of the existing letters of indemnity relates, among other things, to the following main issues:

a) A prior indemnity undertaking in respect of a financial liability imposed on an officer for payment to victims of a violation in an administrative proceeding, and expenses incurred by an officer in connection with an administrative proceeding conducted against him, including reasonable litigation expenses, including attorney's fees, all the above in accordance with the effective date of the Administrative Enforcement Law and the amendment to the Securities Law, 5728-1968 ("Securities Law") and in accordance with the Increased Enforcement in the Capital Market Law (Legislation Amendments), 5771-2011.

b) The maximum indemnification amount payable to officers of Migdal as a whole, under all the letters of indemnity issued and to be issued from time to time, has not changed, but has been amended such that it may not exceed an amount equal to 25% of the Company's equity (consolidated) according to the last financial statements published by it prior to the actual indemnification (instead of being determined according to the last annual financial statements published by the Company prior to the actual indemnification).

c) It was clarified that the indemnity undertaking also applies to other positions filled by the holder of the letter of indemnity in companies of the Migdal Group and/or in another company in which he serves on behalf of the Migdal Group.

d) It was clarified that the indemnity undertaking applies both in respect of an event occurring in Israel and an event occurring outside of Israel.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

4) Updated letters of indemnity granted in 2012: (Cont.)

In addition, in view of recent developments in the business environment in which the Company operates and in the regulatory requirements applicable to the Company, the list of events in respect of which the Company is entitled to grant an indemnity undertaking was updated to relate also the following events: risk management, investment policy, SOX controls and procedures, preparation of financial statements and other reports and management of customers' funds.

The updated provisions of the letters of indemnity will apply, subject to the provisions of applicable law, also to actions committed prior to the amendment thereof.

- The grant of updated letters of indemnity to officers of the Company, where the controlling shareholder of the Company may be considered as having a personal interest in granting letters of indemnity to those officers as they may be appointed from time to time ("certain officers"). The updated letters of indemnity granted to certain officers are identical to the letters of indemnity to be granted to directors and are in the attached wording. The provisions of the updated letters of indemnity to be granted to certain officers will apply, subject to the provisions of any law, also with respect to actions done prior to their amendment.

- It should be noted that the grant of letters of indemnity to officers serving in the Company as of the reporting date and who are the controlling shareholder and/or other officers in which the controlling shareholder has a personal interest (Shlomo Eliahu and relatives serving as officers in the Company, Ofer Eliahu and Israel Eliahu), has not yet been submitted for approval and therefore, as of reporting date, they do not have a letter of indemnity from the Company.

For more information about these letters of indemnity, see the Company's immediate report dated December 28, 2011 (reference no.: 2011-01-378141), immediate report dated February 2, 2012 (reference no.: 2012-01-032109) and immediate report dated February 7, 2012 (reference no.: 2012-01-036555).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

5) Officers insurance:

a) On August 13, 2013, the Board of Directors of the Company resolved, pursuant to the Companies Regulations (Relief for Interested Parties), 5760-2000, to approve the renewal of the Group's directors and officers liability insurance policy, including in respect of the controlling shareholder and his relatives who serve as officers of the Company, for a period of seventeen months from August 1, 2013 until December 31, 2014, for limits of liability of US$ 100 million per event and for the period, in consideration for an annual premium of US$ 731,413, subject to the approval of the Company's remuneration policy. See details in immediate report dated August 13, 2013 (reference no.: 2013-01-116520).

b) On January 27, 2015, following the approval of the Company's Remuneration Committee from January 25, 2015, the Board of Directors of the Company resolved to extend the expiring policy (mentioned in a) above) by 30 days until December 31, 2015, in consideration for a pro rata premium for the period. See details in immediate report dated January 27, 2015 (reference no.: 2015-01-020140).

c) On January 27, 2015, the Board of Directors of the Company resolved, pursuant to the Companies Regulations (Relief for Interested Parties), 5766-2000, to approve the renewal of the Group's directors and officers liability insurance policy, including in respect of the controlling shareholder and his relatives who serve as officers of the Company, for a period of seventeen (17) months from February 1, 2015 until June 30, 2016, for limits of liability of US$ 100 million per event and for the period and in consideration for an annual premium not exceeding US$ 270,000. See details in immediate report dated January 27, 2015 (reference no.: 2015-01-020140).

The insurance contract is in conformity with the Company's remuneration policy as approved in the general meeting of October 27, 2014. See details in immediate report dated October 27, 2014 (reference no.: 2014-01-181653).

6) Under an agreement dated December 1, 2004 signed in respect of the acquisition of Makefet shares, the purchasers undertook that the letters of indemnity given by Makefet to its officers prior to the acquisition would not be cancelled or modified to the extent they relate to events occurring up to the acquisition date.

In addition, the purchasers undertook towards the seller in the acquisition agreement that if any claim or complaint whatsoever would be brought in connection with Makefet, against the seller or a party acting for it or on its behalf, whether it relates to the period before or after the acquisition date, they would compensate the seller or the party acting for it or on its behalf for such claim.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

d. Letters of indemnity and waiver to officers: (Cont.)

7) Migdal Insurance granted Old Yozma a letter of indemnity unlimited in time, whereby Migdal Insurance would indemnify Old Yozma under the circumstances as specified in the letter of indemnity, for any financial liability imposed on Old Yozma in connection with the transfer of shares of Migdal Pension Funds Management Ltd. ("Migdal Pension") to the direct ownership of Migdal (Migdal Pension was merged into Makefet, and the effective date of the merger was December 31, 2005). The indemnity undertaking includes also an undertaking to indemnify for any financial liability or expense imposed on Old Yozma by virtue of a letter of indemnity issued by Old Yozma to its officers.

e. Other commitments

1) As detailed in Note 38.F.1, Migdal Makefet receives provident fund operating services from Leumi Capital Markets Ltd. ("Leumi Capital Markets"). The operating services include management services in respect of members' rights, information systems, fund accounting, etc.

In 2015 a new agreement was signed whose terms applied since 2013 and comprise an improvement over the terms of the original agreement, including with respect to price, indemnity and compensation, liability and regulatory compliance. The new agreement is effective for three years starting from January 1, 2015.

At the end of the period of the agreement Migdal Makefet realized the option given to it to renew the agreement at the same terms for a further period of three years. At the end of three years the agreement will be automatically renewed for further periods of 12 months. The amount paid to Leumi Capital Markets in 2015 is NIS 7,540,000 (compared to NIS 8,562,000 in 2014).

2) With respect to investments in the Group companies, see Note 7.

3) On July 19, 2015 Migdal Capital Markets, a wholly owned subsidiary of the Company, and Migdal Stock Exchange Services, a wholly owned subsidiary of Migdal Capital Markets, which is a member of the Tel Aviv Stock Exchange Ltd., entered into a merger agreement with IBI Holdings (1997) Ltd. ("IBI Holdings") and a wholly owned subsidiary thereof, Israel Brokerage and Investments IBI Ltd., which too is a member of the Tel Aviv Stock Exchange ("IBI Brokerage" or the "merging company"), for the merger of Migdal Stock Exchange Services with and into IBI Brokerage ("the merged companies").

Migdal Mutual Funds Ltd., a wholly owned subsidiary of Migdal Stock Exchange Services, is not part of the merger, and a condition precedent to the merger is the distribution of this company and/or its transfer in another manner to the shareholders of Migdal Stock Exchange Services ("the leveraged transaction").

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

3) (Cont.)

On September 24, 2015 the entire issued and paid-up share capital of Migdal Mutual Funds Ltd., which was a wholly owned subsidiary of Migdal Stock Exchange Services, was transferred through its distribution as a dividend in kind to Migdal Capital Markets, so that as of the reporting date Migdal Stock Exchange Services had no holding in Migdal Mutual Funds Ltd.

In consideration for the merger, Migdal Capital Markets was allotted ordinary shares of IBI Brokerage, so that it holds 19.9% of the shares of IBI Brokerage ("the consideration shares"), and IBI Holdings holds the balance of the shares. The merger value ratios were calculated based on the equity which each of the merged companies undertook to provide as of September 30, 2015, such that the equity of Migdal Stock Exchange Services will stand at NIS 52 million, with NIS 5 million subtracted from this amount for the purpose of calculating the merger value ratios, while the equity of IBI Brokerage as of the effective date will stand at about NIS 184 million, as it was on the merger date.

The agreement provides further that Migdal Capital Markets will not be entitled to sell its shares other than in accordance with the mechanisms established in the agreement:

1) A put option to Migdal Capital Markets to sell the consideration shares to IBI Holdings, exercisable starting from the date of approval of the financial statement for 2020.

2) A call option to IBI Holdings to purchase the consideration shares from Migdal Capital Markets, exercisable starting from the date of approval of the financial statement for 2020.

3) A tag-along right given to Migdal Capital Markets to join in the sale of shares of the merging company by IBI Holdings.

4) A right given to IBI Holdings to obligate Migdal Capital Markets to join in the sale of the shares of the merging company.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

3) (Cont.)

The merger agreement includes an indemnity undertaking given by each of IBI Investment House and Migdal Capital Markets to the merging company in connection with events occurring prior to the merger date and in connection with declarations and representations in the merger agreement.

It should be noted that Migdal Capital Markets purchased run-off insurance to cover professional liability in respect of the past activity of Migdal Stock Exchange Services up to the merger date, which will be in effect for a period of seven years from the merger date.

On October 28, 2015 the merger was completed, after the Registrar of Companies approved the merger and issued a merger certificate, following compliance with all the conditions precedent (other than receipt of the tax authority's confirmation, which was waived by Migdal Capital Markets).

Pursuant to the completion of the merger, as of October 28, 2015 Migdal Capital Markets holds 19.9% of the shares of the merging company, and IBI Holdings holds the balance of the shares at a rate of 80.1%. Migdal Capital Markets' holding in the merging company is accounted for as a financial asset revalued to fair value.

On the merger date, a shareholders agreement of the merging company, signed between Migdal Capital Markets and IBI Holdings, came into effect ("the shareholders agreement").

The shareholders agreement includes, inter alia, provisions relating to the restructuring of the stock exchange and the allocation of its shares among the stock exchange members. Under the shareholders agreement, should the merging company receive shares of the stock exchange in the framework of the change in the stock exchange ownership, Migdal Capital Markets will be entitled to the proportion of the stock exchange shares arising from the entitlement of Migdal Stock Exchange Services. It was agreed that the value of the shares would be excluded from any parameter relevant to the calculation of the parties' rights under the merger agreement, the shareholders agreement and any other agreement associated with the merger transaction, including for the purpose of calculating the merging company's equity, net profit after tax and price per share.

The value of said share of Migdal Stock Exchange Services in the stock exchange shares, insofar as they are allotted to the stock exchange members in the framework of the change in the stock exchange ownership, is expected to have a material impact on the equity of Migdal Capital Markets.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

4) Prior to the closing of the merger as detailed in E.3) above, Migdal Stock Exchange Services was bound by an agreement with FMR Computers and Software Ltd. ("FMR") pursuant to which FMR provided the software through which Migdal Stock Exchange Services transmitted orders for transactions in securities and financial derivatives to the stock exchange, and by which it performed its back office management. In addition, FMR provided to Migdal Stock Exchange Services the software used to control and revalue the funds of the Migdal funds operated by Migdal Stock Exchange Services.

Following the merger notice, FMR stated that should the merging company be interested in its services, the renewal of the agreement would be handled with it, and until then the consideration for the services would be according to the existing agreement.

5) Migdal insurance signed agreements with Femi Premium Ltd. ("Femi") which provides it with assistance services for policyholders based on service letters / riders / policy extensions sold mainly in nonlife insurance (motor property, home and mortgage insurance) as well as in the health line of business. The above agreements will terminate on March 21, 2016, except for service letters for collectives in the health line of business, which will continue to be issued up to the date of termination or renewal of the collective.

The scope of purchases from Femi in 2015 totaled about NIS 42 million (2014 – about NIS 58 million).

On December 1, 2012 Migdal Insurance entered into an agreement with Infomed Medical Sites ("Infomed"), a consolidated subsidiary of Migdal Health and Quality of Life Ltd. ("Migdal Health"), a subsidiary of the Company, for the provision of services in connection with various service letters.

In 2014 it was decided at Migdal Insurance to acquire from B-Well Quality of Life Solutions Ltd., a consolidated subsidiary of Infomed ("B-Well"), the majority of the services in the field of service letters, including service letters in the health line of business which Migdal Insurance previously purchased from Femi. In this context, B-Well was joined as a party to the agreement between Migdal Insurance and Infomed, and said agreement was expanded into a framework agreement between Migdal and Infomed and B-Well, covering existing and future service letters, subject to the terms of the agreement.

In connection with the transfer of the services in the field of service letters to B-Well, in November 2014, B-Well and Femi signed a cooperation and service agreement, whereby B-Well is to purchase services from Femi in respect of the service letters of Migdal the handling of which was transferred from Femi to B-Well, and regulating the terms of cooperation between B-Well and Femi ("the service agreement").

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

5) (Cont.)

In accordance with the terms of the service agreement and in consideration for the operation of the purchased services through the B-Well service center, Femi paid B-Well a one-time payment of NIS 1.6 million plus VAT.

Since some of the service letters remained with Femi, the existing agreement, which remains in effect until March 2016, included an undertaking for the continued receipt of services from Femi. The term of the service agreement is until March 30, 2019, although B-Well may terminate the service agreement at an earlier date in accordance with its conditions. In case the agreement is cancelled before the aforesaid date, B-Well is to pay Femi agreed compensation equal to the number of months until that date multiplied by NIS 30,000. In 2015 and in 2014 B-Well paid Femi, for the purchased services, a total of NIS 1,922,000 and NIS 23,000, respectively.

During 2014 the scope of the services provided by B-Well to Migdal Insurance was expanded to include additional service letters, and an additional agreement was signed pursuant to which B-Well might provide to Migdal Insurance services on an insignificant scope.

Under the terms of the agreement between the parties, Migdal Insurance is to make a monthly payment to B-Well according to the price addendum attached to the agreement. The rates agreed upon between Migdal Insurance and B-Well are lower than the rates Migdal Insurance paid Femi for the same services, and the total amount to be paid to B-Well depends on the scope and mix of the services purchased by Migdal Insurance.

In October 2015 Migdal Insurance and B-Well signed a service agreement that does not involve service letters. This agreement regulates the provision of additional services to Migdal Insurance: collection of medical information for the clarification of claims in all lines of insurance, hotline, operations and dental treatment, as well as settlement of dental claims.

In 2015 and in 2014 Migdal Insurance paid B-Well or Infomed, as the case may be, a total o NIS 30,796,000 and NIS 2,064,000, respectively.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

f. Guarantees

1) In the framework of its membership in the TASE Clearing House ("the Clearing House"), a consolidated subsidiary of Migdal Capital Markets, Migdal Stock Exchange Services, was 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 that a Clearing House 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. Each Clearing House member's share is calculated according to its 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.

Accordingly, Migdal Stock Exchange Services deposited its share in the risk fund, in the amount of NIS 12,054 as of December 31, 2014, in a shekel deposit pledged in favor of the TASE Clearing House.

2) Migdal Stock Exchange services made shekel deposits in a bank which rendered it Maof clearing services, which were pledged to the bank and served as collateral for the liabilities of the consolidated subsidiary and its customers in respect of derivatives trading. The amount of the deposits varied from time to time, in line with the TASE requirements, which were based, inter alia, on the volume of transactions performed by the consolidated subsidiary and its customers, and on TASE scenarios with respect to the Maof index and foreign currency exchange rates. As of December 31, 2014, these deposits amounted to NIS 53,708 thousand.

g. Holdings in trust

A subsidiary of Migdal Capital Markets, Migdal Stock Exchange Services, which was formerly consolidated, held in trust, for its customers, which include, inter alia, mutual funds managed by it, securities and cash valued at NIS 9.1 billion as of December 31, 2014.

Furthermore, the Capital Markets Group manages investment portfolios and mutual funds for customers who are not related parties for a total value of NIS 33 billion as of December 31, 2014 (December 31, 2014 – NIS 37 billion).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

h. Leases

1) Operating leases in which the Group is the lessee:

The Group has operating lease agreements with respect to vehicles. The average lease term is three years and the contract does not include an option to extend the lease.

The minimum lease fees that will be paid for irrevocable operating lease contracts as at December 31 are:

	2015	2014
	NIS in thousands	
First year	24,506	28,796
Second year up to five years	19,979	27,711
	44,485	56,507

For details about leased land, see Notes 6 and 8 above.

2) Operating leases in which the Group is the lessor:

The Group leases out investment property to external entities. The lease agreements are for an average period of 3 to 7 years. Usually the lessees have an option to extend the period of lease according to the conditions that were set in the agreement.

Hereunder are the minimum lease fees that will be received under irrevocable lease contracts (not including the option period):

	December 31	
	2015	2014
	NIS in thousands	
First year	390,961	370,631
Second year up to five years	1,315,117	866,812
More than five years	763,585	928,115
	2,469,663	2,165,558
Of which the minimum future lease fees receivable that relate to assets in which the Group is a financial lessee	1,180,656	1,221,129

During the year ended December 31, 2015, the Group recognized the sum of NIS 2,454 thousand as income in the statement of income in respect of contingent leasing fees (in 2014 and 2013 – NIS 1,931,000 and NIS 3,436,000 , respectively).

For additional information regarding income recognized in respect of investment property, see Notes 8 and 26 above.

NOTE 40:- MATERIAL EVENTS AFTER THE REPORTING PERIOD

a. On March 21, 2016 Migdal Insurance entered into a transaction with a distributor for the sale of 26,000,000 ordinary shares of NIS 1 par value each of Amot Investments Ltd. ("Amot"), representing 9.4% of Amot's issued and paid-up share capital and held for Migdal Insurance's nostro account. Migdal Insurance was informed that the distributor has entered into agreements with third parties to sell them the shares in transactions outside the stock exchange. The sale will be made at a price of NIS 12.68 per share (ex dividend) and for an overall net consideration of NIS 329 million.

Following the sale Amot will cease to be an affiliate of Migdal Insurance. The balance of the holdings in Amot shares represents 3.8% of Amot's issued and paid-up share capital and will be accounted for as a financial asset revalued at fair value. Migdal Insurance has undertaken towards the distributor during the next three months not to sell the balance of the Amot shares held by it in trading on the stock exchange or by distribution to the public, except at conditions determined between the parties.

For further details see the Company's immediate report of March 22, 2016 (reference no. 2016-01-011502).

b. In the period after the date of the report and up to its publication the financial markets continued to demonstrate volatility, which impacted negatively on the Company's nostro portfolio and on the investment portfolio of profit-participating policies, which affect the financial margin and the management fees to which the Company is entitled from its policyholders.

The effect on equity due to the decrease in the value of the marketable investment portfolio not held against yield dependent liabilities, from the date of the financial statement until immediately before its approval, net after tax, is estimated at NIS 70 million. Moreover, because of the negative yield on profit-participating policies since the beginning of the year, the Company has not collected variable management fees, and it will not be able to collect variable management fees as long as no positive yield is obtained that will cover the negative real yield accrued thus far. Management fees that will not be collected because of the negative yield, until a positive yield is obtained, as aforementioned, are estimated at NIS 30 million after tax.

Subsequent to the date of the financial statements, the risk-free interest rate curve began to decline, which is expected to cause an additional increase in insurance contract liabilities. For details on sensitivity tests relating to market risks see Note 37b(1)(a).

It should be emphasized that these are only partial data that do not include other components of income (loss) from investments and the effect of the Group's other activities on its equity.

APPENDIX - DETAILS OF ASSETS OF OTHER FINANCIAL INVESTMENTS OF AN INSURANCE SUBSIDIARY IN ACCORDANCE WITH THE DIRECTIVES OF THE COMMISSIONER OF INSURANCE

a. Quoted debt assets

Composition:

	December 31,			
	Carrying amount		Amortized cost	
	2015	2014	2015	2014
	NIS in thousands			
Government bonds – available- for-sale	4,723,666	3,751,890	4,707,653	3,665,660
Other debt assets				
Non-convertible – available-for-sale	2,890,037	2,384,452	2,849,077	2,323,163
Convertible and designated on initial recognition at fair value through profit or loss	-	-	-	-
Total quoted debt assets	7,613,703	6,136,342	7,556,730	5,988,823
Impairment recognized in profit or loss (on a cumulative basis)	2,415	1,802		

b. Shares

	December 31,			
	Carrying amount		Cost *)	
	2015	2014	2015	2014
	NIS in thousands			
Quoted				
Designated on initial recognition at fair value through profit or loss	60,380	-	59,296	-
Held-for-trade	-	-	-	-
Available-for-sale	979,928	1,023,816	827,939	812,022
Total quoted shares	1,040,308	1,023,816	887,235	812,022
Unquoted				
Designated on initial recognition at fair value through profit or loss	-	-	-	-
Available-for-sale	70,285	69,574	49,611	58,363
Total unquoted shares	70,285	69,574	49,611	58,363
Total shares	1,110,593	1,093,390	936,846	870,385
Impairment recognized in profit or loss (on a cumulative basis)	123,593	109,196		

*) Net of provisions for impairment.

c. Other financial investments

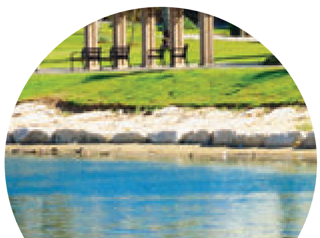
Other financial investments include mainly investments in ETFs, participation certificates in mutual funds, hedge funds, investment funds, financial derivatives, future contracts, options and structured products.

	December 31,			
	Carrying amount		Cost *)	
	2015	2014	2015	2014
	NIS in thousands			
Quoted				
Presented at fair value through profit or loss				
Available-for-sale	2,011,046	1,971,626	1,903,539	1,655,416
Derivative instruments	7,282	2,082	2,309	1,427
Total quoted financial investments	2,018,328	1,973,708	1,905,848	1,656,843
Unquoted				
Presented at fair value through profit or loss	-	-	-	-
Available-for-sale	478,069	380,365	364,591	299,489
Derivative instruments	12,817	24,574	-	-
Total unquoted financial investments	490,886	404,939	364,591	299,489
Total other financial investments	2,509,214	2,378,647	2,270,439	1,956,332
Impairment recognized in profit or loss (on a cumulative basis)	256,730	214,190		

*) Net of provisions for impairment.

- - - - - - - - - - - -

SEPARATE **FINANCIAL DATA**



HAYARKON | **TEL AVIV**

Translated
from the
Hebrew original

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

SEPARATE FINANCIAL INFORMATION

AS OF DECEMBER 31, 2015

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

SEPARATE FINANCIAL INFORMATION

AS OF DECEMBER 31, 2015

INDEX

- - - - - - - - - - - - - - -

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

To
The Shareholders of Migdal Insurance and Financial Holdings Ltd.

Dear Sirs/Mmes.,

Re: Special Auditors' Report of the Separate Financial Information in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have reviewed the separate financial information presented in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Migdal Insurance and Financial Holdings Ltd. (hereunder – "the Company") as of December 31, 2015 and 2014 and for each of the three years the latest of which ended on December 31, 2015, as disclosed on pages 3 (inclusive) through 12 (inclusive) to the Company's periodic report. The Company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion on the separate financial information based on our audits.

We did not audit the separate financial information taken from the financial statements of investees, whose assets less attributable liabilities, net total about NIS 698,104 thousand and NIS 643,162 thousand as of December 31, 2015 and 2014, respectively, and the Company's share of their earnings amounted to about NIS 91,270 thousand, NIS 80,009 thousand and NIS 70,752 thousand and for each of the three years the latest of which ended on December 31, 2015. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the separate financial information referred to above is prepared, in all material respects, in conformity with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel	SOMEKH CHAIKIN	KOST FORER GABBAY & KASIERER
March 29, 2016	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2015

DATA OF FINANCIAL POSITION

	Note	December 31, 2015	December 31, 2014
		NIS in thousands	
Assets			
Investments in investees		5,114,472	5,176,071
Capital notes and loans to investees	5a	93,327	88,516
Total non-current assets		5,207,799	5,264,587
Receivables - investees		2,089	2,026
Other receivables		185	6
Cash and cash equivalents	2	17,902	10,874
Total current assets		20,176	12,906
Total assets		5,227,975	5,277,493
Equity attributable to equity holders of the Company			
Share capital		110,629	110,629
Share premium		273,735	273,735
Capital reserves		291,564	489,110
Retained earnings		4,550,144	4,402,316
Total equity		5,226,072	5,275,790
Liabilities			
Payables - investees		291	47
Other payables	3	1,612	1,656
Total liabilities		1,903	1,703
Total equity and liabilities		5,227,975	5,277,493

The accompanying additional information is an integral part of the separate financial information.

March 29, 2016			
Date of approval of the financial statements	Yohanan Danino Chairman of the Board	Eran Czerninski CEO	Eran Czerninski CFO

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2015

DATA OF PROFIT AND LOSS

		Year ended December 31,		
		2015	2014	2013
	Note	NIS in thousands		
Company's share in earnings of investees		349,702	422,005	619,549
General and administrative expenses		2,516	2,509	4,496
Income before finance income and taxes on income		347,186	419,496	615,053
Finance income in respect of investees		2,637	2,524	2,411
Finance income, net		2,046	11	306
Income before taxes on income		351,869	422,031	617,770
Taxes on income	4	-	-	-
Income for the period attributable to equity holders of the Company		351,869	422,031	617,770

The accompanying additional information is an integral part of the separate financial information.

DATA OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Income for the period attributable to equity holders of the Company	351,869	422,031	617,770
Other comprehensive income (loss):			
Items of other comprehensive income (loss) that have been or will be reclassified from comprehensive income to profit and loss after initial recognition			
Net change in fair value of available-for-sale financial assets allocated to other comprehensive income	1,970	-	-
Profits and losses, net from realization of financial assets classified as available for sale allocated to the statement of profit and loss	(1,970)	-	-
Company's share of other comprehensive income (loss)of investees accounted for at equity	(197,546)	112,043	117,434
Total comprehensive income (loss) for the period after initial recognition in the framework of comprehensive income transferred or will be transferred to the statement of profit and loss, net of tax	(197,546)	112,043	117,434
Items of other comprehensive income (loss) that will not be transferred to profit and loss - Company's share of other comprehensive income of investees accounted for at equity	(5,263)	2,691	4,690
Total other comprehensive income (loss), net	(202,809)	114,734	122,124
Total comprehensive income for the period attributed to the Company's shareholders	149,060	536,765	739,894

The accompanying additional information is an integral part of the separate financial information.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2015

DATA OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total
	NIS in thousands								
Balance at January 1, 2015	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790
Income for the period	-	-	-	-	-	-	-	351,869	351,869
Other comprehensive income (loss), net of tax	-	-	(197,007)	-	-	(539)	-	(5,263)	(202,809)
Total comprehensive income (loss)	-	-	(197,007)	-	-	(539)	-	346,606	149,060
Net cumulative effect of changes in insurance reserves in general insurance								1,082	1,082
Allocation of benefit in respect of employees options	-	-	-	-	-	-	-	140	140
Dividend	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at December 31, 2015	110,629	273,735	283,079	6,989	(1,252)	(604)	3,352	4,550,144	5,226,072

The accompanying additional information is an integral part of the separate financial information.

DATA OF CHANGES IN EQUITY (Cont.)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total
	NIS in thousands								
Balance at January 1, 2014	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017
Income for the period	-	-	-	-	-	-	-	422,031	422,031
Other comprehensive income (loss), net of tax	-	-	112,101	-	-	(58)	-	2,691	114,734
Total comprehensive income (loss)	-	-	112,101	-	-	(58)	-	424,722	536,765
Realization of employee options into shares	1	-	-	-	-	-	-	-	1
Benefit in respect of employees options	-	-	-	-	-	-	-	110	110
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)
Transactions with non-controlling interests	-	-	-	-	(103)	-	-	-	(103)
Balance at December 31, 2014	110,629	273,735	480,086	6,989	(1,252)	(65)	3,352	4,402,316	5,275,790

The accompanying additional information is an integral part of the separate financial information.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2015

DATA OF CHANGES IN EQUITY (Cont.)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserves from available-for-sale assets	Reserve from revaluation of investment after achieving control	Capital reserve from transactions with non-controlling interests	Foreign currency translation adjustment of foreign operation	Revaluation reserve	Retained earnings	Total
	NIS in thousands								
Balance at January 1, 2013	110,607	273,735	250,544	6,989	-	-	-	4,152,835	4,794,710
Income for the period	-	-	-	-	-	-	-	617,770	617,770
Other comprehensive income (loss), net of tax	-	-	117,441	-	-	(7)	3,352	1,338	122,124
Total comprehensive income (loss)	-	-	117,441	-	-	(7)	3,352	619,108	739,894
Realization of employee options into shares	21	-	-	-	-	-	-	-	21
Classification share based payment from employee benefits liabilities to equity	-	-	-	-	-	-	-	5,230	5,230
Allocation of benefit in respect of employees options	-	-	-	-	-	-	-	311	311
Dividend	-	-	-	-	-	-	-	(400,000)	(400,000)
Transactions with non-controlling interests	-	-	-	-	(1,149)	-	-	-	(1,149)
Balance at December 31, 2013	110,628	273,735	367,985	6,989	(1,149)	(7)	3,352	4,377,484	5,139,017

The accompanying additional information is an integral part of the separate financial information.

DATA OF CASH FLOWS

	App.	2015	2014	2013
		Year ended December 31,		
		NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES				
Net cash from Company's current activities	A	(395)	(1,575)	1,304
Net cash from current activities in respect of transactions with investees		255	20	(334)
Net cash provided by (used in) current activities		(140)	(1,555)	970
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Net cash from the Company's investment activities		-	-	-
Net investments in investees		(3,037)	1,154	(20,500)
Realization of financial investments		4,006	-	-
Dividend received from investees		206,213	403,273	387,310
Net cash provided by investment activities in respect of transactions with investees		207,182	404,427	366,810
Net cash provided by investment activities		207,182	404,427	366,810
CASH FLOWS FROM FINANCE ACTIVITIES				
Realization of employee options into shares		-	1	21
Dividend		(200,000)	(400,000)	(400,000)
Net cash from the Company's finance activities		(200,000)	(399,999)	(399,979)
Net cash from finance activities in respect of transactions with investees		-	-	-
Net cash used in finance activities		(200,000)	(399,999)	(399,979)
Effect of exchange rate fluctuations on balances of cash and cash equivalents		(14)	13	(83)
Change in cash and cash equivalents		7,028	2,886	(32,282)
Balance of cash and cash equivalents at beginning of period		10,874	7,988	40,270
Balance of cash and cash equivalents at end of period		17,902	10,874	7,988

The accompanying additional information is an integral part of the separate financial information.

DATA OF CASH FLOWS (Cont.)

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
SCHEDULE A - CASH FLOWS FROM THE COMPANY'S CURRENT ACTIVITIES			
Net income for the period	351,869	422,031	617,770
Items not involving cash flows of investees:			
Company's share of results of investees, net	(349,702)	(422,005)	(619,549)
Interest income from investees	(2,493)	(2,360)	(2,212)
Taxes on income	-	-	-
Changes in other balance sheet items:			
Debtors and receivables	(244)	599	4,920
Creditors and payables	96	136	(34)
Total adjustments required for presenting cash flows from current activities	(352,343)	(423,630)	(616,875)
Cash paid and received during the period for:			
Interest received	79	24	409
Interest paid	-	-	-
Taxes paid, net	-	-	-
Net cash provided by (used in) the Company's current activities	(395)	(1,575)	1,304
SCHEDULE B – SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS			
Dividend not in cash received from investees	4,006	-	-

The accompanying additional information is an integral part of the separate financial information.

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

NOTE 1:- SIGNIFICANT ACCOUNTING POLICIES APPLIED IN THE SEPARATE FINANCIAL INFORMATION

Hereunder is the financial data from the Company's consolidated financial statements as at December 31, 2015 (hereunder - Consolidated Statements), published as part of the periodic reports, attributable to the Company itself (hereunder - the separate financial data), presented in accordance with Article 9c (hereunder – the Regulation) and the Tenth Addendum to the Securities Regulations (Periodic and Immediate reports), 1970 (hereunder - the Tenth Addendum), regarding the separate financial d of the corporation. Please read the separate financial information together with the consolidated financial statements.

<u>In this separate financial information</u>

- The Company - Migdal Insurance and Financial Holdings Ltd.
- Subsidiaries and affiliates the Company's investment therein is included, directly or indirectly, in the financial statements using the equity method of accounting.

The separate financial data does not constitute financial statements, prepared and presented in accordance with International Financial Reporting Standards (hereunder – the IFRS Standards) in general, and the provisions of IAS 27 - "Consolidated and Separate Financial Statements" in particular. However, the accounting policy described in Note 2 to the financial statements regarding significant accounting policies, and the manner in which financial data were classified in the financial statements, have been implemented to show the separate financial information, and so with the necessary changes noted below.

(1) <u>Data of Financial Position</u>

The amounts of assets and liabilities presented are included in the consolidated financial statements attributed to the Company itself with details according to types of assets and liabilities. The data is classified in the same manner in which they were classified in the consolidated statements of financial position.

In addition, information regarding the net amount, based on the consolidated statements attributable to the Company's shareholders of total assets less total liabilities, in respect of subsidiaries, including goodwill, is also presented.
The presentation leads to the equity attributable to shareholders of the Company, on the basis of the consolidated financial statements, is identical to the Company's equity as derived from the separate financial information.

(2) <u>Data of profit and loss and other comprehensive income</u>

The amounts of income and expenses included in the consolidated financial statements that are attributable to the Company itself, broken down in respect of profit or loss and other comprehensive income, with details according to types of income and expenses, is presented.

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

NOTE 1:- SIGNIFICANT ACCOUNTING POLICIES APPLIED IN THE SEPARATE FINANCIAL INFORMATION (Cont.)

(2) Data of profit and loss and other comprehensive income (Cont.)

In addition, information is presented regarding the net amount, on the basis of the consolidated financial statements, that is attributable to the Company shareholders itself, of the total income less the total expenses in respect of the operating results of investees, including goodwill impairment, impairment of an investment in affiliate or its reversal and impairment of an investment accounted for at equity or its reversal.

As a result of this presentation, the total income for the period that is attributable to shareholders of the Company and the total comprehensive income for the year that is attributable to shareholders of the Company is based on the consolidated financial statements, is identical to the total income for the year that is attributable to equity holders of the Company and the total comprehensive income for the period that is attributable to shareholders of the Company, respectively, according to the separate financial information.

(3) Cash flows included in the consolidated financial statements that are attributable to the Company itself

The cash flow amounts included in the consolidated financial statements and attributable to the Company itself are presented based on the consolidated statements of cash flows, classified according to the cash flows from current activities, investment activities and finance activities with details of their composition. This data was classified in the same manner as the consolidated financial statements were classified.

NOTE 2: CASH AND CASH EQUIVALENTS

	Average interest rate	December 31, 2015	December 31, 2014
	%	NIS in thousands	
Cash and deposits for immediate withdrawal	0.07	17,902	4,027
Unlinked short-term deposit	-	-	6,847
Total cash and cash equivalents		17,902	10,874

NOTE 3: OTHER PAYABLES

	December 31, 2015	December 31, 2014
	NIS in thousands	
Institutions and government authorities	1,360	1,360
Other	252	296
	1,612	1,656

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

NOTE 4:- TAXES ON INCOME

a. Corporate tax assessments

The Company received final tax assessments, by virtue of agreement or by virtue of statute of limitations, up to and including 2010.

b Theoretical tax

Hereunder is a reconciliation of the tax amount that would have been applicable 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, and the taxes on income recorded in the statement of profit and loss:

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Income before taxes on income	351,869	422,031	617,770
Statutory tax rate	26.5%	26.5%	25%
Tax computed at the statutory tax rate	93,245	111,838	154,443
Increase (decrease) in taxes on income resulting from the following factors:			
Increase in losses for tax purposes for which no deferred taxes were allocated	85	619	968
Tax-exempt income	(659)	(626)	(524)
Company's share of earnings of investees	(92,671)	(111,831)	(154,887)
Taxes on income	-	-	-
Average effective tax rate	-	-	-

NOTE 5:- MATERIAL COMMITMENTS AND TRANSACTIONS WITH INVESTEES

a. Capital notes and loans

1. Presented hereunder are details of capital notes that were issued to the Company by subsidiaries:

	Par value		Carrying amount	
	December 31,		December 31,	
	2015	2014	2015	2014
Issuer:	NIS in thousands			
Migdal Capital Markets (1965) Ltd. (1)	30,000	30,000	30,000	30,000
Migdal Management Services Ltd. (2)	22,077	22,077	20,365	19,533
Migdal Health and Quality of Life Ltd. (2)	45,522	40,472	42,067	36,000
Total	97,599	92,549	92,432	85,533

(1) In order to meet the capital requirements of a subsidiary of Migdal Capital Markets the Company gave Migdal Capital Markets, against the issue of a capital note by Migdal Capital Markets, an unlinked loan of NIS 30 million which bears no interest, to be repaid on August 31, 2021. During February 2012, the Board of Directors approved recording the capital note as a perpetual capital note.

(2) All capital notes issued for a period of not less than 5 years, are not linked to the CPI and do not bear interest. The capital notes are presented at their present value which is calculated based on the prevailing interest rates on the date of issue of the capital notes for unlinked corporate bonds rated AA with an average life of 5 years.

2. Loan to investee:

The balance of the loan at December 31, 2015 is NIS 895 thousand (December 31, 2014 - NIS 2,983 thousand). The loan is linked to the CPI, bears interest of 4% per annum and will be repaid in equal monthly payments beginning from June 2014 until May 2017.

ADDITIONAL INFORMATION TO THE FINANCIAL DATA

NOTE 5:- MATERIAL COMMITMENTS AND TRANSACTIONS WITH INVESTEES (Cont.)

b. Dividend received from subsidiaries:

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Migdal Insurance Company Ltd.	210,219	403,273	367,310
Midgal Capital Markets (1965) Ltd.	-	-	20,000

NOTE 6:- EQUITY REQUIREMENTS FOR SUBSIDIARIES

Regarding the equity requirements for Migdal Insurance, Migdal Makefet and Migdal Capital Markets, see Note 7c to the consolidated financial statements.

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

For additional events that occurred after the reporting date, see Note 40 to the consolidated financial statements.

- - - - - - - - - - - - - -

ADDITIONAL DATA ON THE CORPORATION

LOOKING TOWARDS HULA VALLEY | **GOLAN HEIGHTS**

CHAPTER 5 – DESCRIPTION OF ADDITIONAL DATA ON THE CORPORATION

TABLE OF CONTENTS

Regulation 9d: **Report Regarding Liabilities of the Reporting Corporation and Consolidated Companies in the Financial Statements**

The liabilities of consolidated companies of the reporting corporation, except such companies that are themselves a reporting corporation or an insurer are detailed hereinafter:

Credit received by the consolidated companies from banks in Israel.

	Principal payments					Gross interest payments (excl. tax deductions)
	NIS CPI-linked	NIS unlinked	Euro	USD	Other	
	In NIS thousand					
First year	--	5,940	--	--	--	282
Second year	--	1,393	--	--	--	170
Third year	--	1,263	--	--	--	101
Fourth year	--	1,182	--	--	--	34
Fifth year and on	--	636	--	--	--	84
Total	--	10,414	--	--	--	671

For capital issuances carried out by Migdal Capital Raising Ltd., a sub-subsidiary of the Company, see Note 24e to the consolidated Financial Statements.

Regulation 10a: Condensed Quarterly Profit and Loss Statements

Consolidated Profit and Loss Statements of the Company

	1-3/15	4-6/15	7-9/15	10-12/15	Total 2015
	Unaudited in NIS thousands				
Gross premiums earned	2,664,944	2,643,180	2,655,625	2,725,065	10,688,814
Premiums earned by reinsurers	151,139	157,768	174,592	139,657	623,156
Premiums earned in retention	2,513,805	2,485,412	2,481,033	2,585,408	10,065,658
Net investment income (loss), and financing income	3,581,992	(99,884)	(1,948,413)	1,951,638	3,485,333
Income from management fees	766,514	135,675	38,033	539,352	1,479,574
Income from commissions	92,225	82,023	87,804	80,544	342,596
Other income	8,973	5,615	5,505	21,639	41,732
Total income	6,963,509	2,608,841	663,962	5,178,581	15,414,893
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	6,845,114	943,515	521,379	4,251,734	12,561,742
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	91,766	89,823	147,799	17,922	347,310
Payments and change in liabilities in respect of insurance contracts and investment contracts in retention	3,800,505	3,407,896	3,696,678	2,824,931	13,730,010
Commissions, marketing expenses and other acquisition expenses	390,166	366,681	402,702	425,718	1,585,267
Administrative and general expenses	261,831	285,197	234,868	256,547	1,038,443
Other expenses	13,367	21,177	24,964	42,293	101,801
Financing expenses (income)	(1,614)	19,709	24,105	15,531	57,731
Total expenses	7,417,098	1,546,456	1,060,219	4,973,901	14,997,674
Group's share in investees income treated according to the equity value method	10,962	22,422	13,643	44,571	91,598
Income (loss) before income tax	(442,627)	1,084,807	(382,614)	249,251	508,817
Income tax (tax benefit)	(179,970)	399,994	(148,517)	84,259	155,766
Income (loss) for the period	(262,657)	684,813	(234,097)	164,992	353,051
Attributed to:					
Company's shareholders	(263,645)	684,255	(233,785)	165,044	351,869
Non-controlling interests	988	558	(312)	(52)	1,182
Income (loss) for the period	(262,657)	684,813	(234,097)	164,992	353,051

Regulation 10a: Condensed Quarterly Profit and Loss Statements
Company's Statement of Comprehensive Income

	1-3/15	4-6/15	7-9/15	10-12/15	Total 2015
	Unaudited – in NIS thousands				
Income (loss) for the period	(262,657)	684,813	(234,097)	164,992	353,051
Other comprehensive income (loss)					
Other comprehensive income (loss) items, which after initial recognition were transferred or will be transferred to P&L					
Net change in the fair value of available for sale financial assets credited to capital reserves	532,302	(358,335)	(161,895)	131,048	143,120
Net change in the fair value of available for sale financial assets recognized in P&L	(236,524)	(186,351)	(39,012)	(83,109)	(544,996
Impairment of available for sale financial assets recognized in the P&L	3,510	16,492	40,778	24,107	84,887
Group's share in other comprehensive income (loss) of investees treated according to the equity value method	(1,755)	--	--	--	(1,755)
Exchange rate differences in respect of foreign activities	(814)	(118)	375	(287)	(844)
Tax effect	(112,197)	199,431	60,389	(25,581)	122,042
Total other comprehensive income (loss) items, which after initial recognition were transferred or will be transferred to P&L, net of tax	184,522	(328,881)	(99,365)	46,178	(197,546)
Other comprehensive income (loss) items, which will not be transferred to P&L					
Actuarial income (loss) in respect of defined benefit plans	(9,843)	7,587	(538)	(6,037)	(8,831)
Tax effect	3,296	(2,307)	334	2,333	3,656
Total other comprehensive income (loss) for the period, which will not be transferred to P&L, net of tax	(6,547)	5,280	(204)	(3,704)	(5,175)
Total other comprehensive income (loss) for the period, net	177,975	(323,601)	(99,569)	42,474	(202,721)
Total comprehensive income (loss) for the period	(84,682)	361,212	(333,666)	207,466	150,330
Attributed to:					
Company's shareholders	(85,649)	360,597	(333,373)	207,485	149,060
Non-controlling interests	967	615	(293)	(19)	1,270
Comprehensive income (loss) for the period	(84,682)	361,212	(333,666)	207,466	150,330

Regulation 10c:	**Use of consideration of securities with reference to consideration designation as per the prospectus**

None

Regulation 11:	**List of investments in subsidiaries and related companies as at the balance sheet date [1] [2]**

[1] The data regarding subsidiaries and related companies in the Periodic Report refer to active corporations only as of December 31st, 2015. These corporations are not traded on the TASE, except as stated in specific footnotes.

[2] The following companies were deleted from the companies list: B-Diyuk Pension Arrangements Operation Insurance Agency (2000) Ltd., Reshef Insurance Agency (2004) Ltd., Arxcis Global Wealth Management Ltd., Migdal Capital Markets – Finance Academy Ltd., Migdal Stock Exchange Services (N.E.) Ltd., MGTF Hedge Funds Management Ltd. and MGTF Investments Management Ltd.

a. In the Company's books [1 2]

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Insurance Company Ltd.	185,389,304 [3]	Ordinary NIS 0.1	9,773,357	186,366,639.7 [3]	4,664,288	--	100	100	100	100
Migdal Health and Quality of Life Ltd.		Ordinary NIS 0.1	20,870,000	2,087,000	(22,884)	42,962[4]		100	100	100
Migdal Capital Markets (1965) Ltd.	428,943,676[5]			428,943,676 [5]	483,975	30,000 [6]	100		100	100

---

[3] Including 105 shares held by subsidiaries of Migdal Insurance Company Ltd., a subsidiary of the Company (henceforth: "**Migdal**") and 21 shares held by Migdal.

[4] The balance is composed of a loan extended by the Company in the amount of NIS 2,984 thousand (including current maturities in the amount of NIS 2,089 thousand), bearing CPI-linked interest at 4%, to be paid in monthly installment from May 2014 to May 2017, and capital notes issued to the Company in the total amount of NIS 45,522 thousand, unlinked and bearing no interest, the capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2015 is NIS 42,067 thousand as detailed herewith.

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2015
13,072	1/2017	5.13%	12,435
1,409	10/2017	4.62%	1,295
13,691	11/2017	4.29%	12,641
2,300	11/2017	4.25%	2,125
10,000	3/2018	4.16%	9,137
4,700	11/2020	2.71%	4,130
350	12/2020	2.90%	304
Total: 45,522			Total: 42,067

[5] Including 33,000 shares of NIS 1 held by Migdal Trust Funds Ltd. (henceforth: "**Migdal Funds**") that is a sub-subsidiary of Migdal Capital Markets (1965) Ltd. (henceforth: "**Migdal Capital Markets**").

[6] The balance is composed of a perpetual capital note issued to the Company.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Management Services Ltd.	200			200	(10,907)	20,365[7]	100		100	100

[7] The balance is composed of capital notes issued to the Company in the total amount of NIS 22,077 thousand, unlinked and bearing no interest, the capital notes were discounted as per generally accepted accounting rules. Their balance as of December 31st, 2015 is NIS 20,365 thousand, as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2015
1,500	12/2016	5.42%	1,429
500	4/2017	5.12%	470
1,600	6/2017	4.81%	1,491
1,000	10/2017	4.69%	918
500	10/2017	4.61%	459
4,000	11/2017	4.29%	3,690
2,477	12/2017	4.25%	2,287
500	3/2018	4.01%	459
10,000	4/2018	3.89%	9,162
Total: 22,077			Total: 20,365

b. In the books of a subsidiary, Migdal Insurance Company Ltd. [1]

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Insurance Capital Raising Ltd.		Ordinary NIS 0.01	1,000	10	--	--		100	100	100
Migdal Makefet Pension and Providence Fund Ltd.	2,034			2,034	716,304	--	100		100	100
Yozma Pension Fund for Self-Employed Ltd.	9,200,000			9,200,000	10,345	--	100		100	100
Migdal Holdings and Management of Insurance Agencies Ltd.	810 [8]			810 [8]	30,820	--	100		100	100
Orlan Insurance Agency (1994) Ltd. [9]	60			60	7,105	48 [10]	30		30	30
Ihud Insurance Agencies Ltd. [9]		Ordinary NIS 0.001	1,500,000 [11]	1,500 [11]	20,694	--		100	100	100

[8] Including five shares held by subsidiaries of Migdal and one share held by the Company.
[9] In the books of Migdal Holdings and Management of Insurance Agencies Ltd., a subsidiary of Migdal (henceforth: "**Migdal Agencies**").
[10] The balance is composed of a loan extended by Migdal Agencies, bearing CPI-linking differences and/or annual interest at a rate of 3.5% or an annual nominal interest rate as set forth in Regulation 2 (a) to the Income Tax Regulations, as update every year (in 2015 the interest rate set forth in the Regulation is 3.05%), the loan is paid in equal monthly installments until January 2016.
[11] Including one share held by Migdal.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Peltours Insurance Agencies Ltd.[9]		Ordinary NIS 0.01	18,760,002	187,600.02	24,469	715 [12]		73.28	73.28	73.28
Ihud-David Berman Insurance Agency Ltd. [13]		Foundation NIS 0.0001 Ordinary NIS 0.0001	100 50,900	5.1	1,404	--		73.28	73.28	73.28
Ihud Peltours Diamonds Insurance Agency (2002) Ltd. [13]		NIS 0.1	1,000	100	1,131	--		73.28	73.28	73.28
Mivtach Simon Insurance Agencies Ltd. [9]		Ordinary NIS 0.001	1,000	1	9,643	100,000 [14]		100	100	100
Amir Aloni Life Assurance Agency (1994) Ltd. [15]	300			300	1,264	--	75		75	75
Eli Erlich Insurance Services (1999) Ltd. [15]	2,000			2,000	5,859	--	100		100	100

[12] The balance is composed of a perpetual capital note issued to Migdal Agencies.
[13] In the books of Peltours Insurance Ltd., a subsidiary of Migdal Agencies.
[14] The balance is composed of capital notes in the amount of NIS 100,000 thousand, issued to Migdal Eshkol Finansim B.M., a subsidiary of Migdal, unlinked, bearing no interest, to be paid not before December 2017.
[15] In the books of Mivtach Simon Insurance Agencies Ltd., a subsidiary of Migdal Agencies (henceforth: "**Mivtach Simon**").

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Municipalit Insurance Agency (2000) Ltd. [13]	50			50	95	--	36.635		36.635	36.635
Makefet Financial Services – Insurance Agency (1998) Ltd.[15]	1,000 [16]			1,000 [16]	8,910	--	100		100	100
Shaham Insurance Agencies (1977) Ltd. [9]	3,492 [17]	Preferred A shares NIS 0.1	782	3,570.2	11,743	6,537 [18]	100	43.88	100	100
Moshe Sofer Insurance Agency (1997) Ltd. [19]	55			55	665	--	35		35	35

[16] Including 450 shares of NIS 1 held by Proline Exclusive Ltd., a subsidiary of Mivtach Simon.
[17] Including 36 shares held by Shaham Insurance Agencies Ltd. (1977) Ltd., a subsidiary of Migdal Agencies (henceforth: "**Shaham**").
[18] The balance is composed of capital notes issued to Migdal Agencies in the total amount of NIS 7,250 thousand, unlinked and bearing no interest, the capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2015 is NIS 6,537 thousand as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2015
2,000	7/2017	4.76%	1,786
2,250	12/2018	3.53%	2,031
3,000	3/2019	4.09%	2,634
Total: 7,250			Total: 6,537

[19] In the books of Shaham.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Shaham Weinstein (Netanya) Insurance Agencies Ltd. [19]		Ordinary Class A NIS 0.001 Ordinary Class B NIS 0.001	10,200 9,800	20	2,662	--		100	100	100
Isabel Ouda – Shaham – Insurance Agency [19]		--	--		2,140	--			70	70
Sagi Yogev Insurance Agencies (1988) Ltd. [9]	1,722	Profits NIS 1	2,000	3,722	16,337	3,884 [20]	100	100	100	100

[20] The balance is composed of a loan extended by Migdal in the amount of NIS 1,187 thousand, CPI-inked, bearing 4.5% interest, paid in quarterly installments until November 2018, and a capital note in the amount of NIS 3,000 thousand, issued to Migdal Agencies, unlinked and interest-free, to be paid not before December 2018. The capital note was discounted as per generally accepted accounting rules, at a rate of 3.59%, and its balance as of December 31st, 2015 after discounting is NIS 2,697 thousand.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Si-El Insurance Agency (1995) Ltd.[9]	154			154	3,374	--	100		100	100
Migdal Technologies Ltd. [21]		Ordinary NIS 0.001	101 [22]	0.101 [22]	--	--		100	100	100
Migdal Real Estate Holdings Ltd.		Ordinary NIS 0.0001	61,660,406 [23]	6,166.04 [23]	837,856	329,977 [24]		100	100	100
Migdal Claims Management Ltd. [25]		Ordinary NIS 0.001	2,000 [26]	2 [26]	--	--		100	100	100
Data Car Israel Ltd.		NIS 1 Class A	10,000	30,000	5,186	--		100	100	100
		NIS 1 Class B	10,000							
		NIS 1 Class C	10,000							

[21] Migdal Technologies Ltd. is a fully-owned subsidiary of Migdal, its entire activity is for Migdal, and it is entirely financed by it. The activity is recorded in Migdal's books and is included in its Financial Statements.

[22] Including three shares held by Migdal's subsidiaries.

[23] Including one share held by Migdal Claims Management Ltd., a subsidiary of Migdal (see Footnote 25 below).

[24] The balance is composed of capital notes issued to Migdal in the amount of NIS 260,000 thousand, unlinked, bearing no interest, with no payment dates, a capital note in the amount of NIS 55,000 thousand, unlinked, bearing no interest, to be paid not before January 2016, and a loan in the amount of NIS 14,977 thousand, unlinked, bearing 3.05% interest, with no payment date.

[25] Migdal Claims Management Ltd. is a subsidiary fully owned by Migdal, it operates and engages on its behalf, and all its activity is for Migdal and it is fully financed by it, and it is included in its Financial Statements.

[26] Including one share held by Migdal Real Estate Holdings Ltd., a subsidiary of Migdal (henceforth: "**Real Estate Holdings**").

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Eshkol Finansim B.M.	485,057 [27]			485,057 [27]	129,939	--	100		100	100
Migdal Credit Services Ltd. [28]	100 [29]			100 [29]	2,897	9,189 [30]	100		100	100
Migdal Leasing Ltd. [28]	100			100	8,5408	--	100		100	100
Hamagen Properties Ltd.	6,090,837			6,090,837	271,540	--	100		100	100
Pel Hamagen House Ltd. [31]	14,066,596 11			14,066,596 11	271,534	--	100		100	100
Ramat Aviv Mall Ltd. [32]		Ordinary NIS 0.0001	965,579	96.5579	240,167			26.599	26.599	26.599
Amot Investments Ltd. [33]	36,545,112			36,545,113	428,314	--	13.28		13.28	13.28

[27] Including one share held by Migdal Agencies.
[28] In the books of Migdal Eshkol Finansim B.M., a subsidiary of Migdal (henceforth: "**Migdal Eshkol**").
[29] Including two shares held by Migdal.
[30] The balance is composed of a loan extended by Migdal Eshkol, in the amount of NIS 4,154 thousand, and a loan extended by Migdal in the amount of NIS 5,035 thousand. The loans are unlinked and bear 3.05% interest, with no payment date.
[31] In the books of Hamagen Properties Ltd., a subsidiary of Migdal.
[32] In the books of Real Estate Holdings.
[33] Amot Investments Ltd. is traded on the TASE. The data do not include other holdings in Amot Investments held by subsidiaries and sub-subsidiaries of the Company against insurance liabilities. After the date of the balance sheet, on March 22nd, 2016, 26 million shares were sold (outside the Stock Exchange). After the sale, the holding rate is 3.8%.

c. In the books of a subsidiary, Migdal Management Services Ltd.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Pilat - Hi-Capital Group Ltd.	116			116	(8,675)	13,552[34]	70		70	70
Talent HR Systems Ltd.	150 [35]			150 [35]	(359)	--	60		60	60
Good Purpose in Orthodox Employment Ltd.	2,000 [36]			2,000 [35]	18		56.67		56.67	56.67

[34] The balance is composed of loans extended by Migdal Management Services as detailed hereinafter: loans in the amount of NIS 3,367 thousand, CP-linked, bearing 4% interest to be paid starting from January 2015 in four equal annual installments, loans in the amount of NIS 5,440 thousand, CPI-linked, bearing interest of 4%, to be paid starting from January 2016 in 60 equal monthly payments, and a loan in the amount of NIS 836 thousand, bearing 3.05% interest with no payment date.

[35] 50 shares held by Migdal Management Services, and in addition there are 100 shares held by Pilat - Hi-Capital Group Ltd. (henceforth: "**Pilat**").

[36] 1,000 shares held by Pilat and 1,000 shares held by B-Well Quality of Life Solutions Ltd. (For details regarding B-Well, see below, Page 5-18). The remaining 1,000 shares are held by ITworks Empowering People (registered association). On March 10th, 2016 B-Well's BoD decided to sell the shares of Good Purpose to Pilat, subject to a valuation. The shares have not yet been transferred to Pilat.

d. In the books of a subsidiary, Migdal Capital Markets (1965) Ltd.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Migdal Underwriting and Business Initiative Ltd.	5,001,053			5,001,053	19,936	--	100		100	100
Migdal Capital Markets (Management Services) Ltd.		Ordinary NIS 0.001	50,000[37]	50	253	--		100	100	100
Migdal Trust Funds Ltd. [38]	259,518,001 [39]			259,518,001[39]	266,821	--	100		100	100
Migdal Investment Portfolio Management (1998) Ltd.	694,247 [39]			694,247 [39]	4,637	--	100		100	100
Migdal Issuers Ltd. [40]	100			100	(4,263)	4,752 [41]	100		100	100

[37] Including one share held by Migdal Trust Funds Ltd.

[38] On September 24th, 2015 all the shares of Migdal Trust Funds were transferred via a distribution of a dividend in kind, from Migdal Stock Exchange Services to Migdal Capital Markets, and on October 28th, 2015 Migdal Stock Exchange Services with and into Stock Exchange Services and Investment IBI Ltd., and as a result Migdal Stock Exchange Services was deleted from the Registrar of Companies.

[39] Including one share held by Migdal Capital Markets (Management Services) Ltd., a subsidiary of Migdal Capital Markets.

[40] In the books of Migdal Underwriting and Business Initiative Ltd., a subsidiary of Migdal Capital Markets.

[41] The balance is composed of capital notes issued to Migdal Underwriting, in the total amount of NIS 4,768 thousand, unlinked, interest-free, to be paid not before February 2016. The capital notes were discounted as per generally accepted accounting rules, at a rate of 4.10%, and their balance as of December 31st, 2015 after discounting is NIS 4,752 thousand.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Dragon Hedge Funds Management Ltd.[42] [43]		NIS 0.01	852	8.52	(112)	123 [44]		100	100	100
MRM – Investments Management Ltd. [42] [43] [46]	1,000			1,000	(419)		100		100	100
MCM Alternative Investments Ltd.	100			100	(7,886)	7,331 [45]	100		100	100
MRM – Migdal Risk Management Ltd. [42] [46]	1,000			1,000	(1)		100		100	100
Migdal L.B. Ltd. [42] [47]	1,000			1,000	14	--	100		100	100

[42] In the books of MCM Alternative Investments Ltd., a subsidiary of Migdal Capital Markets (henceforth: "**MCM**"). The activity of MGTF Hedge Funds Management Ltd., which was carried out via MGTF Hedge Fund, L.P (Cayman Islands), was discontinued in 2Q15.

[43] As of December 31st, 2015, no assets were managed in the hedge funds in which Dragon Hedge Funds Management Ltd. serves as a general partner, since in 2014 the monies of investors in these hedge funds (including Migdal Capital Markets (1965) Ltd.) were redeemed and their activity was discontinued.

[44] The balance of the loan was converted to a perpetual capital note in February 2015.

[45] The balance is composed of capital notes issued to Migdal Capital Markets, in the total amount of NIS 8,086 thousand, unlinked, interest-free, to be paid not before January 2020. The capital notes were discounted as per generally accepted accounting rules, at a rate of 2.48%, and their balance as of December 31st, 2015 after discounting is NIS 7,331 thousand.

[46] The company was founded on September 14th, 2014, and it serves as a general partner in MRS Hedge Fund, L.P (Cayman Islands), which began its activity on January 1st, 2015.

[47] The activity in Migdal L.B. Ltd. was discontinued on December 31st, 2014, but it may be renewed in 2016.

e. In the books of a subsidiary, Migdal Health and Quality of Life Ltd.

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
50 Plus Ltd.	9,080			9,080	(1,315)	28,737 [48]	100		100	100

[48] The balance is composed of perpetual capital notes issued to Migdal Health and Quality of Life Ltd. (henceforth: "**Migdal Health**") in the total amount of NIS 21,100 thousand and capital notes in the total amount of NIS 8,458 thousand, unlinked, interest free. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2015 is NIS 7,637 thousand, as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2014
200	4/2018	3.95%	183
200	5/2018	3.78%	184
220	6/2018	3.83%	201
450	7/2018	3.81%	410
300	8/2018	3.73%	274
850	9/2018	4.15%	763
250	10/2018	3.69%	226
370	10/2018	3.81%	334
350	12/2018	3.57%	316
1,040	1/2019	3.68%	933
173	1/2019	3.55%	155
300	2/2019	3.35%	271
335	4/2019	3.33%	301
350	4/2019	3.26%	315
1,070	5/2019	2.92%	970
1,600	7/2019	3.05%	1,437
400	4/2020	2.26%	364
Total: 8,458			Total: 7,637

Company name	Ordinary shares of NIS 1 par value	Other type of share	No. of shares of other type	Total par value in NIS	Value in the separate Financial Statements	Balance of loans, bonds and capital notes	Percentage of holdings in issued capital			
				In NIS	In NIS thousand	In NIS thousand	In NIS 1 shares	In other type of shares	In capital	In voting and power to appoint Directors
Club 50 Insurance Agency Ltd. [49]	120			120	(3,541)	8,164 [50]	100		100	100
Infomed Medical Sites Ltd.	1,755			1,755	8,327	5,558 [51]	81.89		81.89	81.89
B-Well Quality of Life Solutions Ltd. [52]		NIS 0.1	1,200	120	3,811	--		100	100	100

[49] In the books of 50 Plus Ltd. (henceforth: "**50 Plus**"), a subsidiary of Migdal Health.

[50] The balance is composed of capital notes issued to 50 Plus as detailed below: perpetual capital notes in the total amount of NIS 4,447 thousand, and capital notes in the total amount of NIS 2,658 thousand, unlinked and interest-free, to be paid during 2018-2019. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2015 is NIS 2,262 thousand, as well as capital notes issued to Migdal Health, unlinked and interest-free, in the total amount of NIS 1,530 thousand. The capital notes were discounted as per generally accepted accounting rules, and their balance as of December 31st, 2015 is NIS 1,355 thousand as detailed herewith:

Capital note's par value in NIS thousand	Payment date	Discount rate	Capital note's balance as of December 31st, 2015
100	7/2019	3.19%	90
80	9/2019	2.69%	73
137	10/2019	2.92%	123
90	11/2019	2.73%	81
90	12/2019	3.12%	80
80	1/2020	3.28%	70
223	1/2020	3.23%	196
90	3/2020	2.28%	82
90	6/2020	2.84%	79
250	11/2020	2.78%	219
300	12/2020	2.78%	262
Total: 1,530			Total: 1,355

[51] The balance is composed of a loan extended by Migdal Health, CPI-linked, bearing 4% interest, to be paid in monthly installments from June 2014 until May 2017 .

[52]. In the books of Infomed Medical Sites Ltd., a subsidiary of Migdal Health (henceforth: "**Infomed**").

Regulation 12: Changes in investments in subsidiaries and related companies in the reported period [53]

Date of change	Nature of change	Name of company	Type of share	Total shares	Cost in NIS thousand
1.1.15	Sale (in the books of Migdal Capital Markets (1965) Ltd.)	Migdal Capital markets – Finance Academy Ltd. [54]	Ordinary NIS 1	1,000	500
4.1.15	Establishment of a company (in the books of Pilat – Hi-Capital Ltd.)	Good Purpose in Orthodox Employment Ltd. [55]	Ordinary NIS 1	1,000	1
4.1.15	Establishment of a company (in the books of B-Well Quality of Life Solutions Ltd.)	Good Purpose in Orthodox Employment Ltd. [55]	Ordinary NIS 1	1,000	1
31.3.15	Sale (in the books of Migdal Management Services Ltd.)	Arxcis Global Wealth Management Ltd. [56]	Ordinary NIS 0.01	419,818	1,500
31.3.15	Discontinuation of activity (in the books of Migdal Capital Markets (1965) Ltd.)	MGTF Hedge Funds Management Ltd. [57]	Ordinary NIS 1	1,000	--
31.3.15	Discontinuation of activity (in the books of Migdal Capital Markets (1965) Ltd.)	MGTF Investments Management Ltd. [58]	Ordinary NIS 1	1,000	--
28.10.15	Winding up due to merger (in the books of Migdal Capital Markets (1965) Ltd.)	Migdal Stock Exchange Services (N.E) Ltd. [59]	Ordinary NIS 1	259,506,540	--
17.11.15	Sale (in the books of Sagi Yogev Insurance Agencies (1988) Ltd.	Reshef Insurance Agency (2000) Ltd. [60]	Ordinary NIS 1	60	4,975
1.12.15	Winding up of activity (in the books of Migdal Holdings and Management of Insurance Agencies Ltd.)	B-Diyuk Pension Arrangements Operation Insurance Agency (2000) Ltd. [61]	Ordinary NIS 1	200	--
15.12.15	Share acquisition (in the books of Migdal Health and Quality of Life Ltd.)	Infomed Medical Sites Ltd. [62]	Ordinary NIS 1	225	1,470
During 2015	Dilution (in the books of Migdal Insurance Company Ltd.)	Amot Investments Ltd. [63]	Ordinary NIS 1	323,596	--

[53] The following companies were deleted from the companies list: B-Diyuk Pension Arrangements Operation Insurance Agency (2000) Ltd., Reshef Insurance Agency (2004) Ltd., Arxcis Global Wealth Management Ltd., Migdal Capital Markets – Finance Academy Ltd., Migdal Stock Exchange Services (N.E.) Ltd., MGTF Hedge Funds Management Ltd. and MGTF Investments Management Ltd.

[54] On January 1st, 2015 all the shares of the Finance Academy were transferred to a company unrelated to the Group.

[55] On January 6th, 2015 Good Purpose in Orthodox Employment (henceforth: "**Good Purpose**") was established. Its shareholders, which own it at equal parts, are Pilat, B-well and ITworks Empowering People (registered association).

[56] On March 31st, 2015 Migdal Management Services Ltd. transferred the shares of Arxcis Global Wealth Management Ltd. to a company unrelated to the Group.

[57] On March 31st, 2015 the activity of MGTF Hedge Funds Management Ltd. was discontinued.

[58] On March 31st, 2015 the activity of MGTF Investments Management Ltd. was discontinued.

[59] On October 28th, 2015 Migdal Stock Exchange Services (N.E) Ltd. was merged with Stock Exchange Services and Investment IBI Ltd.

[60] On November 17th, 2015 all the shares of Reshef Insurance Agency (2004) Ltd. were transferred to a company unrelated to the Group.

[61] On December 1st, 2015 the activity of B-Diyuk was transferred to Mivtach Simon Insurance Agencies Ltd.

[62] On December 15th, 2015 225 shares of Infomed Medical Sites Ltd. were transferred from company that is not related to the Group to Migdal Health and Quality of Life Ltd.

[63] During 2015 option warrants for employees were exercised in Amot Investments Ltd. (henceforth: "**Amot**"). As a result, the holding rate in Amot decreased.

Regulation 13:	**Income of subsidiaries and related companies and income of the Corporation thereof as at the balance sheet date, in NIS in thousands** [53]						
Company name	**Profit (loss) for the period** [64]	**Other compre-hensive profit (loss) for the period** [64]	**Total compre-hensive profit (loss) for the period** [64]	**Dividend**	**Mgmt. fees**	**Nominal interest**	**Date of interest payment**
Migdal Insurance Company Ltd.	374,263	(203,315)	170,948	210,219 [65]	--	--	--
Migdal Health and Quality of Life Ltd.	(404)	110	(294)	--	--	152 [65]	Monthly
Migdal Capital Markets (1965) Ltd.	13,999	440	14,439	8,000 [66]	--	--	--
Migdal Management Services Ltd.	(6,531)	44	(6,487)	--	--	--	--
Migdal Holdings and Management of Insurance Agencies Ltd.	27,543	(478)	27,065	--	--	--	--
Peltours Insurance Agencies Ltd.	6,777	234	7,011	2,198 [67]	260 [65]	--	--
Sagi Yogev Life Assurance Agency (1988) Ltd.	3,140	98	3,238	--	200 [65]	63 [70]	--
Ihud Insurance Agencies Ltd.	1,919	(1,779)	140	--	13,000 [65]	320 [65]	--
Mivtach Simon Insurance Agencies Ltd.	15,194	559	15,753	--	5,000 [65]	560 [65]	--
Migdal Makefet Pension and Provident Funds Ltd.	44,708	(3,957)	40,751	--	--	--	--
Ihud – David Berman Insurance Agency Ltd.	515	--	515	500[68]	520 [65]	12 [65]	Quarterly
Shaham Insurance Agencies (1977) Ltd.	108	410	518	--	280 [67]	5 [67]	Quarterly
Si-El Insurance Agency (1995) Ltd.	324	--	324	--	300[69]	--	--
Migdal Technologies Ltd.	--	--	--	--	--	--	--
Migdal Claims Management Company Ltd.	--	--	--	--	--	--	--
Data Car Israel Ltd.	920	--	920	--	--	--	--
Migdal Real Estate Holdings Ltd.	69,710	--	69,710	--	--	1,531 [70]	Monthly

[64] Reflects the profits (losses) of the Corporation in full, and excludes the amortization of original differences that have not yet been realized due to inter-companies transactions.
[65] Received in the Company.
[66] Declared and received in the Company after the date of the balance sheet in March 2016.
[67] Received in Migdal Agencies, a subsidiary of Migdal.
[68] Received in Peltours, a subsidiary of Migdal Agencies.
[69] Received in Shaham, a subsidiary of Migdal Agencies.
[70] Received in Migdal, a subsidiary of the Company.

Company name	Profit (loss) for the period [64]	Other compre-hensive profit (loss) for the period [64]	Total compre-hensive profit (loss) for the period [64]	Dividend	Mgmt. fees	Nominal interest	Date of interest payment
Migdal Eshkol Finansim B.M.	184	--	184	--	--	--	--
Yozma Pension Fund for Self-Employed Ltd.	153	(101)	52	--	12,026 [70]	--	--
Hamagen Properties Ltd.	36,986	--	36,986	--	--	--	--
Pel Hamagen House Ltd.	36,983	--	36,983	--	--	--	--
Migdal Credit Services Ltd.	90	--	90	--	--	41 [71]	Monthly
Migdal Leasing Ltd.	132	--	132	--	--	670 [72]	Quarterly
Pilat - Hi-Capital Group Ltd.	(3,018)	12	(3,006)	--	--	330 [72]	Quarterly
Talent HR Systems Ltd.	(683)	(1)	(684)	--	600 [73]	--	--
Ihud Peltours Diamonds Insurance Agency (2002) Ltd.	987	--	987	1,500 [68]	150 [66]	83 [68]	Quarterly
Municipalit Insurance Agency (2000) Ltd.	346	--	346	150 [68]	800 [68]	26 [68]	Quarterly
Makefet Financial Services – Insurance Agency (1998) Ltd.	732	7	739	1,000 [75]	--	--	--
Shaham Weinstein (Netanya) Insurance Agencies Ltd.	453	--	453	--	425 [69]	--	--
Sofer Moshe Insurance Agency (1997) Ltd.	320	--	320	--	100 [69]	--	--
Amir Aloni Life Assurance Agency (1994) Ltd.	1,144	(12)	1,132	1,093 [75]	--	--	--
Orlan Insurance Agency (1994) Ltd.	2,888	(131)	2,757	1,350 [74]	--	5 [67]	Monthly
Eli Erlich Health Services (1999) Ltd.	1,120	(22)	1,098	1,500 [75]	--	--	--

[71] Received in Migdal Eshkol, a subsidiary of Migdal.
[72] Recorded in Migdal Management services, a subsidiary of Migdal.
[73] Received in Pilat – Hi-Capital Group, a subsidiary of Migdal Management Services.
[74] Declared in November 2015 and received in Migdal Agencies in January 2016.
[75] Received in Mivtach Simon, a subsidiary of Migdal Agencies.

Company name	Profit (loss) for the period [64]	Other compre-hensive profit (loss) for the period [64]	Total compre-hensive profit (loss) for the period [64]	Dividend	Mgmt. Fees	Nominal interest	Date of interest payment
Ramat Aviv Mall Ltd.	126,972	--	126,972	5,054 [70]	--	--	--
Isabel Ouda – Shaham – Insurance Agency	546	--	546	--	--	--	--
Good Purpose in Orthodox Employment Ltd.	27	--	27	--	471 [76]	--	--
Migdal Underwriting and Business Initiative Ltd.	14,773	40	14,813	--	--	--	--
Migdal Capital Markets (Management Services) Ltd.	(104)	205	101	--	--	--	--
Migdal Investment Portfolio Management (1998) Ltd.	(371)	(30)	(401)	--	--	--	--
Migdal Issuers Ltd.	(188)	--	(188)	--	--	187 [77]	Quarterly
MCM Alternative Investments Ltd.	(1,066)	--	(1,066)	--	--	184 [78]	Quarterly
MRM – Migdal Risk Management Ltd.	(1)	--	(1)	--	--	--	--
MRM – Investment Management Ltd.	(415)	--	(415)	--	--	--	--
Migdal Trust Funds Ltd.	6,503	51	6,554	31,000 [79]	--	--	--
50 Plus Ltd.	(457)	(7)	(464)	--	--	--	--
Club 50 Insurance Agency Ltd.	(723)	83	(640)	--	--	--	--
Infomed Medical Sites Ltd.	1,620	117	1,737	--	--	152 [80]	Monthly
B-Well Quality of Life Solutions Ltd.	1,598	33	1,631	--	--	--	--
Dragon Hedge Funds Management Ltd.	23	--	23	--	--	--	--
Migdal Insurance Capital Raising Ltd.	--	--	--	--	--	--	--
Amot Investments Ltd.	410,237	(13,214)	397,023	29,925 [81]	--	--	--
Migdal L. B Ltd.	(10)	--	(10)	481 [82]	--	--	--

[76] Received in Pilat – Hi-Capital Group, a subsidiary of Migdal Management Services.
[77] Received in Migdal Underwriting and Business Initiative Ltd., a subsidiary of MCM.
[78] Received in Migdal Capital Markets, a subsidiary of the Company.
[79] Received in Migdal Stock exchange Services, a company that was consolidated during 2015 in Migdal Capital Markets.
[80] Recorded in Migdal Health, a subsidiary of the Company.
[81] The amount of NIS 23,712 thousand was received in Migdal, a subsidiary of the Company, and a dividend in the amount of NIS 6,213 thousand was declared after the balance sheet date in March 2016, to be distributed in April 2016.
[82] Received in MCM Alternative Investments, a subsidiary of Migdal Capital Markets.

Regulation 14:	List of groups of balances of loans granted as at the balance sheet date, if the granting of loans was one of the main businesses of the Corporation

The Corporation does not grant loans

Regulation 20:	Trading on the Stock Exchange - Securities listed for trading - Dates of and reasons for interruption of trading

In the report period, Company securities were not listed, and there were no interruptions of trading in the Company's securities

Regulation 21 Payments to Interested Parties and Executives

Following are the payments (in NIS thousands) made by Migdal Insurance Company Ltd., a subsidiary of the Company, or by other corporations in the Group, and all the undertakings for payment they took upon themselves, in NIS (excluding payroll tax and VAT) for each of the five highest paid Senior Executives serving in the Company and in the corporations controlled by it in 2015, as well as to interested parties in the Company:

Details of remuneration receiver					Benefits for services							Other benefits			
Name	Gen-der	Position	Extent of employ-ment	Holding rate in capital of Company	Salary (*)	Grant (**)	Share-based payment (***)	Mgmt. fees	Consul-tation fees	Comm.	Other	Interest	Rent	Other	Total
Roy Eizenman (1)	M	CEO of Migdal Underwriting and Business Initiative Ltd.	100%	---	593	2,407	---	---	---	---	---	---	---	---	3,000
Ofer Eliahu (2)	M	CEO of Migdal Insurance and CoB of Migdal Makefet	100%	---	2,731	---	---	---	---	---	---	---	---	---	2,731
Sharon Hinkis (3)	M	Investment manager and in charge of debt settlements and bad debts in Migdal Capital Markets	100%	---	1,559	904	---	---	---	---	---	---	---	---	2,463
Zvi Weinstein (4)	M	CEO of Shaham	100%	---	2,385	--	24	---	---	---	---	---	---	---	2,385
Yossi Ben Baruch (5)	M	CEO of Migdal Capital Markets Group			1,404	724	5	---	---	---	---	---	---	---	2,128

Presented below are the details of remunerations (in NIS thousands) given to the three Executives in the Company who receive the highest salaries in the Company, who were not included in the table of highest paid persons above:

Details of remuneration receiver					Benefits for services							Other benefits			
Name	Gen-der	Position	Extent of employ-ment	Holding rate in capital of Company	Salary (*)	Grant (**)	Share-based payment (***)	Mgmt. fees	Consul-tation fees	Comm.	Other	Interest	Rent	Other	Total
Eran Czerninski (6)	M	CEO and CFO of the Company, and Head of the Finances and Actuarial Division in Migdal Insurance	100%	0.0066%	1,882	183	21	---	---	---	---	---	---	---	2,086
Ilana Bar (7)	F	Legal Counsel of the Company	100%	0.0015%	1,465	69	---	---	---	---	---	---	---	---	1,534
Tali Cassif (8)	F	Secretary of the Company and Migdal Insurance	100%	0.0015%	1,320	18	---	---	---	---	---	---	---	---	1,338

Presented below are notes and general explanations regarding the asterisks in the tables above:

Asterisk	**Subject**	**Description**
(*)	Salary	The salary component includes a grant and/or a payment set forth in an agreement, that is not objective-based and/or discretion, and it includes social benefits and ancillaries such as company car, per diem, newspapers, medical scanning tests, etc. Grant such as adaptation grant or signing grant or persistency grant, should the Senior Officer be entitled to it, reflects the expense recognized in the report year as per generally accepted accounting rules. If this is relevant for the Senior Officer, salary also includes management fees paid to companies controlled by the Senior Officer.
(**)	Grant	On June 30th, 2014 the Boards of Directors of Migdal Insurance, Makefet and Yozma ("**the institutional entities**") approved a remuneration policy for institutional entities for the years 2014-2016, further to the Circular issued by the Commissioner of Insurance dated April 10th, 2014 ("**Original Commissioner Circular**") and in December 2015 and February 2016 the Directors in the institutional entities approved an update to this policy, pursuant to the Commissioner's Circular issued on October 7th, 2015, Remuneration Policy for Institutional Entities – Amendment (the Updated Remuneration Policy Circular, the Original Commissioner Remuneration Circular and the Updated Commissioner Remuneration Circular shall be referred to together in this Clause as "**the Commissioner's Circular**") ("**Remuneration Policy for Institutional Entities").** This policy includes specific provisions regarding the salary components of "key position holders", who were determined as such in the Commissioner's Circular, and they include, *inter alia*, all Senior Officers in institutional entities as per the Companies Law, Senior Officers who were defined as such in the Commissioner's Circular, relatives of controlling shareholders, investment entities as well as position holders who were identified by the institutional entities as holding a key position, if the position holders' activity may have a material impact on the risk profile of the institutional entities or if they manage a group of workers who are subject to the same remuneration arrangements, and the variable component in their remuneration may, in aggregate, expose the institutional entity or the monies saved via that institutional entity to a material risk. Within the remuneration policy for institutional entities, it was decided to adopt the Commissioner's position from June 9th, 2014, and the Law Memorandum regarding the Remuneration for Senior Officers in Institutional entities (Special Approval and Restriction of Expenses due to Extraordinary Remuneration) – 2014, and accordingly, no remuneration will be paid beyond the cap suggested in the Law Memorandum ("Commissioner's Position"), except in special and extraordinary cases. Pursuant to the Commissioner's Circular, the competent organs should examine the policy once a year, and this examination and update were carried out in the institutional entities during December 2015 and February 2016. For details regarding the remuneration policy for institutional entities, see Immediate Report dated June 30th, 2014, Reference No. 2014-01-103386, as well as Note 38j3 to the Consolidated Financial Statements. On October 27th, 2014 the Company's General Meeting approved a change and update to the Company's remuneration policy, which was approved by the Company's General Meeting on September 2nd, 2013 for the years 2013-2014 ("the original policy"), by adopting a new remuneration policy that is adapted to the remuneration policy for institutional entities for the years 2014-2016, and which would substitute the original policy for all intents and purposes ("the policy" / "the remuneration policy"). The

remuneration policy applies to all Senior Officers in the Company. Since all Senior Officers of the Company serve, in addition to serving as Senior Officers in the Company, also as Senior Officers in institutional entities, the Company's remuneration policy was adjusted to the remuneration policy for institutional entities. For details regarding the remuneration policy in the Company see the Company's Immediate Reports issued on September 22nd, October 27th, and June 30th, 2014, Reference Nos. 2014-01-161913, 2014-01-181653 and 2014-01-103363, respectively, as well as Note 38j3 to the Consolidated Financial Statements.

The Company's remuneration policy, as well as the remuneration policy for institutional entities, do not apply to the persons receiving remunerations mentioned in paragraphs (1), (3), (4) and (5) above, who serve in Migdal Capital Markets Group and in Shaham, as the case may be, and who are not Senior Officers in the Company and in institutional entities, and the reference below regarding the annual grant, applies only to all Senior Officers who serve in the Company and in institutional entities.

Pursuant to the remuneration policy, the annual grant to a Senior Officer who is not an investment entity (except a special grant and/or a signing grant) shall include three types of objectives at various measurement levels (a) Company objectives (b) Unit/personal objectives (c) Personal evaluation. Each of these objective types will be attributed a certain weight in determining the annual grant, depending on the Senior Officer's position and the range of weights set forth in the remuneration policy (for investment entities, the unit objectives will be separate from the personal objective, so there are four types of objectives instead of three).

Note 38j3 to the Consolidated Financial Statements details the conditions and arrangements for extending the annual grant to senior Officers in the Company and in institutional entities in the Group. Extending the annual grant is not included in employment agreements, and as per the policy, it is subject to the approval in advance of eligibility to a normative grant by the competent organs. In addition, and even after there is an approval for a normative grant, extending each grant as per the policy's provisions is subject to receiving the approval of the competent organs, and the grant's amount is in fact the cap of grants that may be extended by the competent organs.

The grant for 2015 has not yet been discussed or approved by the competent organs of the Company and institutional entities, therefore it has not yet been extended to Senior Officers in the Company and in the Group's institutional entities.

The amount written as a grant next to each Senior Officer, except the remuneration mentioned in paragraphs (1), (3), (4) and (5) above, includes: (1) spreading of part of the deferred payment of the annual grant in respect of 2013, at 3.3% of the grant amount to which the Senior Officer is eligible, as per the remuneration policy, only in 2015, which was carried out pursuant to generally accepted accounting rules (2) differences due to the difference between the estimated grant amount for the Senior Officer as recognized in 2014 Financial Statements, vs. the amount to which the Senior Officer was eligible in reality in respect of 2014. For the disclosure given by the Company because the grant amount that was actually approved by the Company's competent organs on June 28th, 2015 regarding 2014, was different from the estimated amount included in Regulation 21 in 2014 Periodic Report, see the Company's Immediate Report dated July 28th, 2015, Reference No. 2015-01-058380.

(***)	Share-based payment	"2010 Remuneration Plan" – the long term remuneration plan for Senior Officers and managers in the Group, which includes grants in cash as well as private allotments of untraded eligibility deeds, which allow their holder the right to receive Company shares, which are allotted in two phases. The plan is for a period of six years and includes two consecutive phases, each lasting three years. By the end of the Phase I, on December 31st, 2012, participants were eligible to a grant set forth in a number of monthly salaries, which was paid to them as per their compliance with objectives, and the amount of Phase I grant was calculated and set depending on complying with two objectives: compliance with profit objective and persistency objective. The persistency component was entirely paid in shares, and the profit component was paid partly in shares and partly in cash, as per the offerees' choice. On April 22nd, 2013, the eligibility deeds for those who chose shares were converted to shares, and shares were allotted and deposited in trusteeship until the end of Phase II, on December 31st, 2015. Participants to whom shares were allotted at the end of Phase I in respect of the profit component will be entitled to additional company share allotments, free of charge, except a negligible payment of the par value, to be determined based on the Group's rating compared to four other peer groups in its area of activity. The expense in 2013-2015 was recorded based on the assumption that the Group will be ranked second. The final ranking of the Company will be examined during 2016. The expense is over straight line and in respect of workers who leave during Phase II under non-qualifying circumstances, the aggregate expense recorded for them regarding Phase II shares starting from the beginning of 2013 is cancelled. See Note 33 to the Consolidated Financial Statements.
	Holding rate in capital	The holding rates in Corporation capital did not take into account the eligibility deeds as per 2010 plan.

Additional general notes regarding both Senior Officers in the Company and in institutional entities in the Group

Social provisions and ancillaries	The fixed component (salary) also includes social provisions and ancillaries (as per their definition below), part of which originate in the requirements of Labor Laws (components such as pensionary savings, provisions for severance pay, annual leave, sick leave, R & R, etc.) and part of which are due to standard practices on the labor market (such as savings in educational funds, insurance against occupational disability etc.), and part of which are aimed at complementing the monthly salary and reimburse expenses, such as per diem, etc. The ancillaries may include the following conditions: annual leave, sick leave, R & R, car (in kind or in value) and reimbursement of car expenses, maintenance and telephone, newspapers, membership fees in professional associations, participation in professional courses and conferences, welfare activities, medical scanning tests, etc.

Severance pay at the termination of employment	Pursuant to the remuneration policy, Senior Officers who are included in the remuneration plan are entitled, in case of employment termination, except in the event of dismissal which allow the non-payment of severance pay, and except if their terms of employment include an arrangement pursuant to Clause 14 to the Severance Pay Law – 1963, to severance pay at 100% of the last monthly salary for each working year, or to the total amounts accrued in provident benefits in respect of provisions for severance pay, the highest of the two.
Adaptation grant	Pursuant to the remuneration policy for Senior Officers in the institutional entities in the Group and Senior Officers in the Company, rules were set regarding adaptation grants, that will substitute any adaptation grant and/or retirement grant and/or any other payment to be paid upon retirement or afterwards, which are not in respect of early notice. The adaptation grant is 9 times the salary, to be paid as follows: half the adaptation grant is paid upon the termination of employment, and as to the second half – there are deferral provisions as to its payment until the end of 36 months. Furthermore, the adaptation grant is stipulated, in its deferred part, by performance, and for part of the deferred payments – to not finding another work at the time of the deferred payment.
Benefits to all workers when acquiring Group's products	The Group's workers and their families, including Senior Officers in the Company and in the institutional entities, may purchase, from time to me, insurance, investment contracts or other Group products and / or products sold by Group companies, at market conditions.

Additional details regarding the persons receiving remunerations:

(1) **Mr. Roy Eizenman**

Mr. Roy Eizenman is employed in Capital Markets (1965) Ltd. Group (henceforth: "**Migdal Capital Markets**") as the CEO of Migdal Underwriting and Business Initiative Ltd. ("**Business Initiative**") from February 2014. Mr. Eizenman is entitled to a monthly salary of NIS 40 thousand (in gross terms), linked to updates in the cost of living allowances as well as to the increase in CPI, once a year, as well as social benefits and ancillaries, insurance against occupational disability, educational fund, annual leave, R & R, cellular phone, meals and parking. Furthermore, Mr. Roy Eizenman is entitled to an annual grant that is derived as a rate (percentage) of income before tax from Migdal Underwriting's current activity not originated from a bond issuance to Migdal Insurance ("**annual grant**"). In calculating each grant, the CoB of Migdal Capital Markets may approve an additional grant to Mr. Eizenman, up to a certain rate set forth in his employment agreement, from the net income of Migdal Underwriting from the issuance. In respect of the reported year, he was approved such a grant, plus an annual grant, which were set to a total aggregate amount, and together with other salary components, shall not deviate from the total remuneration cap set forth in his employment agreement, pursuant to which the total remuneration received by Mr. Roy Eizenman shall not exceed NIS 3 million (excluding VAT and payroll tax), and this was the total amount received by Mr. Roy Eizenman in respect of the reported year. Both parties may terminate the agreement with an early notice of 60 days. Furthermore, Mr. Roy Eizenman is entitled to two months of adaptation grants beyond the early notice period, subject to non-competition.

(2) Mr. Ofer Eliahu

Mr. Ofer Eliahu serves as the CEO of Migdal Insurance, effective from February 11th, 2014. Mr. Ofer Eliahu is the son of the Company's controlling shareholder Mr. Shlomo Eliahu. From January 2014 to February 11th, 2014, he served also as substitute to the CEO of Migdal Insurance.

Mr. Ofer Eliahu also served as Deputy to CEO of Migdal Insurance starting from January 29th, 2013, first as the Head of General Insurance and Reinsurance Division in Migdal insurance, and from July 15th, 2013 as the Head of Customers, Service and Distribution Channels Division of Migdal Insurance. During the entire period in which he served in Migdal Insurance until December 31st, 2013, Migdal Group did not pay any salary to Mr. Ofer Eliahu.

Mr. Ofer Eliahu's terms of employment, effective from January 1st, 2014, were approved by the Company's General Meeting on April 13th, 2014, after receiving the approval of Migdal Insurance's Audit Committee and the Company's Compensation Committee, the Company's Bod and Migdal Insurance's BoD. See the Company's Immediate Reports dated February 25th, 2014, Reference Nos. 2014-01-046174 and 2014-01-146171, March 31st, 2014, Reference No. 2014-01-032985, and April 13th, 2014, Reference No. 2014-01-046119.

Mr. Ofer Eliahu is employed pursuant to an employment agreement signed on April 30th, 2014, for an unlimited period. If, after three years, the approvals of the competent organs in the Company will be required in order to continue his employment, including the GM's approval pursuant to Clause 275 to the Companies Law or any other similar approval, after three years the agreement's validity will be subject to receiving such approvals as per the Law.

Each party may terminate the agreement at any time and for any reason, with an early notice of three months.

Mr. Ofer Eliahu's monthly salary was set at NIS 170,000, CPI-linked and the linking update is once a year. In addition, his terms of employment include social benefits and ancillaries and insurance against occupational disability within a collective insurance policy for Migdal Insurance Group employees, annual leave (26 days), R & R, reimbursement of expenses for telephone, per diem, providing a car (group 7) (grossing up at 100%), daily newspapers, medical screening tests, etc. Pursuant to the terms of employment with him, Mr. Ofer Eliahu is not entitled to an adaptation grant.

Mr. Ofer Eliahu's employment agreement includes a clause, pursuant to which his employment by the Company is new under a personal agreement, with no continuity of rights for his employment by another employer, including statement that he has no claims and will have no claims towards the Company in respect of his employment by Eliahu Insurance.

An annual grant for Mr. Ofer Eliahu was not brought to the approval of the competent organs.

(3) Mr. Sharon Hinkis

Mr. Sharon Hinkis is employed by Capital Markets Group from June 2006, and he serves as an Investments Manager in Migdal Funds, as an Investments Manager in the portfolio management company and as the person in charge of handling debt arrangements and bad debt. Mr. Hinkis, including via a company controlled by him, is entitled to a monthly salary (partly in management fees) in the amount of NIS 63 thousand (in gross terms), as well as social benefits and ancillaries, insurance against occupational disability, educational fund, annual leave, R & R, cellular phone and payment for replacement vehicle. Furthermore, Mr. Hinkis is entitled to an annual grant, which is composed of a grant calculated according to the profit rate in funds managed by him, and a persistency grant, which is included in the Table above under the fixed salary item. It should be noted that the total cost of Mr. Hinkis' annual salary (including grants), including via a company controlled by him, shall not exceed NIS 2.97 million (excluding VAT and payroll tax). Both parties may terminate the agreement with an early notice of six months. Pursuant to the agreement signed with Mr. Sharon Hinkis, he is not entitled to an adaptation grant.

(4) Mr. Zvi Weinstein

Mr. Zvi Weinstein was employed by the Group as the CEO of Shaham Insurance Agencies (1977) Ltd. (henceforth: "**Shaham**") from January 1st, 2011 until March 1st, 2016, out of which he actually served until January 1st, 2016. In the above-mentioned period, Mr. Weinstein, via a company controlled by him, was entitled to monthly management fees in the amount of approx. NIS 148 thousand (in gross terms), CPI-linked (update of the CPI on a monthly basis), as well as the reimbursement of various expenses such as per diem, cellular phone, car, or, instead of the car, additional payments to management fees, and reimbursements in respect of car expenses. The payment of a grant to Mr. Weinstein was under Shaham's discretion, and it is not forced to pay the grant. In 2015 Mr. Weinstein did not receive a grant. Pursuant to the terms of the agreement, both parties may terminate the agreement with an early notice of 90 days, and whenever the agreement is terminated, Mr. Weinstein is entitled to an adaptation grant that equals six times the monthly management fees (as set forth for this purpose). On November 2015 Shaham's BoD notified Mr. Weinstein about the termination of his contract with Shaham. Within an agreement for the termination of the services granted by Mr. Weinstein, it was agreed between the parties that Mr. Weinstein will be entitled, in addition to the payment in respect of early notice and the adaptation grant, to another grant, with a deduction of approx. NIS 130 thousand in respect of the value of his personal insurance portfolio (Shaham customers who were defined in the appendix to the agreement, and for whom Mr. Weinstein was defined as their personal agent). The total payment in respect of these components, except the early notice component, was approx. NIS 955 thousand.

(5) Mr. Yossi Ben Baruch

Mr. Yossi Ben Baruch serves as the CEO of Migdal Capital Markets since July 2014, and also serves as the CoB and/or a Director in its subsidiaries, including Migdal Funds and Migdal Portfolios. Mr. Ben Baruch is entitled to a monthly salary of NIS 80 thousand (in gross terms), linked to the increase in CPI, updated once a year, as well as to social benefits and ancillaries, insurance against occupational disability, educational fund, annual leave, R & R, cellular phone and payment instead of a car. Furthermore, Mr. Ben Baruch is entitled to an annual grant that is derived as a rate (percentage) of income before tax from Migdal Capital Markets'. In addition, in respect of the reported year, a special grant of three salaries (gross) was approved to Mr. Ben Baruch. Furthermore, Mr. Ben Baruch will be entitled to a special annual grant of NIS 500 thousand in respect of every year in which Migdal Capital Markets records net income in the amount determined in the agreement, which was not achieved in the report year, therefore Mr. Ben Baruch was not entitled to this grant in 2015. In calculating each grant, losses recorded in previous years, if at all, shall be offset, from 2015 and on. It should be noted that the total cost of Mr. Ben Baruch's annual salary (including grants) shall not exceed NIS 3 million (excluding VAT and payroll tax). Both parties may terminate the agreement with an early notice of 180 days. Pursuant to the agreement signed with Mr. Yossi Ben Baruch, he is not entitled to an adaptation grant.

(6) Mr. Eran Czerninski

Mr. Eran Czerninski, the Company's CEO, serves as the CFO of the Company, the Finances and Actuarial Division Manager of Migdal Insurance since April 1st, 2009. Until March 24th, 2015 he served as the substitute to CEO, and since then he serves as the Company's CEO, in addition to the other positions he holds in the Company.

Mr. Eran Czerninski is employed by Migdal Insurance as per an employment agreement dated September 19th, 2002 (as amended several times in 2013-2015) for an unlimited period. Both parties may terminate the engagement at any time and for any reason, with an early notice of 60 days.

Mr. Eran Czerninski's monthly salary, beginning from March 25th, 2015, was set at NIS 100,000, CPI-linked and the linking update is once a year. Mr. Czerninski's monthly salary in the period from June 2014 until March 25th, 2015 was NIS 89,000. In addition, his terms of employment include social benefits and ancillaries and insurance against occupational disability under a collective insurance policy, if there is a provision to an educational fund, it is deducted from his salary and not in addition to the salary, annual leave, R & R, reimbursement of per diem, providing a car (grossing up at 90%), newspapers, medical insurance, etc.

If the agreement is terminated, Mr. Eran Czerninski will be entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant will be paid as per the terms and arrangements as detailed in the general notes above.

The terms of employment of Mr. Eran Czerninski as the Company CEO were approved by the Company's General Meeting dated June 7th, 2015, see the Company's Immediate Report dated April 30th, 2015, Reference No. 2015-01-009801, and June 7th, 2015, Reference No. 2015-01-041994.

The expense in respect of the annual grant in respect of 2015 is NIS 183 thousand, composed of a an amount of approx. NIS 18 thousand in respect of the deferred amount in respect of 2013, plus NIS 165 thousand in respect of the difference between the estimation and the amount that was actually paid in respect of the annual grant for 2014.

Within the long term remuneration plan for 2010, Mr. Eran Czerninski was allotted 89,238 eligibility deeds, as well as 69,616 shares as per the terms of the 2010 plan.

(7) <u>Ms. Ilana Bar</u>

Ms. Ilana Bar serves as the Chief Legal Counsel of the Company since July 2001, and as the Legal counsel of Migdal Insurance since September 1999.

Ms. Ilana Bar is employed by Migdal Insurance as per an employment agreement dated June 3rd, 2003 (she started working on September 5th, 1999), as amended in the addition to the agreement of December 31st, 2014, for an unlimited period. Both parties may terminate the engagement at any time and for any reason, with an early notice of 60 days.

Ms. Ilana Bar's monthly salary, starting from June 1st, 2014, was set at NIS 90,000, CPI-linked and the linking update is once a year.

In addition, her terms of employment include social benefits and ancillaries and insurance against occupational disability under a collective insurance policy, if there is a provision to an educational fund, it is deducted from her salary and not in addition to the salary, annual leave, R & R, reimbursement of per diem, providing a car (grossing up at 90%), newspapers, medical insurance, etc.

If the agreement is terminated, Ms. Ilana Bar will be entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant will be paid as per the terms and arrangements as detailed in the general notes above.

The expense in respect of the annual grant in respect of 2015 is NIS 69 thousand, composed of a an amount of approx. NIS 10 thousand in respect of the deferred amount in respect of 2013, plus NIS 59 thousand in respect of the difference between the estimation and the amount that was actually paid in respect of the annual grant for 2014.

Within the long term remuneration plan for 2010, Ms. Ilana Bar was allotted 16,466 shares as per the terms of the 2010 plan.

(8) <u>Ms. Tali Cassif</u>

Ms. Tali Cassif serves as the Company Secretary Chief since March 1991, and as the Secretary of Migdal Insurance since December 1990.

Ms. Tali Cassif is employed by Migdal Insurance as per an employment agreement dated December 2nd, 1990 (she started working on December 1990), as amended in the addition to the agreement of January 1st, 2001 and April 10th, 2003 and April 1st, 2005, for an unlimited period. Both parties may terminate the engagement at any time and for any reason, with an early notice of 60 days.

Ms. Tali Cassif's monthly salary, starting from April 1st, 2015, was set at NIS 64,000, CPI-linked and the linking update is once a year. Ms. Cassif's salary from January 1st, 2015 until the above-mentioned salary update was NIS 58,727.

In addition, her terms of employment include social benefits and ancillaries and insurance against occupational disability under a collective insurance policy, if there is a provision to an educational fund, it is deducted from her salary and not in addition to the salary, annual leave, R & R, reimbursement of per diem, providing a car (grossing up at 90%), newspapers, medical insurance, etc.

If the agreement is terminated, Ms. Tali Cassif will be entitled to an adaptation grant of 9 times the monthly salary. The adaptation grant will be paid as per the terms and arrangements as detailed in the general notes above.

The expense in respect of the annual grant in respect of 2015 is NIS 18 thousand, composed of a an amount of approx. NIS 8.3 thousand in respect of the deferred amount in respect of 2013, plus NIS 9.3 thousand in respect of the difference between the estimation and the amount that was actually paid in respect of the annual grant for 2014.

Within the long term remuneration plan for 2010, Ms. Tali Cassif was allotted 13,264 shares as per the terms of the 2010 plan.

Director fees

The total remuneration paid to Directors serving in the Company during the reported period, who Receive their remuneration pursuant to the Companies' regulations (Rules Regarding Rules regarding Remuneration and Expenses of External Directors, 2000), who serve also as Directors in Migdal Insurance, in respect of their office in the Company's BoD and in Migdal Insurance's and in the various Committees next to the BoD and in Migdal Capital Markets, was approx. NIS 1,989 thousand.

The sum excludes a payment of NIS 283 thousand made to Mr. Israel Eliahu, the son of the controlling shareholder, who serves as a Director in the Company and in Migdal Insurance. For details regarding the remuneration that was paid to Mr. Israel Eliahu see Note 38e3 to the Consolidated Financial Statements, and it also excludes the payment made to the CoB, Mr. Yohanan Danino, in the amount of approx. NIS 511 thousand, the remuneration that was paid to Migdal insurance's CoB, Mr. Amos Sapir, in the reported period, in the amount of approx. NIS 1,688 thousand – see Note 38j4d) to the Consolidated Financial Statements.

Mr. Shlomo Eliahu served as the Company's Chairman of the Board of Directors from October 1st, 2013 until February 18th, 2015. On February 24th, 2014 Mr. Shlomo Eliahu reported to the Company's BoD and to the BoD of Migdal Insurance that he waives any salary in relation with his position as the Company CoB and as a Director in Migdal Insurance, and shall not request any salary in their respect. The Company's remuneration policy includes the regulation of remuneration to the Company's CoB, including a fixed monthly salary, social provisions and various ancillary terms, as well as a variable component of an annual grant, subject to the approval of competent organs. Pursuant to the remuneration policy, the maximum annual remuneration to which the CoB, Mr. Shlomo Eliahu, is entitled (in the event of a maximum grant) may reach the total amount of approx. NIS 4.3 million, before the impact of Company payroll tax. As set forth above, Mr. Shlomo Eliahu waived any remuneration in relation with his position or the termination of his office. See the Company's Immediate Report dated February 24th, 2014, Reference No. 2014-01-046135.

Mr. Yohanan Danino, who was appointed as a Director in the Company on November 24th,2015 and as the Chairman of the Board of Directors on January 16th, 2015, provides services to the Company and to Migdal Insurance, via a company fully controlled by him, at an extent of employment of 90%, and he is entitled to receive monthly management fees of NIS 187 thousand, CPI-linked and updated once a year, in respect of his office as the Company CoB and the CoB of Migdal Insurance.

Mr. Oded Sarig, who was appointed as a Director in the Company on January 27th, 2015, and as the Chairman of the Board of Directors on February 18th, 2015 until December 16th, 2015, received a salary from Eliahu Insurance, see Note 38j4c) to the Consolidated Financial Statements.

Regulation 21a: Control of the Corporation

To the best knowledge of the Company, as of the date of the Report, Eliahu Insurance Company Ltd. ("Eliahu Insurance" or "Eliahu") holds about 69% of the Company's issued and paid-up capital.[83]

Mr. Shlomo Eliahu and Ms. Hava Eliahu are the ultimate holders of the Company. To the best knowledge of the Company, presented below are details of their holdings:

Eliahu Insurance's shareholders are: Mr. Shlomo Eliahu, who holds about 25.14% of capital and 98% of management shares, Ms. Hava Eliahu, who holds 0.02% of capital and 2% of management shares, Shlomo Eliahu Holdings Ltd. that holds 61.7% of capital, Eliahu Brothers Trust and Investments Ltd., that holds 13.14% of capital.

Shlomo Eliahu Holdings' shareholders are: Mr. Shlomo Eliahu, who holds about 83.31% of capital and Ms. Hava Eliahu, who holds 16.69%. The only shareholder of Eliahu Brothers Trust and Investments Ltd. is Shlomo Eliahu Holdings Ltd., held by Messrs. Shlomo Eliahu and Haya Eliahu as detailed above.

[83] As the Company was informed by Eliahu Insurance, Eliahu insurance put a lien on about 30% of the Company's share capital in favor of Bank Leumi le-Israel Ltd., see Note 1 to the Consolidated Financial Statements.

Regulation 22: Transactions with controlling shareholders or in which the controlling shareholders have a personal interest

1. The controlling shareholders in the Company are Messrs. Shlomo Eliahu and Hava Eliahu hold the Company's shares, directly and indirectly, via Eliahu Insurance. For details see Regulation 21a in this part of the Report. In addition to transactions with his relatives, Mr. Shlomo Eliahu is considered as having a personal interest in transactions with Union Bank, as of the date of this Report.

2. Pursuant to the provisions of Clause 117 (1b) to the Companies Law, during 2014, the Audit Committees of the Company and of its subsidiaries outlined the procedures that the Company and/or its subsidiaries should follow, as the case may be, before engaging in transactions with the controlling shareholder or in transactions in which the controlling shareholder has a personal interest, as set forth in Clause 270 (4) or 270 (4a) to the Companies Law, even if they are not extraordinary transactions, depending on the type of transaction being examined, including, *inter alia*: the acquisition of services by the Company and/or subsidiaries, the sale of insurance or other products of the Group, the subrogation and/or the distribution of liability between insurers, participation in a credit consortium and terms of office and employment.

   In order to approve an engagement, the results of the procedure will be presented to the Audit Committee, or – in the event of an engagement within the management of beneficiaries' monies – to the relevant Investments Committee and the Audit Committee. In addition, it was set forth that if one of these procedures is not carried out, the engagement should be brought for approval to the Audit Committee that will determine the specific procedure that should be carried out in relation to the approval of that engagement.

3. For details regarding the transactions with the Company's controlling shareholder, or that the Company's controlling shareholder had a personal interest in approving them, in which the Company and/or its subsidiaries engaged in the reported period or after the end of the reported year and until the publication of this Report, or that were approved previously and are effective in the reported period (see Note 38 to the Consolidated Financial Statements)

Regulation 24: Shares and other securities held by interested parties and executive officeholders in the Corporation, subsidiary or related company, as close as possible to the report date (to the best of the Corporation's knowledge)

a. In the Corporation

Name of interested party	Registered company no./ I.D. Number	Ordinary shares	Number of the securities in the Stock Exchange	Number of shares held on 20.3.2016	Rate of holding in capital[84]	Rate of holding in voting & right to appoint Directors [80]
Eliahu Insurance Company Ltd.	52-002985-1	NIS 0.01	1081165	729,168,309	69.14	69.14
Migdal Insurance Company Ltd. [85]	52-000489-6	NIS 0.01	1081165	6,365		
Migdal Trust Funds Ltd.	51-1303661	NIS 0.01	1081165	1,659,785	0.16	0.16

For details regarding shares and other securities held by Senior Executives in the Corporation as of March 20th, 2016 (to the best of the Corporation's knowledge), see the Corporation's Immediate Report dated March, 22nd, 2016, Reference No. 2016-01-022268.

[84] Theoretically assuming that all the options that were allocated pursuant to the plans for granting options and eligibility deeds, whose principles were approved in October 2010, will be fully exercised.

[85] Migdal holds the shares in trusteeship for those who were shareholders prior to July 31st, 1997. Migdal is fully owned by the Company.

b. <u>In subsidiaries and related companies</u>[86]

Name of subsidiary/ related company	Name of interested party	Registered company No.	Name of security	No. of shares held as of 20.3.2016	Rate of holding in capital	Rate of holding in voting and right to appoint Directors
Migdal Insurance Capital Raising Ltd.	Migdal Insurance Company Ltd. [87]	52-000489-6	Ordinary NIS 0.01	1,000	100	100
Migdal Holdings and Management of Insurance Agencies Ltd.	Migdal Insurance Company Ltd.[87]	52-000489-6	Ordinary NIS 1	804	100	100
Peltours Insurance Agencies Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd.[88]	52-001162-8	Ordinary NIS 0.01	18,760,002	73.28	73.28
Migdal Real Estate Holdings Ltd.	Migdal Insurance Company Ltd.[87]	52-000489-6	Ordinary NIS 0.0001	61,660,406	100	100
Yozma Pension Fund for the Self-Employed Ltd.	Migdal Insurance Company Ltd. [87]	52-000489-6	Ordinary NIS 1	9,200,000	100	100
Hamagen Properties Ltd.	Migdal Insurance Company Ltd. [87]	52-000489-6	Ordinary NIS 1	6,090,837	100	100
Pel Hamagen House Ltd.	Hamagen Properties Ltd.[89]	51-093969-7	Ordinary NIS 1	14,066,595	100	100
Shaham Insurance Agency (1977) Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd.[88]	52-001162-8	Ordinary NIS 1	3,492	100	100
Shaham Insurance Agency (1977) Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd.[88]	52-001162-8	Preferred shares NIS 0.1	782	43.88	43.88

[86] The details are regarding held companies whose activity is material.
[87] Migdal is a company fully owned by the Company.
[88] Migdal Agencies is a company fully owned by Migdal.
[89] Hamagen Properties is a company fully owned by Migdal.

Name of subsidiary/ related company	Name of interested party	Registered company No.	Name of security	No. of shares held as of 20.3.2016	Rate of holding in capital	Rate of holding in voting and right to appoint Directors
Sagi Yogev Life Assurance Agency (1988) Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd. [88]	52-001162-8	Ordinary NIS 1	1,722	100	100
Sagi Yogev Life Assurance Agency (1988) Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd. [88]	52-001162-8	Profits NIS 1	2,000	100	100
Mivtach Simon Insurance Agencies Ltd.	Migdal Holdings and Management of Insurance Agencies Ltd. [88]	52-001162-8	Ordinary NIS 0.001	1,000	100	100
Migdal Makefet Pension and Provident Funds Ltd.	Migdal Insurance Company Ltd. [87]	52-000489-6	Ordinary NIS 1	2,034	100	100
Migdal Capital Markets (1965) Ltd.	Migdal Trust Funds Ltd.[90]	51-130366-1	Ordinary NIS 1	33,000	0.4	0.4
Infomed Medical Sites Ltd.	Migdal Health and Quality of Life Ltd. [91]	51-313729-9	Ordinary NIS 1	1,755	81.89	81.89
B-Well Quality of Life Solutions Ltd.	Infomed Medical Sites Ltd.[92]	51-288741-5	Ordinary NIS 1	1,200	71	71
Migdal Insurance Capital Raising Ltd.	Migdal Trust Funds Ltd. [90]	51-130366-1	1135862	34,676,427	2.91	2.91

c. **Treasury stocks and convertible securities and securities that may be exercised**

For details regarding shares and other securities held by Senior Executives in the Corporation as of March 20th, 2016 (to the best of the Corporation's knowledge), see the Corporation's last Immediate Report dated July 1st, 2015, Reference No. 2015-01-061887.

[90] Migdal Trust Funds is fully owned (indirectly) by Migdal Capital Markets.
[91] Migdal Health is a company fully held by the Company.
[92] Infomed is a company fully held by Migdal Health.

Regulation 24a:	Authorized capital, issued capital and convertible securities of the Corporation

<u>Authorized capital as of March 20th, 2016</u>	**<u>Issued capital as of March 20th, 2016</u>**
NIS 15,000,000	NIS 10,539,082.34
Divided into 1,500,000,000 Ordinary NIS 0.01 shares	Divided into 1,053,908,234 Ordinary NIS 0.01 shares

Regulation 24b:	The Corporation's shareholders register

For details regarding the Corporation's shareholders register see the Company's Immediate Report dated March 3th, 2016, Reference No. 2016-01-04074.

Regulation 25a:	Registered address of the Corporation

The Corporation's registered address is 4, Ef'al Street, Kiryat Aryeh, Petach Tikva 4951229, Israel; P.O. Box 3063, Petach Tikva 49130, Israel
Telephone No. 076-8868962, Facsimile No. 03-9238988.
E-mail: migdalhold@migdal.co.il

Regulation 26: Directors of the Corporation

Senior Officer's name:	**Yohanan Danino, CoB**	**Shlomo Eliahu**	**Israel Eliahu**
ID. No.:	056162142	43661602	27768969
Date of birth:	20.12.1959	18.1.1936	16.5.1970
Address for documents:	23, Mivza Ovda, Modi'in	6, Hadassah Street, Tel Aviv	2, Ibn Gvirol Street, Tel Aviv
Nationality:	Israeli	Israeli	Israeli
Membership in Committees next to the BoD:	No	No	No
External Director:	No	No	No
Director with accounting and financial skills:	No	Yes	Yes
Employee of the Corporation, a subsidiary, a related company or an interested party:	No	No	No
Date of taking office as a Director:	Director: 24.11.2015; CoB: 16.12.2015	29.10.2012	29.10.2012
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	LL. B. (Tel Aviv University), M.A in Social Studies (Haifa University), lawyer. Chairman of the BoD and of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd., a subsidiary of the Corporation. Director in Migdal Holdings and Management of Insurance Agencies Ltd. Migdal Insurance Capital Raising Ltd., CoB of the Association Sport – Bridge for Education. Owner of Einat 26 Ltd. He served as the Inspector General of the Israeli Police until June 2015.	Chairman of Shlomo Eliahu Holdings Ltd. and subsidiaries, Eliahu Insurance Company Ltd., Director, entrepreneur and partner in Gan Ha'ir Project Ltd. and subsidiaries and a partner in the control core in Union Bank. Director in Migdal Insurance Ltd. and in Migdal Holdings and Management of Insurance Agencies Ltd. Member of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd. He served as the CoB of Migdal Insurance Company Ltd. until December, 2013, and the CoB of the Corporation until February 2015.	.A in Economics, Cinema and Television (Tel Aviv University), graduated courses for Executives, specialization in negotiations, mergers and acquisitions and family businesses (INSEAD). Director and CEO in Shlomo Eliahu Holdings Ltd., Director in subsidiaries of Shlomo Eliahu Holdings Ltd., Eliahu Insurance Company Ltd. and subsidiaries and in Migdal Insurance Company Ltd. Chairman of the Board in Migdal Capital Markets (1965) Ltd., Chairman of the Nostro Investments Committee in Eliahu Insurance Company Ltd. and in Migdal Insurance Company Ltd. Member of the Public Council in the Nova Project for Excellence in the Public Service. Member of the Executive Committee in Lev Ohev Association and in Vehadarta – the National Council for the Promotion of Senior Citizens' Status. Founder of the Family Businesses Center – Israel Ltd.
Member of the family of another interested party in the Corporation	No	Yes, the father of Mr. Israel Eliahu, a Director in the Corporation and in Migdal Insurance, and Mr. Ofer Eliahu, Executive Senior Officer in the Corporation and in Migdal Insurance.	Yes, the son of Mr. Shlomo Eliahu, Director in the Corporation and in Migdal Insurance, and the brother of Mr. Ofer Eliahu, Senior Executive Officer in the Corporation and in Migdal Insurance.

Regulation 26: Directors of the Corporation

Senior Officer's name:	**Ronit Abramson**	**Eyal Ben Chlouche**	**Yigal Bar Yossef**
ID. No.:	54121108	57440638	1543198
Date of birth:	17.8.1957	15.12.1961	6.3.1947
Address for documents:	5, Shimshon Street, Jerusalem	148, Hashaked Street, Moshav Shoresh	3, Adam HaCohen Street, Tel Aviv
Nationality:	Israeli	Israeli	
Membership in Committees next to the BoD:	Audit Committee and Compensation Committee	Chairman of the Financial Statements Committee, member of the Audit Committee and the Compensation Committee	Chairman of the Audit Committee, member of the Financial Statements Committee and the Compensation Committee
External Director:	No	Yes	Yes
Director with accounting and financial skills:	No	Yes	Yes
Employee of the Corporation, a subsidiary, a related company or an interested party:	No	No	No
Date of taking office as a Director:	25.2.2009	10.6.2008	5.9.2007
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	LL. B. (the Hebrew University), lawyer regarding business issues and Companies Laws. Director and member of the Audit Committee in Migdal Insurance Company Ltd., Director and Chairman of the Audit Committee in Migdal Capital Markets (1965) Ltd., member of the Executive Committee of Jerusalem Fund and Shiluv Institute of Family and Couple Therapy, a member of the Board of Trustees of Beit Berl Academic College (registered association). She served as an External Director in Carmel Olpinim Ltd. until December 2015.	B.A. in Economics and Statistics, M.A. in Economics, (the Hebrew University). External Director, Chairman of the Financial Statements Committee, Member of the Compensation Committee, of the Audit Committee, of the Nostro Investments Committee and of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd. Member of the Investment Committee in Old Mivtachim Construction Workers Pension Fund, Hadassah Fund and Egged Fund, Chairman of the Investments Committee of Lawyers' Fund Under Special Administration, Director in Matrix-IT Ltd., Karnit Fund for the Compensation of Road Accident Casualties, Sapiens International Corporation N.V and BlueSky Energy Ltd. and their subsidiaries. Consultant in DavidShield – Life Insurance Agency (2000) Ltd., and previously he served intermittently as a Director in this company until the beginning of 2015.	MBA (the Hebrew University). External Director, Chairman of the Audit Committee, member of the Compensation Committee, of the Financial Statements Committee, of the Investments Committee, and of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd., Director in Tidhar Investments GB Ltd. Member of the Board of Trustees of the Branco Weiss Institute for the Development of Thinking. Consultant in Kremer Electronics Ltd., in Seraphim Optronics, in Waxman Govrin Geva development Ltd. and in Waxman Govrin Engineering Company Ltd. He served as a consultant in a Fund for the Encouragement of Young Entrepreneurs (company for the public's benefit) until January 2015 and in ESI until July 2015.
Member of the family of another interested party in the Corporation	No	No	No

Regulation 26: Directors of the Corporation

Senior Officer's name:	Jacob Danon	Amos Sapir	Dr. Gavriel Picker
ID. No.:	969014	3139300	05049302
Date of birth:	11.1.1946	4.7.1937	30.1.1950
Address for documents:	279, Ha'agam Street, Beit Zayit	22, Michael Ne'eman Blvd., Tel Aviv	32, Har Miron Street, Mevaseret Zion
Nationality:	Israeli	Israeli	Israeli
Membership in Committees next to the BoD:	Chairman of the Compensation Committee, member of the Audit Committee and the Financial Statements Committee	No	No
External Director:	Yes	No	No
Director with accounting and financial skills:	Yes	Yes	No
Employee of the Corporation, a subsidiary, a related company or an interested party:	No	No	No
Date of taking office as a Director:	5.10.2008	24.11.2015	12.11.2013
Education and occupation during the past five years, and the Corporations in which he serves as a Director:	B.A. in Economics, MBA (the Hebrew University). External Director, Chairman of the Compensation Committee, member of the Audit Committee and the Financial Statements Committee in Migdal Insurance Company Ltd., Chairman of the Audit Committee in the National Library Ltd. (a company for the public's benefit) and Director in Malam-Team Ltd. and a Board member in the Open University and a consultant to companies and organizations.	B.A in Social Sciences - Economics and International Relations (the Hebrew University), MBA with specialization in Financing (Columbia University, New York), Ph.D. studies – specialization in Financing and Banking (Columbia University, New York). CoB of Migdal Insurance Capital Raising Ltd., Director and member of the Committee for the Deployment Towards Solvency II in Migdal Insurance Company Ltd., Director in corporations for the public's benefit. Owner of Sixace Holdings Ltd. and Sixace Management (1997) Ltd. In the past, he served as the Chairman of the Board of Directors in Isal Amlat Investment (1993) Ltd. until August 2012, in N. Feldman and Sons Ltd. until March 2013, as an Independent Director in Bank Leumi Le-Israel Ltd. until October 2014, as a Director In Israel Infrastructures Management 1 Ltd. and in Israel Infrastructures Management 2 Ltd. until March 2014, as a Director in Log Plastic Products Ltd. until November 2014, as an External Director in Hot Communications Systems Ltd. and U. Dori Ltd. until January 2015, and as the Chairman of the BoD of Migdal Insurance Company Ltd. until November, 2015.	Dentist, D.M.D (the Hebrew University and Hadassah Jerusalem). Consultant regarding health and dental care insurance – trusted physician. Director in Migdal Insurance Company Ltd., Eliahu Insurance Company Ltd., the Association of the Israeli Center for International Migration and Absorption, ICC Israel, the Thirteenth Way Ltd. and Picker Fund. He served as a Director in Infomed Medical Sites Ltd. and B-Well Quality of Life Solutions Ltd. until September 2015 and in the Israel Philharmonic Orchestra Foundation until October 2015.
Member of the family of another interested party in the Corporation	No		No

Directors whose office ended during the reported period and thereafter, until the publication date:

Name	ID. No.	Beginning of office	End of office
Oded Sarig	53547451	27.1.2015	16.12.2015

Regulation 26a: **Executive Senior Officers of the Corporation**[93]

Senior Officer's name:	**Eran Czerninski**	**Ofer Eliahu**
ID. No.:	57693236	55444699
Date of birth:	20.6.1962	28.8.1958
Position held in the Corporation:	CEO and Company CFO	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Head of the Finance and Actuary Division in Migdal Insurance Company Ltd., CEO and CFO in Migdal Holdings and Management of Insurance Agencies Ltd., CFO and Director in Migdal Health and Quality of Life Ltd., in Migdal Eshkol Finansim Ltd., Migdal Credit Services Ltd. and Migdal Leasing Ltd., Director in Migdal Claims Management Ltd., Real Estate Holdings Ltd., Hamagen Properties Ltd., Pel-Hamagen House Ltd., Migdal Technologies Ltd., Infomed Medical Sites Ltd., B-Well Quality of Life Solutions Ltd. and Migdal Management Services Ltd. and CFO in Migdal Insurance Capital Raising Ltd.	CEO of Migdal Insurance Company Ltd. and Migdal Insurance Capital Raising Ltd., CoB of Sagi Yogev Insurance Agencies (1988) Ltd., Migdal Health and Quality of Life Ltd., Migdal Makefet Pension and Provident Funds Ltd., Yozma Pension Fund for Self-Employeds Ltd., Migdal Real Estate Holdings Ltd., Hamagen Properties Ltd., Pel-Hamagen House Ltd., Migdal Technologies Ltd., Migdal Management Services Ltd., Infomed Medical Sites Ltd., B-Well Quality of Life Solutions Ltd., Club 50 Insurance Agency Ltd. and Migdal Claims Management Ltd. Director in Migdal Holdings and Management of Insurance Agencies Ltd., in Ihud Insurance Agencies Ltd., in Mivtach Simon Insurance Agencies Ltd. in Shaham Weinstein (Netanya) Insurance Agencies Ltd., in Shaham Insurance Agencies (1977) Ltd. and in Peltours Insurance Agencies Ltd.
Is he/she an interested party of the Corporation or member of the family of another Senior Officer or interested party:	No	Yes, the son of Mr. Shlomo Eliahu, the controlling shareholder and a Director in the Corporation and in Migdal Insurance, and the brother of Mr. Israel Eliahu, a Director in the Corporation and in Migdal Insurance.
Education and business experience in the last five years:	B.A in Economics and Accounting (Tel Aviv University), CPA, a member in the professional committee of the Institute of Certified Public Accountants in Israel.	Specialization in General Insurance Studies in the Insurance College, 2-years. Director in Eliahu Insurance Company Ltd. and subsidiaries, in Shlomo Eliahu Holdings Ltd. and subsidiaries, in Gan Ha'ir Project Company Ltd. and subsidiaries, in the Research Fund regarding Insurance next to the Insurance Companies Association, registered association, and Chairman of the Insurance Companies Association in Israel. He served as a Director in the Corporation until October 2013, he served as the CEO of Eliahu Insurance Company Ltd. until December 2013, as the Manager of General Insurance and Reinsurance Businesses Division in Migdal Insurance until July 2013 and as the Head of Customers, Service and Distribution Channels Division until January 2016.
Date of taking office:	CEO – 24.3.2015; CFO – 1.4.2009	11.2.2014 (office as Migdal Insurance's CEO)

[93] Since 2010 the Group classifies managers in the Company and in the Group's institutional entities with the title "Assistant to CEO" and who report directly to the CEO as "Senior Officers" pursuant to the Companies Law. Also, the classification includes managers who fulfill roles that as per their content and essence, including regarding institutional entities in consolidated companies as per the legislative arrangement that applies to them, roles that require subordination to the CEO or regarding which there are regulatory provisions testifying that they hold a position who, from the material aspect, are "Senior Officers". On the other hand, managers with the title "Assistant to the CEO" but who do not actually report to the CEO, and whose position does not match the title in its content and essence, are no longer perceived as "Senior Officers" by the Company pursuant to the Companies Law, in light of the examination of the content and essence attached to the types of positions in which these managers serve. Such classification does not affect managers included under "Executive Senior Officers of the Corporation", as detailed in this Regulation.

Regulation 26a: **Executive Senior Officers of the Corporation**[93]

Senior Officer's name:	**Shay Basson**	**Gil Yaniv**
ID. No.:	22091581	58451170
Date of birth:	5.10.1965	16.11.1963
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Head of the Technology and Resources Division, in charge of information security, Manager of IT and Business Continuity in Migdal Insurance Ltd. and in Migdal Makefet Pension and Provident Funds Ltd. and in Yozma Pension Fund for Self-Employed Ltd., CEO of Migdal Technologies Ltd.	Head of LTS, Health and Quality of Life Businesses Division and Head of the Strategy Discipline in Migdal Insurance Company Ltd.
Is he/she an interested party of the Corporation or member of the family of another Senior Officer or interested party:	No	No
Education and business experience in the last five years:	B.A in Economics and Computer Sciences (Tel Aviv University), MBA (Tel Aviv University), M.A in Social Sciences (Haifa University), National Security (Haifa University). He served as Senior Assistant and Director in subsidiaries of Malam Systems until April 2010.	B.A in Economics (Haifa University), MBA (Tel Aviv University). Director in the Clearing House Center of Insurance Companies Ltd. He served as the Head of Headquarters and Cross-Organization Resources Division in Migdal Insurance Company Ltd. until May 31st, 2010,
Date of taking office:	1.5.2010 (office in Migdal Insurance)	1.6.2010 (office in Migdal Insurance as the Head of the LTS, Health and Quality of Life Division)* 24.2.2014 (office in Migdal Insurance as the Head of Strategy Discipline)*

* Mr. Gil Yaniv will retire from office on April 4th, 2016. See Immediate Report dated January 3rd, 2016, Reference No. 2016-01-001560.

Regulation 26a: Executive Senior Officers of the Corporation[93]

Senior Officer's name:	**Emil Vainshel**	**Yossi Peretz**	**Ilana Bar**
ID. No.:	014650287	012305207	22190839
Date of birth:	30.11.1971	6.11.1960	7.11.1965
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation	Company legal counsel
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Head of Customers, Service and Distribution Channels Division in Migdal Insurance Company Ltd.	Head of the General Insurance (Headquarters, Marketing and Sales) Division in Migdal Insurance Company, Ltd.	Legal counsel of Migdal Insurance Company Ltd., and of Migdal Makefet Pension and Provident Funds Ltd. and other companies in Migdal Insurance Group.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	B.A in Accounting and L.L.B (Rhodes University, South Africa), MBA (Tel Aviv University). CPA. He served as the COB of the "Israeli Pool", member of the Executive Committee in the Insurance Companies Association and in the Life Insurance Organization. He served as the CEO of Ayalon Insurance Company Ltd. until December 2015, as Senior Deputy CEO, Head of insurance division of Harel Insurance Company Ltd. until 2011.	BA in Business Administration (College of Management), studies Electrical Engineering for 4 academic years (HIT). He served as general insurance businesses marketing manager in Migdal Insurance Ltd. until June 2014. Previously, he served as general insurance businesses marketing manager in Eliahu Insurance Company Ltd. until December 2012.	LL. B (Bar-Ilan University) and LL.M (Harvard University, U.S.A.). A lawyer
Date of taking office:	1.2.2016 (office in Migdal Insurance)	1.7.2014 (office in Migdal Insurance)	10.7.2001

Regulation 26a: Executive Senior Officers of the Corporation[93]

Senior Officer's name:	**Tali Cassif**	**Michal Leshem**	**Bezalel Zucker**
ID. No.:	54677836	27862721	50671627
Date of birth:	13.2.1957	30.7.1970	24.4.1951
Position held in the Corporation:	Company secretary	Company Internal Auditor	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Company secretary of Migdal Insurance Company Ltd., of Migdal Health and Quality of Life Ltd., and other companies in Migdal Insurance Group.	Internal Auditor of Migdal Insurance Company Ltd. and of Migdal Insurance Capital Raising Ltd.	CEO of Migdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for Self-Employed Ltd. Director in Migdal Technologies Ltd.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	LL.B (Tel Aviv University). A lawyer.	MBA (the College of Management), CPA (the College of Management). She serves as an External Director in Matrix IT Ltd. She served as the Company's and Migdal Insurance's Head of SOX 404, Group Enforcement, Strategy, Business Development and Control Discipline until January 2014.	CLU (Insurance College), Life Assurance Studies (Insurance College).
Date of taking office:	18.3.1991	1.2.2014	CEO of Migdal Makefet Pension and Provident Funds Ltd. – 9.2.2009. CEO of Yozma Pension Fund for Self-Employed Ltd. – 1.12.2006

Regulation 26a: Executive Senior Officers of the Corporation[93]

Senior Officer's name:	Yossi Ben Baruch	Assaf Shoham	Mali Shaoul
ID. No.:	58890138	013306832	55026066
Date of birth:	25.11.1970	28.7.1969	22.12.1957
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	CEO of Migdal Capital Markets (1965) Ltd., CoB of Migdal Trust Funds Ltd. and Migdal Underwriting and Business Initiative Ltd., and a Director in the following active companies: Migdal Investment Portfolio Management (1998) Ltd., in Migdal Capital Markets (Management Services) Ltd., in MCM Alternative Investments Ltd., in MRM - Investments Management Ltd. and in MRM – Migdal Risk Management Ltd.	Manager of the Investments Division in Migdal Insurance Company Ltd., Director in Migdal Real Estate Holdings Ltd., in Hamagen Properties Ltd., in Pel-Hamagen House Ltd., in Migdal Eshkol Finansim Ltd., in Migdal Credit Services Ltd., in Migdal Leasing Ltd. and in Ashmoret Tichona Ltd., the Company for the Development of Yeffe Nof Haifa Ltd. and AI America Israel Investments Ltd.	CEO of Mivtach Simon Insurance Agencies Ltd.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	LL.B and BA in Accounting (Tel Aviv University), MBA – specialization in finances (Tel Aviv University). He served as a Director in Migdal Capital Markets (1965) Ltd. until June 2014, as substitute to the CEO, controller, legal counsel and the Investment Department Manager in Eliahu Insurance Company Ltd. until June 2014.	B.A in Economics and Political Science (Tel Aviv University), MBA (Tel Aviv University). He served as the provident and educational manager in Migdal Makefet Pension and Provident Funds Ltd. until March 2014, and previously, he served as the Investments Department Manager in Eliahu Insurance Company Ltd. until January 2013.	She served as the Eshkol (Arrangement Agencies District) Manager, the bank unit Manager and the CEO of The Phoenix Agencies at The Phoenix Group until February, 2015.
Date of taking office:	1.7.2014 (office in Migdal Capital Markets)	30.3.2014 (office in Migdal Insurance)	1.7.2015 (office in Mivtach Simon)

Regulation 26a: Executive Senior Officers of the Corporation[93]

Senior Officer's name:	**Itzhak Ben Menachem**	**Leybush Ulman**	**Asaf Ashkenazy**
ID. No.:	23643836	16020752	38290698
Date of birth:	20.4.1968	27.2.1955	18.1.1976
Position held in the Corporation:	Company Risk Manager	No position held in the Corporation	Enforcement Manager in the Company
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	Risk Manager in Migdal Insurance Company Ltd. and in additional companies in Migdal Insurance Group.	Chief actuary and appointed life assurance actuary in Migdal Insurance Company Ltd.	Headquarters Manager, Enforcement Manager and Service Officer in Migdal Insurance Ltd., Service Officer in Migdal Makefet Pension and Provident Funds Ltd. and in Yozma Pension Fund for Self-Employed Ltd.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No	No
Education and business experience in the last five years:	B.A in Economics and Statistics (the Hebrew University), M.A in Economics and MBA (the Hebrew University), he served as Research VP in Migdal Insurance until October 2013.	Ph. D. in Actuarial Studies (University of Basle, Switzerland), M.A in Actuarial Studies (University of Basle, Switzerland), B.A in Mathematics and Statistics and Operations Research (University of Basle, Switzerland).	B.A in Industrial Engineering (the Technion), MBA (Ben Gurion University) and LL.M (Bar Ilan University). He served as the Manager of Insurance Businesses and Distribution Headquarters in Migdal Insurance until February 2014, as the Manager of General Insurance Headquarters in Migdal Insurance until May 2013, and as Assistant to CEO and O&S Department, Regulation and Sox and Compliance Officer in Eliahu Insurance Company Ltd. until December 2012.
Date of taking office:	1.10.2013	1.12.2006 (office in Migdal Insurance)	27.5.2014

Regulation 26a: Executive Senior Officers of the Corporation[93]

Senior Officer's name:	Dr. Ra'anan Cohen	Avraham Shamay
ID. No.:	048316954	024317463
Date of birth:	28.2.1941	10.1.1969
Position held in the Corporation:	No position held in the Corporation	No position held in the Corporation
Office held in a subsidiary or related company of the Corporation or in an interested party therein:	CoB of Mivtach Simon Insurance Agencies Ltd. and of Migdal Holdings and Management of Insurance Agencies Ltd. Director in Shaham Insurance Agencies (1977) Ltd., in Shaham Weinstein (Netanya) Insurance Agencies Ltd., in Amir Aloni Life Assurance Agency (1994) Ltd., in Ihud Insurance Agencies Ltd., in Eli Erlich Insurance Services (1999) Ltd., in Sagi Yogev Insurance Agencies (1988) Ltd., in Makefet Financial Services – Insurance Agency (1998) Ltd., in Peltours Insurance Agencies Ltd. and in Proline Exclusive Ltd.	Head of the General Insurance Claims in Migdal Insurance Company Ltd.
Is he/she an interested party of the Corporation or member of the family of another senior officer or interested party:	No	No
Education and business experience in the last five years:	PHD in History of the Middle East (Tel Aviv University), MA in History of the Middle Eastern (Tel Aviv University), BA in General History (Tel Aviv University). CoB of Sola Agricultural Products Export Ltd., External Director in Neto Melinda Commerce Ltd. and Director in Zerah Oil and Gas Explorations – Limited Partnership Ltd. Director and Member of the Audit Committee and Financial Statements Committee in Gulliver Energy Ltd. Chairman of the Audit Committee and a Member of the Investments Committee at Ami Government Employees Provident and Management Company Ltd. He served as CoB in the Israeli Wholesale Market Ltd. until December 2013, as a Director in Bank Otsar Ha-Hayal Ltd. until December 2013, in S. Shlomo Insurance Company Ltd. until December 2013, in Rafael Armament Development Authority Ltd. until August 2013, External Director in B. Gaon Holdings Ltd. until July 2013 and in Y.Z. Queenco Ltd. until December 2013	LL. B (the College of Management), MBA (College of Management), a lawyer. He served as the Claims Section Manager in Eliahu Insurance Company Ltd. until January 2015.
Date of taking office:	27.5.2014 (office in Mivtach Simon)	1.2.2015 (office in Migdal Insurance)

<u>Executive Senior Officers whose office ended during the reported period and thereafter, until the publication date:</u>

Name	**ID. No.**	**Beginning of office**	**End of office**
Amos Rokach, CEO of Mivtach Simon Insurance Agencies Ltd.	5845906	1.1.2013	1.7.2015
Sigal Grinhaus, Head of the Reinsurance Division and the Business Array in Migdal Insurance Company Ltd.	058677709	1.7.2014	3.11.2015

Regulation 26b: The signatories of the Corporation

The Corporation does not have independent signatories.

Regulation 27: The Auditors of the Corporation

Somekh Chaikin Accountants, 17, Ha'arba'a Street, KPMG Millennium Building, P.o.Box 609, Tel Aviv 61009.

Kost, Forer Gabbay & Kasierer Accountants, 3, Aminadav Street, Tel Aviv 6706703.

Regulation 28: Amendments in Memorandum or in Articles of Association

During the reported period there was no amendment in the Company's Articles of Association.

Regulation 29: Recommendations and Resolutions of the Board of Directors

(a) The recommendations of the Board of Directors to the General Meeting and their resolutions which do not require the approval of the General Meeting regarding:
(Regarding the BoD recommendations to the General Meeting, see details of the extraordinary General Meeting resolutions in (c) below):

1. Paying dividend (interim and final) and distribution of bonus shares: Yes.

24.3.2015 ▪ To approve a dividend distribution in the amount of NIS 200 million to the Company's shareholders, based on the Company's Financial Statements as of December 31st, 2014. The X-day is April 6th, 2015. The distribution is from the surpluses accrued in the Company.

(The resolution was approved by the Company's General Meeting on April 19th, 2015).

27.10.2015 ▪ To approve a dividend distribution in the amount of NIS 200 million to the Company's shareholders, based on the Company's Financial Statements as of June 30th, 2015. The X-day is November 19th, 2015. The distribution is from the surpluses accrued in the Company. The resolution requires the approval of the Company's General Meeting.

2. Changes in the Corporation's authorized or issued capital: None.

3. Changing the Corporation's memorandum or Articles of Association: None.

4. Redemption of shares: None.

5. Early redemption of bonds: None.

6. See Note 38 to the Consolidated Financial Statements.

(b) Resolutions of the Extraordinary General Meeting regarding the issues detailed above that were made not pursuant to the BoD's recommendation: None.

(c) Resolutions of special General Meetings:

18.2.2015 ▪ To approve the appointment of Prof. Oded Sarig as a Director in the Company, effective from January 27th, 2015.

▪ To approve the appointment of Prof. Oded Sarig as the Chairman of the Board of Directors of the Company.

19.4.2015	▪	To approve the distribution of a dividend of NIS 200 million, which, as of the date of the BoD resolution, constitute NIS 0.18 per share and 1897.698449% of the Company's issued and paid-up capital. The dividend was paid to the Company shareholders who were registered in the Company shareholders register by the end of the effective day (April 6th, 2015), which as per the TASE provisions, was also be the X day. The payment was made on April 20th, 2015.
7.6.2015	▪	To approve the terms of employment of Mr. Eran Czerninski, the Company's CEO.
18.8.2015	▪	To approve the appointment of the Company's auditing CPAs, Somekh Chaikin and Kost, Forer Gabbay & Kasierer, and empower the Company's BoD to determine their fees.
16.12.2015	▪	To approve the appointment of Mr. Amos Sapir as a Director in the Company, effective from November 24th, 2015.
	▪	To approve the appointment of Mr. Yohanan Danino as a Director in the Company, effective from November 24th, 2015.
	▪	To approve the appointment of Mr. Yohanan Danino as the Chairman of the Board of Directors of the Company, from the date upon which the General Meeting approves it. [94]
21.1.2015	▪	To approve the terms of office of Mr. Yohanan Danino, the Chairman of the Board of Directors of the Company, who also serves as the CoB of Migdal Insurance Ltd.
3.2.2016	▪	To approve Migdal's engagement in a transaction with the Company's controlling shareholder – Eliahu, as per the agreement for the acquisition of the run-off portfolio in Eliahu's general insurance.

[94] In order to complete the picture it should be noted that on January 16th, 2016, a special General Meeting of the Company approved the terms of office and employment of Mr. Yohanan Danino, the Company's CoB, who also serves as Migdal insurance's CoB. For additional details regarding the terms of office and employment of Mr. Yohanan Danino, and the letter from the Senior Deputy to the Commissioner of Capital Markets, Insurance & Savings Division regarding the persistency component included in Mr. Danino's salary, and regarding the remuneration should be paid via a company controlled by him, see the Immediate Reports issued on December 29th, 2015 and February 8th, 2016 (Reference No. 2015-01-192060 and 2016-01-020575, respectively).

Regulation 29a: The Corporation's Resolutions

1. Approval of activities as per clause 255 to the Companies Law: None.

2. Action as per clause 254 (a) to the Companies Law which was not approved: None.

3. Extraordinary transactions requiring special approvals as per clause 270 (1) to the Companies Law: None

4. A release, insurance or obligation to indemnify Senior Officers effective on the Report's date:

1) Letters of indemnification until 2006

a. The Company gave letters of indemnification to Senior Officers of investee companies and other Corporations in which they serve in their capacity as Senior Officers in the consolidated company as well as to a few employees in the Group, according to which Migdal will indemnify them, in the scope, limits and circumstances detailed in the letters of indemnification, in respect of a financial liability that will be imposed on them, in connection with any actions carried out as Senior Officers of the said Corporations, or in respect of actions detailed in the letters of indemnification.

b. The Company gave letters of exemption to Senior Officers of investee companies and other Corporations in which they serve in their capacity as Senior Officers in Migdal Insurance Company Ltd., a subsidiary of the Company (henceforth: "Migdal") and in subsidiaries of Migdal, according to which, the Company waived claims against Senior Officers, to the extent and under the circumstances and restrictions specified in the letters of waiver, in connection with any actions and/or omissions carried out as Senior Officers of the said Corporations.

c. The Company gave letters of indemnification to Senior Officers of Migdal, of Migdal's subsidiaries and of investee companies, according to which it will indemnify them to the extent, under the circumstances and restrictions specified in the letters of indemnification, in respect of financial liabilities which may be imposed on them in connection with the following:

(1) The prospectus of the Company from 1996.

(2) Obligations of the Company and/or companies of the Migdal Group in respect of the Company being a company whose shares are held by the public and listed for trading on the Stock Exchange, only insofar as the obligation to indemnify will apply solely to liabilities resulting from activities carried out during a period of up to one year from the date of the prospectus.

d. The Company gave letters of exemption and a commitment to dismiss claims to Senior Officers of Corporations owned by Migdal Group, according to which, the Company waived all claims against such Senior Officers, to the extent and under the circumstances and restrictions specified in the letters of exemption, in connection with any actions and/or omissions carried out as Senior Officers of any of the Corporations, including an action related with any of the following areas:

(1) The prospectus of the Company from 1996.

(2) Obligations of the Corporation in respect of the Company being a company whose shares are held by the public and listed for trading on the Stock Exchange.

Furthermore, the Company undertook, under the circumstances and restrictions specified in the letters of exemption and commitment, to dismiss any claim it filed against the Corporations or any of them, if resulting from such a claim, Senior Officers will be sued by any of the Corporations in a claim which will not be dismissed in limine.

2) Letters of exemption and indemnification given in 2006

e. In November 2006, the extraordinary General Meeting of the Company resolved to release Senior Officers of the Company from responsibility and undertook to indemnify them.

Subsequently, the Company informed the Senior Officers of the following:

Undertaking for exemption – the Company exempts the Senior Officers in the Company of any liability towards it, as much as this is allowed by the law, for any damage that was incurred and/or will be incurred, if it was incurred and/or will be incurred due to a breach of the duty of care of the Senior Officers in acting in good faith by virtue of being Senior Officers in the Company and/or in another company in Migdal Group and/or as a representative of the Company and as per its request in another corporation in which the Company holds rights , directly or indirectly, or is an interested party (henceforth: “the other company”) as detailed in the exemption and indemnification letter given to the Senior Officers.

Undertaking for indemnification - the Company undertakes in advance to indemnify the Senior Officers in the Company, including Senior Officers in the other company as per the wording of the exemption and indemnification letter given to the Senior Officers. As per the indemnification letter and subject to the provisions of the law, the Company will undertake to indemnify the Senior Officers for any liability or expense as detailed in the indemnification letter that will be imposed on them or will be incurred due to activities they performed (including activities prior to the date of the indemnification warrant) and/or that will be performed by virtue of them being Senior Officers in the Company and/or other company, as long as the activities are related, directly or indirectly, to one or more of the types of events detailed in the addendum to the indemnification letter, and as long as the maximum total aggregate amount of indemnification in respect of Clause 2.1.1 to the indemnification letter that will be paid by the Company to all the Senior Officers in aggregate as per all the indemnification letters that were issued and/or will be issued by the Company shall not exceed an aggregate amount that equals 25% of the Company’s equity (consolidated) as per the Company’s last annual Consolidated Financial Statements before actually granting the indemnification, for each of the Senior Officers and jointly, for a single event and in aggregate, in addition to the amounts that will be received from the insurance company, if they are received, within the insurance acquired by the Company.

3) Limiting the exemption from liability and undertaking for indemnification given in 2011
In November 2011 the Company's Audit Committee decided to limit by November 30th, 2020 the period of events in which the existing exemption and indemnification arrangements in the Company shall apply, provided they are not replaced by other arrangements, as well the letters of exemption or indemnifications that will be given from time to time by the Company as per the existing exemption and indemnification arrangements in the Company, regarding Senior Officers in the Company that the controlling shareholder in the Company may be perceived as having a personal interest in giving the exemption and indemnification letters to them, serving or who would serve from time to time, see the Company's Immediate Report issued on November 29th, 2011 (Reference No. 2011-01-344328).

4) Updated letters of indemnification given in 2012

a. An undertaking to indemnify in advance in respect of a financial liability imposed on the Senior Officer for paying to victims of a violation in an administrative procedure, as well as expenses incurred by a Senior Officer in relation to an administrative procedure in his/her respect, including reasonable litigation fees, including legal fees, all subject to the coming into effect of the Administrative Enforcement Law and the Amendment to the Securities Law – 1968 ("Securities Law"), and as per the Increase in Enforcement in the Capital Market Law (Legislative Amendments) - 2011.

b. The maximum indemnification amount that will be paid to Senior Officers in the entire Migdal Group, within all letters of indemnification that were issued and will be issued from time to time, has not changed, however it was amended not to exceed the amount that equals 25% of the Company's equity (consolidated) as per the last Financial Statements published by the Company before the actual date of indemnification (instead of setting forth that it should be as per the last annual reports published by the Company before the actual date of indemnification).

c. There was a clarification that the undertaking for indemnification also applies to other positions held by the owner of the letter of indemnification in Migdal Group Corporations and/or in another Corporation in which he/she serves on behalf of Migdal Group.

d. There was a clarification that the undertaking for indemnification applies to events that occurred in Israel as well as events that occurred outside of Israel.

Furthermore, in light of the developments in the business environment in which the Company operates and in the regulation that applies to it, the list of events in respect of which the Company may give an undertaking for indemnification was expanded, such that it includes, *inter alia*, reference to the following events: risk management, investments policy, SOX procedures and controls, the preparation of financial reports and other reports and the management of customers' monies.

The provisions of the updated letters of indemnification shall apply, subject to the provisions of the Law, also to actions made prior to their amendment.

- To grant updated letters of indemnification for Senior Officers in the Company, in whose indemnification the controlling shareholder may have personal interest, as set forth below, as appointed from time to time ("certain Senior Officers"). The updated letters of indemnification that will be granted to the certain Senior Officers are identical to the letters of indemnification that will be granted to Directors, whose version is attached. The provisions of the updated letters of indemnification that will be granted to the certain Senior Officers shall apply, subject to the provisions of the Law, also to actions made prior to their amendment.

For additional information regarding these letters of indemnification, see the Company's Immediate Report dated December 28th, 2011, Reference No. 2011-01-378141, Immediate Report issued on February 2nd, 2012, Reference No. 2012-01-032109, and Immediate Report dated February 7th, 2012, Reference No. 2012-01-036555.

5) Letters of indemnification to the controlling shareholders and relatives thereof – as of the date of this Report, the granting of letters of indemnification to Senior Officers serving in the Company at the time of this Report, and they are the controlling shareholder and/or other Senior Officers in which the controlling shareholder has a personal interest (Shlomo Eliahu and his relatives serving in the Company as Senior Officers, Ofer Eliahu and Israel Eliahu), have not yet been approved by the Company's competent organs, therefore, as of the date of the Report they do not have letters of indemnification by the Company.

6) Senior Officers insurance

a. On January 27th, 2015, the Company's BoD, after receiving the approval of the Company's Compensation Committee on January 25th, 2015, decided to extend the D & O insurance policy for the Senior Officers in the Group, including for the controlling shareholder and his relatives serving as Senior Officers in the Company, which expired on December 31st, 2014, for a period of 30 days until December 31st, 2015, for a pro-rata premium for the period. See details in the Immediate Report dated January 27th, 2015 (Reference No. 2015-01-020140). The engagement that was approved as mentioned above is pursuant to the Company's remuneration policy approved in the General Meeting held on October 27th, 2014 (Reference No. 2014-01-181653).

b. On January 27th, 2015, the Company's BoD, pursuant to the provisions of the Companies Regulations (Reliefs with Interested Parties) – 2000, after receiving the approval of the Company's Compensation Committee on January 25th, 2015, decided to approve the renewal of the Group's engagement in D & O insurance policy for the Senior Officers in the Group, including for the controlling shareholder and his relatives serving as Senior Officers in the Company, for a period of seventeen (17) months, starting on February 1st, 2015 and until June 30th, 2016, with a liability limit of USD 100 million per event, and in total for the period, against an annual premium that would not exceed USD 270,000. See Immediate Report dated January 27th, 2015 (Reference No. 2015-01-020140).

The engagement is pursuant to the Company's remuneration policy, which was approved by the general Meeting on October 27th, 2014. See Immediate Report dated October 27th, 2014 (Reference No. 2014-01-181653).

____

Migdal Insurance and Financial Holdings Ltd.

The names and functions of the signatories

____________________	____________________
Yohanan Danino	**Eran Czerninski**
Chairman of the Board of Directors	**CEO**

Date: 29.3.2016

Corporate governance questionnaire [95]

It should be clarified that the answers in this questionnaire do not include a reference to subsidiaries, unless specified otherwise.

95 Published within a legislation proposal for the improvement of Financial Statements, dated March 16th, 2014.

BOD INDEPENDENCE

		Correct	Incorrect
1.	In every reported year, two External Directors or more served in the Corporation. *In this question, you may answer "correct" if the period in which two external Directors did not serve, does not exceed 90 days, as set forth in Clause 363a(b) (10) to the Companies Law, however, in any answer (Correct / Incorrect), the period (in number of days) in which two External Directors or more did not serve in the Corporation (including also an office period that was approved a-posteriori, with a differentiation between the various External Directors):* **Director A: Yigal Bar Yossef** **Director B: Eyal Ben Chlouche** **Director C: Jacob Danon** The number of External Directors serving in the Corporation as of the date of this questionnaire: **3**	✓	
2.	The rate[96] of independent External Directors[97] serving in the Corporation as of the date of this questionnaire: **3/9 (38%)**		
	The rate of independent Directors set forth in the Articles of Association[98] of the Corporation[99] ✓ Irrelevant (there is no provision in the Articles of Association)	✓	

96 In this questionnaire, "**rate**" – a certain number out of the entire number, for example 3/9.
97 Including "External Directors" as per their definition in the Companies Law.
98 In this question – "Articles of Association" include pursuant to a specific law provision that applies to the Corporation (for example, in a banking corporation – the provisions of the Supervisor of Banks).
99 Bond companies are not required to answer this Clause.

BOD INDEPENDENCE				
			Correct	Incorrect
3.		In the reported year there was an examination with External Directors (and independent Directors), and we found that in the reported year they complied with the provisions of Clause 240 (b) and (f) to the Companies Law regarding the lack of affiliation of External Directors (and independent Directors) serving in the Corporation, and that they comply with the pre-requisites for the office of an External Director (or independent Director).	✓	
4.		All the Directors who served in the Corporation during the reported year do not report[100] to the CEO, directly or indirectly (except a Director representing the employees, if there is an employees representation in the Corporation). If your answer is "Incorrect" (i.e., the Director reports to the CEO, as set forth above) – the number of Directors who do not comply with such restriction should be set forth: ___________	✓	
5.		All the Directors who informed that they have a personal interest in the approval of an issue on the agenda did not attend the deliberation and did not participate in such vote (except a deliberation and/or vote in circumstances as per Clause 278 (b) to the Companies Law). If your answer is "Incorrect" Was it in order to present a certain issue by him/her as per the provisions of Clause 278 (a) to the Companies Law, final section ☐ Yes ☐ No (Please mark x in the relevant square) The rate of meetings in which such Directors attended the deliberation and/or participated in the vote, except under circumstances set forth in paragraph a.	✓	

100 In this question, merely serving as a Director in a held Corporation shall not be perceived as "reporting" as to this question. On the other hand, the service of a Director in a corporation that serves as a Senior Officer (except Director) and/or an employee in a corporation held/controlled by the Corporation shall be perceived as "reporting" for this question

BOD INDEPENDENCE

			Correct	Incorrect
6.		The controlling shareholder (including a relative and / or anyone on his/her behalf), who is not a Director or any other executive Senior Officer in the Corporation, did not attend the BoD meetings that convened in the reported year. If your answer is "Incorrect" (i.e., the controlling shareholder and / or his/her relative and / or anyone on his / her behalf who is not a BoD member and / or executive Senior Officer in the Corporation attended the BoD meetings) – the following details as to the attendance of the additional person in the BoD meetings as set forth above should be specified: Identity:_________________ Position: in the Corporation (if any) __________ Details of the affiliation to the controlling shareholder (if the attending person is not the controlling shareholder himself / herself):_____________ Was it for the presentation of a certain topic? ☐ Yes ☐ No *(Please mark x in the relevant square)* Attendance rate[101] in BoD meetings that were held in the reported year:._____ In order to present a specific issue:___________ Other attendance:_________________ ☐ Irrelevant (there is no controlling shareholder in the Corporation)	✓	

101 Please separate between the controlling shareholder and his/her relative and/or anyone on his/her behalf.

DIRECTORS' ELIGIBILITY AND SKILLS

				Correct	Incorrect
7.		In the Corporation's Articles of Association there is no provision that restricts the possibility to terminate immediately the service of all Directors in the Corporation who are not External Directors (for this matter – a decision by simple majority **is not** perceived as a restriction)[102]. If your answer is "Incorrect" (i.e., there is such restriction), please note –		✓	
		a.	The period for a Director's office set forth in the Articles of Association: ________		
		b.	The required majority for the termination of a Director's office set forth in the Articles of Association: ________		
		c.	The quorum for the termination of a Director's office set forth in the Articles of Association of the General Meeting: _________		
		d.	The required majority for amending these provisions in the Articles of Association:____________		

102 Bond companies are not required to answer this Clause.

DIRECTORS' ELIGIBILITY AND SKILLS					
				Correct	**Incorrect**
8.		The Corporation has a training program for new Directors, regarding corporation businesses and the Law that applies to the Corporation and the Directors, as well as a continuation program for the training of current Directors, that matches, *inter alia*, the role that the Director fulfills in the Corporation. If your answer is "Correct" – please note whether the program was implemented in the reported year: ✓ Yes ☐ No		✓[103]	
9.		a.	In the Corporation, there is a minimal number of Directors in the BoD, who must have an accounting and financial expertise. If your answer is "Correct" – please note the minimal number set forth: **3**	✓	

103 Pursuant to the Procedure regarding the BoD Work, every new Director has meetings with the Executives and senior position holders set forth in the Procedure, in order to get acquainted with the Company, the regulatory environment, the corporate governance array in it, etc. Also, pursuant to the Bod Procedure, there should be training for Directors once every two years. On October 29th, 2015 a training regarding derivatives was conducted on the following topics: risk management, information security, cyber and DRP. In addition, from time to time, the Company conducts trainings for Senior Officers and / or Directors regarding topics and contents that the Company deems should be examined thoroughly, or requested by the Directors from time to time.

DIRECTORS' ELIGIBILITY AND SKILLS

				Correct	Incorrect
		b.	The number of Directors who served in the Corporation during the reported year: With accounting and financial skill[104]: **6** With professional skills [104]: **2** If there were changes in the number of such directors in the reported year, please provide the lowest number (except during a period of 60 days after the change) of Directors of any kind who served in the reported year.		
10.		a.	In the entire reported year, the BoD slate included members of both genders. If you answered "Incorrect" – please note the period (in days), in which the above was not complied with: ___________ Regarding this question, you may answer "Correct" if the period in which Directors of both genders did not serve does not exceed 60 days, however, in any answer (Correct/Incorrect) the period (in days) in which they did not serve in the Corporation should be specified: ______________.	✓	
		b.	The number of Directors of each gender serving in the Corporation's BoD as of the publication of this questionnaire: **Men: 8; Women: 1**		

104 Pursuant to the BoD estimation, as per the provisions of the Companies Regulations (Conditions and Criteria regarding Directors with Accounting and Financial expertise and Directors with Professional expertise) – 2005.

BOD MEETINGS (AND GENERAL MEETINGS)					
				Correct	**Incorrect**
11.		a.	The number of BoD meetings held during each quarter in the reported year: 2014 First quarter:: 4 Second quarter: 4 Third quarter: 4 Fourth quarter: 6		
		b.	Next to the name of Directors who served in the Corporation during the reported year, you may see the participation rate[105] in BoD meetings (in this paragraph – including the meetings of Committees next to the BoD in which they are members, and as set forth below) that were held during the reported year (in reference to their tenure): (Please add lines according to the number of Directors)		

105 See Footnote 96.

BOD MEETINGS

						Correct	Incorrect
	Director name	Participation rate in BoD meetings	Participation rate in Audit Committee meetings [106]	Participation rate in the meetings of the Financial Statements Committee [106]	Participation rate in the meetings of the Compensation Committee [106]		
	Ronit Abramzon	100%	100%	--	100%		
	Yigal Bar Yossef	100%	100%	100%	100%		
	Eyal Ben Chlouche	100%	94%	100%	100%		
	Jacob Danon	100%	100%	100%	100%		
	Shlomo Eliahu	84%	--	--	--		
	Israel Eliahu	84%	--	--	--		
	Gavriel Picker	95%	--	--	--		

106 For Directors who are members in these Committees.

BOD MEETINGS

							Correct	Incorrect
		Director name	**Participation rate in BoD meetings**	**Participation rate in Audit Committee meetings [106]**	**Participation rate in the meetings of the Financial Statements Committee [106]**	**Participation rate in the meetings of the Compensation Committee [106]**		
		Oded Sarig*	62%	--	--	--		
		Yohanan Danino**	100%	--	--	--		
		Amos Sapir**	100%	--	--	--		
12.	1.	In the reported year, the BoD held at least one meeting regarding the management of Corporation businesses by the CEO and Senior Officers reporting to him, without their presence, after they were given the opportunity to express their opinion.						✓

* Mr. Oded Sarig serves as the Chairman of the Board of Directors from February 18th, 2015 to December 1th, 2015. Furthermore, Mr. Sarig had a restriction regarding his participation in the issues related to Migdal Insurance (see Immediate Report dated January 27th, 2015, Reference No. 2015-01-020128) and the supplementary report dated February 2nd, 2015, reference 2015-01-023161).

** Messrs. Yohanan Danino and Amos Sapir were appointed as Directors on November 24th, 2015.

SEPARATION BETWEEN THE OFFICES OF CEO AND COB

		Correct	Incorrect
13.	In the entire reported year, a CoB served in the Corporation. Regarding this question, you may answer "Correct" if the period in which a CoB did not serve in the Corporation does not exceed 60 days as set forth in Clause 363 a (2) to the Companies Law, however, in any answer (Correct/Incorrect) the period (in days) in which no CoB served in the Corporation should be specified:________	✓	
14.	In the entire reported year, a CEO served in the Corporation. Regarding this question, you may answer "Correct" if the period in which a CEO did not serve in the Corporation does not exceed 90 days as set forth in Clause 363 a (6) to the Companies Law, however, in any answer (Correct/Incorrect) the period (in days) in which no CEO served in the Corporation should be specified:________ **Beginning from November 1st, 2014 until March 24th, 2015, a period of 143 days, Mr. Eran Czerninski, who currently serves the Company's CEO, served as substitute to the Company's CEO. It should be clarified that in the reported year, i.e. 2015, the number of days in which there was no CEO for the Company was 82. Mr. Eran Czerninski serves as the Company's CEO beginning from March 24th, 2015.**	✓	✓
15.	In a Corporation in which the CoB also serves as the Corporation CEO and / or exercises his/her powers, the duplicity was approved pursuant to the provisions of Clause 121 (c) to the Companies Law[107]. ✓ Irrelevant (if there is no such duplicity in the Corporation)		

107 In bond companies approval pursuant to Clause 121 (d) to the Companies Law.

SEPARATION BETWEEN THE OFFICES OF CEO AND COB				Correct	Incorrect
16.		The CEO <u>is not</u> a relative of the CoB[108]. If you answered "Incorrect" (i.e., the CEO is a relative of the CoB)		✓	
		a.	State the relation between the parties:__________	—	—
		b.	The office was approved pursuant to Clause 121 (c) to the Companies Law:[109] □ Yes □ No *(Please mark x in the relevant square)*	—	—
17.		A controlling shareholder or a relative thereof <u>does not</u> serve as the CEO or as an Executive Senior Officer in the Corporation, except as a Director. **Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, the Company's controlling shareholder, serves as the CEO of Migdal Insurance** □ Irrelevant (in the Corporation there is no controlling shareholder).			x

108 For the sake of good order, it should be noted that Mr. Ofer Eliahu, who serves as the CEO of the subsidiary Migdal Insurance is the son of Mr. Shlomo Eliahu who served as the CoB of the Corporation until February 18th, 2015.

109 In bond companies – approval pursuant to Clause 121 (d) to the Companies Law.

AUDIT COMMITTEE

			Correct	Incorrect
18.		In the Audit Committee, the following did not serve in the reported year -	______	______
	a.	The controlling shareholder or a relative thereof. ☐ Irrelevant (in the Corporation there is no controlling shareholder).	✓	
	b.	CoB.	✓	
	c.	A Director employed by the Corporation or by the controlling shareholder in the Corporation or by a corporation controlled by him/her.	✓	
	d.	A Director providing services on a regular basis to the Corporation or to the controlling shareholder or a Corporation controlled by him/her.	✓	
	e.	A Director whose main livelihood relies on the controlling shareholder. ☐ Irrelevant (in the Corporation there is no controlling shareholder).	✓	
19.		Whoever is not entitled to be a member of the Audit Committee, including the controlling shareholder or a relative thereof, did not attend the Audit Committee meetings in the reported year, except pursuant to the provisions of Clause 115 (e) to the Companies Law.	✓	

AUDIT COMMITTEE

			Correct	Incorrect
20.		The quorum for the deliberation and decision-making in all Audit Committee meetings that were held in the reported year was the majority of Committee members, and the majority of attendants were independent Directors and at least one of them was an External Director. If your answer is "incorrect" – please state the rate of meetings in which this requirement was not complied with: __________		✗
21.		In the reported year the Audit Committee held at least one meeting with the attendance of the Internal Auditor and the Auditing CPA, as the case may be, and without the attendance of senior Officers in the Corporation who are not members of the Committee, regarding flaws in the Corporation's business management.		✗ [110]
22.		In all the meetings of the Audit Committee in which whoever is not entitled to be a Committee member attended, this was with the approval of the Chairman of the Committee and / or as per the Committee's request (regarding the legal counselor and the Corporation secretariat who is not the controlling shareholder or a relative thereof).	✓	
23.		In the reported year there were arrangements set forth by the Audit Committee regarding the way to handle complaints made by the Corporation's employees as to flaws in the management of its businesses as to the protection that would be extended to employees who complained as set forth above.	✓	
24.		The Audit Committee (and/or the Financial Statements Committee is convinced that the scope of work of the Auditing CPA and his fees in relation to the FS in the reported year were appropriate in order to perform accurate audit and review work.	✓	

110 In 2016 there was a deliberation in respect of 2015.

THE ROLES OF THE FINANCIAL STATEMENTS COMMITTEE (HEREINAFTER – THE COMMITTEE) IN ITS PRELIMINARY WORK FOR THE FS APPROVAL

			Correct	Incorrect
25.	a.	The number of days set forth by the BoD as a reasonable time for submitting the recommendations before the BoD meeting in which the Periodic or Quarterly Reports will be approved: **2**		
	b.	The number of days actually elapsed between the day upon which the recommendations were transferred to the BoD and the date upon which the FS were approved: First quarter FS (2015) **3** Second quarter FS **4** Third quarter FS **2** 2015 annual FS **6**		
	c.	The number of days actually elapsed between the day upon which the FS drafts were transferred to the BoD and the date upon which the FS were approved: First quarter FS (2015) **9** Second quarter FS **7** Third quarter FS **6** 2015 annual FS **6**		
26.		The Corporation's Auditing CPA participated in all the meetings of the Committee and the BoD, in which the Corporation's FS relevant to the periods included in the reported period were deliberated.	✓	

THE ROLES OF THE FINANCIAL STATEMENTS COMMITTEE (HEREINAFTER – THE COMMITTEE) IN ITS PRELIMINARY WORK FOR THE FS APPROVAL

			Correct	**Incorrect**
27.	In the Committee, in the entire reported year, all the following conditions were met:			
	a.	The number of its members was not less than three (at the time of the deliberation in the Committee and FS approval, as set forth above)	✓	
	b.	All the conditions set forth in Clause 115 (b) and (c) to the Companies Law (regarding the tenure of Audit Committee members) were met.	✓	
	c.	The Chairman of the Committee is an External Director.	✓	
	d.	All its members are Directors, and the majority are independent Directors.	✓	
	e.	All its members are able to read and understand FS and at least one of the independent Directors has accounting and financial expertise.	✓	
	f.	The Committee members gave a declaration prior to their appointment.	✓	
	g.	The quorum for the deliberation and decision-making in the Committee was the majority of its members, provided the majority of those attending were independent Directors, including at least one External Director.	✓	
	If your answer is "Incorrect" regarding one or more of the sub-clauses of this question, please detail the Report (Periodic/Quarterly) in which of the conditions set forth above was not met:________			

COMPENSATION COMMITTEE

			Correct	Incorrect
28.		In the reported year, the Committee was composed of at least three members and the External Directors were the majority (at the time it was deliberated by the Committee). ☐ Irrelevant (there was no deliberation)	✓	
29.		The terms of office and employment of all the Seniors' Compensation Committee's members in the reported year comply with the companies Regulations (rules regarding Remuneration and Expenses for External Directors) – 2000.	✓	
30.		In the Compensation Committee, the following did not serve:	✓	
	a.	The controlling shareholder or his/her relative ☐ Irrelevant (there is no controlling shareholder in the Corporation)	✓	
	b.	The CoB	✓	
	c.	A Director employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him/her	✓	
	d.	A Director who provides services to the Corporation or to the Corporation's controlling shareholder on a regular basis	✓	
	e.	A Director whose livelihood mostly depends on the controlling shareholder ☐ Irrelevant (there is no controlling shareholder in the Corporation)	✓	

COMPENSATION COMMITTEE

		Correct	Incorrect
31.	In the reported year, the controlling shareholder or his/her relative did not attend the meetings of the Seniors' Compensation committee, except if the Chairman of the Committee decided that one of them is required in order to present a specific issue.	✓	
32.	The Seniors' Compensation Committee and the BoD did not exercise their power pursuant to Clauses 267 a (c), 272 (c1) (1) (c) for the approval of a transaction or a remuneration policy, in spite of the General Meeting's objection. If your answer is "Incorrect", please note: The type of transaction approved as set forth above:____________ The number of times in which they used their power in the reported period:_______	✓	

INTERNAL AUDITOR

		Correct	Incorrect
33	The Corporation's CoB or CEO is in charge of the Internal Auditor in the organization.	✓	
34.	In the reported year, the Chairman of the Board of Directors or of the Audit Committee In addition, the audit topics that were examined by the Internal Auditor in the reported report should be detailed: For details, see the answer to question 35	✓	
35.	The scope of the Internal Auditor's employment in the reported year (in hours) [111]: 52,869 The scope of employment of the Audit in the Group, as detailed in the chapter regarding the Internal Auditor, is 52,740.		
	In the reported year there, there was a discussion (in the Audit Committee or the BoD) regarding the Internal Auditor's findings. **The topics of audit in Migdal Group are derived from the multi-annual WP of Migdal holdings and its subsidiaries, based on risk surveys that are carried out periodically, as well as audit results, organizational changes and events, regulation updates etc.** **In Migdal Group, the topics include the various areas of activity in the Group, including life assurance, general insurance, investments, finances, IT etc.** [112]		
36.	The Internal Auditor is not an interested party in the Corporation, his/her relative, Auditing CPA or anyone on his/her behalf, and does not have material business relations with the Corporation, its controlling shareholder, relatives thereof or corporations controlled by him/her.	✓	

111 The slate of the members of Migdal insurance's Audit Committee and Migdal Holdings' Audit Committee is identical.
112 Including working hours invested in held corporations and in auditing outside of Israel, as the case may be.

TRANSACTIONS WITH INTERESTED PARTIES

		Correct	Incorrect
37.	The controlling shareholder or his/her relative (including a Company controlled by him/her) is not employed by the Corporation, nor he/she supplies management services to it. If your answer is "Incorrect" (i.e., the controlling shareholder or his/her relative is employed by the Corporation or he/she supplies management services to it) please specify – - The number of persons (including the controlling shareholder) employed by the Corporation (including companies controlled by them) and / or via management companies **– 2, 4[113] Employed by Migdal Insurance and 2[114] serve as Directors, one of them serves as the Chairman of the Board of Directors in an investee.** - Were the employment agreements and / or management services agreements as set forth above approved by the organs set forth by the Law: ✓ Yes *(Please mark x in the relevant square)* ☐ Irrelevant (in the Corporation there is no controlling shareholder)._____		x

113 Mr. Ofer Eliahu, the son of Mr. Shlomo Eliahu, serves as the CEO of the subsidiary, Migdal Insurance, as of February 11th, 2014. Mr. Ofer Eliahu's terms of office were approved by the organs set forth by the Law. Mr. Eliahu Eliahu, the brother of Mr. Shlomo Eliahu, serves in the subsidiary, Migdal Insurance, as the Manager of General Insurance in the Central District. Mr. Eliahu Eliahu's terms of office were approved by the organs set forth by the Law.

114 Mr. Shlomo Eliahu, the Company's controlling shareholder, served as the Company's CoB until February 18th, 2015, with no salary. Since then, he continues to serve as a Director in the Company and in Migdal Insurance, with no salary. Mr. Israel Eliahu, the son of Mr. Shlomo Eliahu, serves as a Director in the Company and in Migdal Insurance, and as the CoB of Migdal Capital Markets, a subsidiary of the Corporation. Mr. Israel Eliahu is entitled to Directors' fees in respect of his office in the Company and in Migdal Insurance. The Directors' fees received by Mr. Israel Eliahu were approved by the organs set forth by the Law.

TRANSACTIONS WITH INTERESTED PARTIES

		Correct	Incorrect
38.	To the best knowledge of the Corporation, the controlling shareholder does not have additional businesses in the Corporation's areas of activity (in one or more areas). If your answer is "Incorrect" – please specify whether there is an arrangement for the delimitation of activities between the Corporation and the controlling shareholder: ✓ Yes ☐ No **For the sake of good order, it should be noted that Mr. Shlomo Eliahu, the controlling shareholder, is the owner and CoB of Eliahu Insurance Company Ltd., he has holdings in Union Bank as detailed in the Financial Statements, and also owns 50% of Gan Ha'ir project, which includes a mall, a hotel and a residential project, he owns real estate assets which are Eliahu Building in Tel Aviv and real estate assets that serve as branches of Eliahu Insurance Company Ltd. He serves as a Directors in companies Gan Ha'ir Group, and as the CoB in companies in Shlomo Eliahu Holdings Group.** **On January 1st, 2013 Eliahu Insurance transferred all its life assurance activity to Harel. Furthermore, on September 30th, 2013 the Company's General Meeting approved an engagement with Eliahu Insurance for a consideration agreement regarding the absorption of new policies (including the renewal of existing policies), whose insurance period is from 2013 and on, of Eliahu customers in the general insurance area. Accordingly, as of the date of the Report, Eliahu Insurance engages only in the dissolution of liabilities in general insurance, that includes claims outstanding and future ones) of Eliahu Insurance originating from general insurance policies sold by Eliahu until the end of 2012, which is in run-off, and pursuant to the engagement between Migdal Insurance and Eliahu Insurance (subject to the Court approval for the completion of the transaction), shall be transferred to the sole responsibility of Migdal Insurance. For additional details, see Note 38e2 to the Financial Statements.** **In Union Bank, the controlling shareholder may not participate in the management or operation of means of control, therefore these are passive capital holdings for realization only, within a period of up to 3-4 years**	✓	

CoB:______________ Chairman of the Audit Committee:_______________ Chairman of the Financial Statements Committee:__________.

Signature's date: March 29th, 2016

REPORT AND STATEMENTS REGARDING THE INTERNAL CONTROL OVER THE FINANCIAL REPORTING AND DISCLOSURE

ARBEL CLIFF, RISING TO ABOUT 400 METERS ABOVE THE SEA OF GALILEE | **LOWER GALILEE**

Annual report regarding the effectiveness of internal control over the financial reporting and disclosure pursuant to Regulation 9b (a)

Management, supervised by Migdal Insurance and Financial Holdings Ltd.'s Board of Directors (hereinafter - the Corporation), is in charge of setting and executing a proper internal control over the financial reporting and disclosure in the Corporation.
For this matter, management members are as follows[1]:

1. Eran Czerninski, CEO and CFO[2];
2. Itzhak Ben Menachem, Risk Manager;
3. Michal Leshem, Internal Auditor;
4. Ilana Bar, Legal Counsel;
5. Tali Cassif, Company Secretary;
6. Asaf Ashkenazy, Enforcement Officer;

The internal control over the financial reporting and disclosure includes controls and procedures that exist in the Corporation, that were planned by the CEO and the highest Senior Officer in the area of finances or under their supervision, or by whoever performs these roles in reality, under the supervision of the Corporation's BoD, aimed at providing a reasonable level of confidence as to the reliability of the financial reporting and preparation of reports pursuant to the Law provisions, and make sure that information that the Corporation is required to disclose in the reports it publishes pursuant to the Law is collected, processed , summarized and reported on time and in the outline set forth by the Law.

The internal control includes, *inter alia*, controls and procedures designed to make sure that information that the Corporation is required to disclose as set forth above, is collected and submitted to the Corporation management, including to the CEO and the most senior officeholder in the area of finances or to whoever performs these roles in reality, in order to allow making decisions at the appropriate time, regarding the disclosure requirements.

Due to its structural limits, internal control over the financial reporting and disclosure is not aimed at providing complete confidence that misstatement or omission of information in the reports shall be prevented or found out.

Management, under the BoD supervision, performed an examination and evaluation of the internal control over the financial reporting and disclosure in the Corporation and its effectiveness; the evaluation of the effectiveness of the internal control over the financial reporting and disclosure that was conducted by management, under the supervision of the BoD, included:

Entity Level Controls; controls over the process of preparing and closing the reports, general controls over the IT systems (ITGC) and controls over processes that are very material for the financial reporting and disclosure (these processes are performed under Migdal Insurance Company Ltd, a subsidiary of the Corporation, that is an institutional entity, and to which the aforesaid applies).

Migdal Insurance Company Ltd., a subsidiary of the Corporation, is an institutional entity, to which the provisions of the Commissioner of Capital Market, Insurance and Savings in the MoF regarding the evaluation of the effectiveness of internal control over the financial reporting, apply.

---

[1] Updated as per the date upon which the Financial Statements were signed.
[2] Mr. Eran Czerninski, the Company's CFO and the Head of the Finances and Actuarial Division in Migdal Insurance, was appointed as CEO on March 24th, 2015.

As to the above mentioned subsidiary, the management, under the BoD supervision, performed an examination and evaluation of the internal control over the financial reporting and its effectiveness, based on the provisions of the Institutional Entities Circular 2009-9-10 "Management Liability over the Internal Control over the Financial Reporting", Institutional Entities Circular 2010-9-7 "Internal Control over Financial Reporting – Statements, Reports and Disclosures" and amendments thereof.

Based on this evaluation, the Corporation's BoD and management concluded that the internal control over the financial reporting, regarding the internal control in the institutional entity as of December 31st, 2015, is effective.

Based on the effectiveness evaluation conducted by the management, supervised by the BoD, as aforesaid, the Corporation's BoD and management concluded that the internal control over the financial reporting and disclosure in the Corporation as of December 31st, 2015, is effective.

Managers' statement
CEO Statement

I, Eran Czerninski, certify that:

(1) I have reviewed Migdal Insurance and Financial Holdings Ltd.'s (hereinafter: “the Corporation”) Periodic Report for 2015 (hereinafter: “the Reports");
(2) To the best of my knowledge, the Reports do not contain any untrue statement of a material fact nor omit any material fact necessary such that the statements, given the circumstances under which such statements were made, are not misleading with respect to the covered periods;
(3) To the best of my knowledge, the Financial Statements and other financial information included in the report, present fairly in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods presented in the Report;
(4) I disclosed to the Corporation's auditing CPA, BoD and the Corporation's Audit and Financial Statements Committees, based on my most updated evaluation of the internal control over the financial reporting and disclosure;
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, which are reasonably likely to adversely affect the ability of the Corporation to collect ,process, summarize or report any financial information in a way that might impose doubts as to the reliability of the financial reporting and preparation of Financial Statements pursuant to the Law, and –
    (b) Any fraud, whether material or not material, that involves the CEO or anyone directly subordinated to him or involving other employees with a significant position in the internal control over financial reporting and disclosure;
(5) I, alone or together with others in the Corporation:
    (a) Set controls and procedures, or ensured that controls and procedures are set out and exist under my supervision, designed to ensure that material information relevant to the Corporation, including its consolidated subsidiaries as defined in the Securities Regulations (Annual Financial Statements) – 2010, is brought to my attention by others in the Corporation and in the consolidated companies, particularly during the preparation of the reports; and
    (b) Set controls and procedures, or ensured that controls and procedures are set out and exist under my supervision, designed to reasonably ensure the reliability of the financial reporting and preparation of the Financial Statements pursuant to the provisions of the Law, including pursuant to generally accepted accounting principles;
    (c) Evaluated the effectiveness of the internal control over the financial reporting and disclosure, and presented in this report the conclusions of the BoD and management as to the effectiveness of internal control as at the date of the Financial Statements.

The above does not derogate from my liability or the liability of any other person, as per any law.

March 29th, 2016

____
Eran Czerninski, CEO

Managers' statement
Statement of the most senior officeholder in the finance discipline

I, Eran Czerninski, certify that:

(1) I have reviewed Migdal Insurance and Financial Holdings Ltd.'s (hereinafter: “the Corporation”) Financial Statements and other financial information included in the reports for 2015 (hereinafter: “the Reports");
(2) To the best of my knowledge, the Financial Statements and other financial information included in the reports do not contain any untrue statement of a material fact nor omit to state a material fact necessary such that the statements, given the circumstances under which such statements were made, not misleading with respect to the covered period;
(3) To the best of my knowledge, the Financial Statements and other financial information included in the report, present fairly in all material respects, the financial position ,results of operations and cash flows of the Corporation for the dates and the periods presented in the Report;
(4) I disclosed to the Corporation's auditing CPA, the BoD and the Corporation's Audit and Financial Statements Committees, based on my most updated evaluation of the internal control over the financial reporting and disclosure:
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and the other financial information included in the financial statements, which are reasonably likely to adversely affect the ability of the Corporation to collect, process, summarize or report about financial information in a way that might impose doubts as the reliability of the financial reporting and the preparation of Financial Statements pursuant to the Law, and –
    (b) Any fraud, whether material or not material, that involves the CEO or anyone directly reporting to him or other employees with a significant position in the internal control over financial reporting and disclosure;
(5) I, alone or together with others in the Corporation:
    (a) Designed controls and procedures, or caused such controls and procedures are designed and exist under my supervision, to ensure that material information relevant to the Corporation, including its consolidated subsidiaries as per their definition in the Securities Regulations (Annual Financial Statements) - 2010, insofar as it relates to the financial statements and the other financial information included in the financial statements, is made known to me by others in the Corporation and in the consolidated companies, particularly in the period in which this Report is being prepared; and -
    (b) Set controls and procedures, or caused such controls and procedures are designed and exist under our supervision, to reasonably ensure that the financial reporting is reliable and that the Financial Statements are prepared pursuant to the provisions of the Law, including pursuant to generally accepted accounting principles.
    (c) Evaluated the effectiveness of the internal control over the financial reporting and disclosure, insofar as it relates to the financial statements and the other financial information included in the Financial Statements as at the date of the financial statements; my conclusions in respect of my evaluation as aforementioned were presented to the BoD and Management and are included in this report.

The above does not derogate from my liability or the liability of any other person, as per any law.

March 29th, 2016

____
Eran Czerninski, CFO

APPENDICES RELATED TO MIGDAL INSURANCE COMPANY LTD.

Migdal Insurance Company Ltd.

Certification

I, Ofer Eliahu, certify that:

1. I have reviewed Migdal Insurance Company Ltd.'s (henceforth: "**the Insurance Company**") Annual Report for 2015 (henceforth: "**the Report**").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact nor omits any material fact necessary so that the statements, given the circumstances under which such statements were made, are not misleading with respect to the covered period.
3. Based on my knowledge, the Financial Statements and other financial information included in the report, fairly reflect in all material respects, the financial position, results of operations, changes in equity and cash flows of the Insurance Company for the dates and periods covered by the Report.
4. I and others in the Insurance Company who make such statement are responsible for establishing and maintaining controls and procedures regarding the disclosure[1] and internal control over the Insurance Company's financial reporting[1], and have:
   (a) Set forth these controls and procedures, or lead to their establishment under our supervision, designed to ensure that material information relevant to the Insurance Company, including its consolidated subsidiaries, is brought to our attention by others in the Insurance Company and in those entities, particularly during the preparation of the report.
   (b) Set forth an internal control over the financial reporting, or supervised the setting of an internal control over the financial reporting, aimed at providing a reasonable amount of certainty as to the reliability of the financial reporting and to the fact that the Financial Statements are prepared pursuant to IFRS and the provisions of the Commissioner of Insurance.
   (c) Evaluated the effectiveness of the controls and procedures as regards the Insurance Company's disclosure, and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as of the end of the period covered in the Report based on our evaluation; and
   (d) Disclosed in the Report any change in the Insurance Company's internal control over financial reporting which occurred in 4Q15, which affected materially, or are reasonably likely to materially affect, the Insurance Company's internal control over financial reporting; and
5. I and others in the Insurance Company who make such statement disclosed to the Insurance Company's auditing CPA, BoD and Financial Statements Committee, based on our most recent evaluation regarding the internal control over financial reporting:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the ability of an Insurance Company to record, process, summarize and report financial information; and
   (b) Any fraud, whether material or not material, that involves management or other employees with a significant position in the Insurance Company's internal control over financial reporting.

The above does not derogate from my liability or the liability of any other person, as per any law.

March 29th, 2016

Ofer Eliahu, CEO

[1] As defined in the provisions of the Institutional Entities Circular regarding Internal Control over Financial Reporting - Statements, Reports and Disclosures.

Migdal Insurance Company Ltd.

Certification

I, Eran Czerninski, certify that:

1. I have reviewed Migdal Insurance Company Ltd.'s (henceforth: "**the Insurance Company**") Annual Report for 2015 (henceforth: "**the Report**").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact nor omits any material fact necessary so that the statements, given the circumstances under which such statements were made, are not misleading with respect to the covered period.
3. Based on my knowledge, the Financial Statements and other financial information included in the report, fairly reflect in all material respects, the financial position, results of operations, changes in equity and cash flows of the Insurance Company for the dates and periods covered by the Report.
4. I and others in the Insurance Company who make such statement are responsible for establishing and maintaining controls and procedures regarding the disclosure[1] and internal control over the Insurance Company's financial reporting[1], and have:
   (a) Set forth these controls and procedures, or lead to their establishment under our supervision, designed to ensure that material information relevant to the Insurance Company, including its consolidated subsidiaries, is brought to our attention by others in the Insurance Company and in those entities, particularly during the preparation of the report.
   (b) Set forth an internal control over the financial reporting, or supervised the setting of an internal control over the financial reporting, aimed at providing a reasonable amount of certainty as to the reliability of the financial reporting and to the fact that the Financial Statements are prepared pursuant to IFRS and the provisions of the Commissioner of Insurance.
   (c) Evaluated the effectiveness of the controls and procedures as regards the Insurance Company's disclosure, and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as of the end of the period covered in the Report based on our evaluation; and
   (d) Disclosed in the Report any change in the Insurance Company's internal control over financial reporting which occurred in 4Q15, which affected materially, or are reasonably likely to materially affect, the Insurance Company's internal control over financial reporting; and
5. I and others in the Insurance Company who make such statement disclosed to the Insurance Company's auditing CPA, BoD and Financial Statements Committee, based on our most recent evaluation regarding the internal control over financial reporting:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the ability of an Insurance Company to record, process, summarize and report financial information; and
   (b) Any fraud, whether material or not material, that involves management or other employees with a significant position in the Insurance Company's internal control over financial reporting.

The above does not derogate from my liability or the liability of any other person, as per any law.

March 29th, 2016

Eran Czerninski, Head of the Finances and Actuarial Division

[1] As defined in the provisions of the Institutional Entities Circular regarding Internal Control over Financial Reporting - Statements, Reports and Disclosures.

Migdal Insurance Company Ltd.

BoD and Management Report regarding the internal control over the financial reporting

Management, under supervision of the BoD of Migdal Insurance Company Ltd. (henceforth: "the insurance company") is responsible for maintaining effective internal control over financial reporting. The insurance company's internal control system was planned in order to provide a reasonable amount of certainty to the insurance company's BoD and management as to the accurate preparation and presentation of the Financial Statements published pursuant to the IFRS and the provisions of the Commissioner of Insurance. Regardless of their planning level, all internal control systems have built-in limitations. Therefore, even if it was determined that these systems are effective, they can only provide a reasonable level of certainty with respect to the preparation and presentation of a financial report.

Management, under the BoD supervision, conducts a comprehensive system of controls aimed at making sure that transactions are performed pursuant to management authorizations, assets are protected, and the accounting records are reliable. In addition, management, under the BoD supervision, takes measures in order to make sure that the information and communication channels are effective and monitor execution, including the execution of internal control procedures.

The insurance company's management, under the BoD supervision, evaluated the effectiveness of the insurance company's internal control over financial reporting as of December 31st, 2015, based on the criteria set forth in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control model. Based on this evaluation, management believes that as of December 31st, 2015, the insurance company's internal control over financial reporting is effective.

CoB	**Yohanan Danino**	(Signature) _____________
CEO	**Ofer Eliahu**	(Signature) _____________
Head of the Finances and Actuarial Division	**Eran Czerninski**	(Signature) _____________

Report approval date: March 29th, 2016

Migdal Insurance Company Ltd.

March 29th, 2016

Declaration of the Life Assurance Actuary

Part A – Identity of the Actuary

I have been requested by Migdal Insurance Company Ltd. (henceforth, "the Insurer") to assess the reserves specified in part B below in life assurance lines of business (henceforth, "the reserves") for the Insurer's Financial Statements dated December 31st, 2015, as specified below.
I am an employee of the Insurer and serve as its Chief Actuary since December 1st, 2006.
I am not an interested party, nor a relative of an interested party of the Insurer.

Part B – Scope of Actuarial Opinion

1. Scope of Actuarial Opinion

a. For the purpose of calculating the insurer's reserves, I relied on data provided to me by the insurer. My requests for receiving data and information for the sake of assessing reserves for the Financial Statements were answered in a satisfactory manner. I examined the reasonability and adequacy of the data, and compared the data to other data pertaining to the valuation year, and to data of previous years.

b. When necessary, my assessment also relied upon data received from other reliable sources. I checked both the appropriateness and the relevance of this data.

c. The actuarial assumptions I used in my work, including the methods for assessing the reserves cited below, were determined by me, to the best of my professional judgment, and in compliance with the provisions, instructions and rules provided in section 1 of part C below.

d. In order to calculate the retention, I requested from the authorized reinsurance officers information regarding the insurer's reinsurance arrangements, the insurer's ability to collect claims, and any problems with the payment policies of the reinsurers. Based on the information I received, I examined the impact and effect of the reinsurance arrangements on the reserves.

e. In my assessment, I also took into consideration the following:
The provision calculated for coinsurance administered by domestic Israeli insurance companies is the proportional part of the provision calculated by the life assurance actuary of the leading company. This principle was applied with respect to the life assurance portfolio of Hassneh Israeli Insurance Company, which was jointly acquired by the Insurer and Clal Insurance Company, in respect of policies administered by Clal Insurance Company.

2. Data attached to the paragraph "Scope of Actuarial Opinion"

a. In the appendix attached herewith, there are details of the amounts of provisions, in NIS thousands, both in gross and retained amounts, as follows:
   1) Reserve for outstanding claims (claims incurred but not fully paid, whether approved or not, except for claims paid as annuities, such as LTC, income protection and family income benefits), including the reserve for incurred but not yet reported losses (IBNR).
   2) Reserve for unpaid unallocated loss adjustment expenses.
   3) Reserve stemming from insurance contract conditions relating to life assurance alone, including:
      a) Reserve for savings plans;
      b) Reserve required when part of the premium collected in the contract's early years is designated for granting future cover, such as provision in respect of fixed premium, guaranteed insurability and continuation options;

4) The part of reserve in respect of claims in payment, including claims paid as annuities, such as LTC, income protection and family income benefits.
5) Supplemental provisions stemming from the Liability Adequacy Test (LAT). After performance of the test, it was determined that there is a need for a supplementary reserve for guaranteed-yield life assurance policies.
6) Other – additional provisions in accordance with the Commissioner's instructions: supplementary reserves for annuity policies as per the Commissioner's circular 2013-1-2.

b. The effect of the changes in assumptions, premiums or other changes on the provisions, in NIS thousands, both in gross and retained amounts -–
1) For policies which became effective after the end of period of the last annual Financial Statement – the amount of adjustment of reserves, stemming from the differences between the premium basis assumptions and the reserve basis assumptions - there was no need for such adjustment to the provisions.
2) For policies that became effective before the valuation date of the last annual Financial Statements - the amount of adjustment of reserves, due to changes in assumptions, in methods or in the premium level that is expected to be collected, and due to other amendments: Supplementary Annuity Reserve (SAR), LAT reserve for guaranteed-yield life assurance policies and reserves for PHI.

Part C – Opinion

I hereby declare and confirm that with respect to the Life Assurance Area:

1. I assessed the insurer's reserves detailed in Part B in accordance with the provisions, instructions and rules detailed below, all as valid on the date of the Financial Statements:
   a. The provisions of the Financial Services Supervision Law (Insurance) – 1981, and regulations thereof;
   b. The provisions and instructions given by the Commissioner of Insurance;
   c. Generally accepted actuarial principles.
2. Having examined the data mentioned in part B, I have reached the conclusion that the data are reasonable and satisfactory, and that I can rely on them in my assessment.
3. The assumptions and methods for the assessment of reserves were determined by me, according to my best professional judgment, and in compliance with the provisions, instructions and rules specified above.
4. To the best of my knowledge and opinion, the reserves set forth in Part B constitute an appropriate reserve for covering the insurer's liabilities in respect of its liabilities stemming from life assurance contracts, valid on the date of the Financial Statements.

Part D - Comments and clarifications

1. Details about the types of reserves are included in Note 37 to the Financial Statements.
2. No material changes occurred in the actuarial assumptions and methods compared with last year's actuarial assessment, except for updates in the assumptions for the calculation of the Supplementary Annuity Reserve, LAT reserve and PHI reserve.

March 29th, 2016	**Appointed actuary - life assurance**	**Dr. Leybush Ulmann**	__________________
Date	Position	Actuary's name	Signature

Enclosed herewith:

Form 12a: Outstanding claims and reserves - gross
Form 12b: Outstanding claims and reserves - retention

Form 12a: Outstanding claims, reserves and reserve for extraordinary risks - gross **As at: 31.12.2015**
Company name: Migdal Insurance Company Ltd.
(NIS thousands)

			Total	Savings and death risk (classic, traditional)		Pure savings or savings component in policies (Adif, Track)		Pure death risk or death risk component in policies		PHI	LTC		Other covers 1)
				Guaranteed yield	Participating	Guaranteed yield	Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding claims		2,306,605	662,185	28,468	858,315	271,351	113,505	24,653	252,363	39,946	2,889	52,930
2	Reserves (total rows 2a1 to 6)		108,575,553	5,554,241	1,289,723	20,512,666	77,656,983	25,047	12,009	1,813,881	1,692,056	18,717	230
2a1	Policies with a savings element (including riders) by date of policy issue:	Policies written until 1990	19,552,034	3,488,553	7,596	15,735,927	263,198	1,090	0	55,479	0	0	191
2a2		Policies written 1991-2003	51,212,241	0	1,143,642	708	50,014,296	3,053	0	50,505	0	0	37
2a3		Policies written from 2004	24,778,084	0	2,912	201,585	24,552,448	932	0	20,207	0	0	0
2a4		Total (2a1 - 2a3)	95,542,359	3,488,553	1,154,150	15,938,220	74,829,942	5,075	0	126,191	0	0	228
2b	Policies without a savings component		1,628,610	0	0	0	0	19,972	12,009	15,590	1,578,585	2,452	4
3	Reserve for claims in payment		8,301,274	1,853,481	126,936	2,191,666	2,327,355	0	0	1,672,100	113,471	16,265	0
4	Profit participation		0	0	0	0	0	0	0	0	0	0	0
5	Supplement due to Liability Adequacy Test (LAT)		164,673	0	0	164,673	0	0	0	0	0	0	0
6	Other		2,938,637	212,207	8,637	2,218,107	499,686	0	0	0	0	0	0
7	Reserve for extraordinary risks		0	0	0	0	0	0	0	0	0	0	0
	1) Other covers, including: disability, accidental disability etc.												
8a	Impact of adjusting provisions in respect of new businesses		0	0	0	0	0	0	0	0	0	0	0
81b	Impact of adjusting provisions in respect of current businesses	Changes in assumptions	282,148	-48,816	25	0	36,427	0	0	856	0	0	0
8b2		Changes in methods	0	0	0	0	0	0	0	0	0	0	0
8b3		Changes in premium	0	0	0	0	0	0	0	0	0	0	0
8b4		Other changes	0	0	0	0	0	0	0	0	0	0	0

Form 12b: Outstanding claims, reserves and reserve for extraordinary risks - in retention **As at: 31.12.2015**
Company name: Migdal Insurance Company Ltd.
(In NIS thousands)

			Total	Savings and death risk (classic, traditional)		Pure savings or savings component in policies (Adif, Track)		Pure death risk or death risk component in policies		PHI	LTC		Other covers 1)
				Guaranteed yield	Participating	Guaranteed yield	Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding claims		2,289,668	661,543	28,297	858,315	271,351	103,434	24,653	249,827	36,471	2,889	52,888
2	Reserves (total rows 2a1 to 6)		108,482,100	5,552,253	1,289,723	20,429,385	77,653,994	25,047	12,009	1,811,387	1,689,355	18,717	230
2a1	Policies with a savings element (including riders) by date of policy issue:	Policies written until 1990	19,480,541	3,486,565	7,596	15,670,356	260,675	1,090	0	54,068	0	0	191
2a2		Policies written 1991-2003	51,211,453	0	1,143,642	708	50,014,296	3,053	0	49,717	0	0	37
2a3		Policies written from 2004	24,778,030	0	2,912	201,585	24,552,448	932	0	20,153	0	0	0
2a4		Total (2a1 - 2a3)	95,470,024	3,486,565	1,154,150	15,872,649	74,827,419	5,075	0	123,938	0	0	228
2b	Policies without a savings component		1,628,369	0	0	0	0	19,972	12,009	15,349	1,578,585	2,452	2
3	Reserve for claims in payment		8,290,832	1,853,481	126,936	2,184,383	2,326,897	0	0	1,672,100	110,770	16,265	0
4	Profit participation		0	0	0	0	0	0	0	0	0	0	0
5	Supplement due to Liability Adequacy Test (LAT)		164,673	0	0	164,673	0	0	0	0	0	0	0
6	Other		2,928,202	212,207	8,637	2,207,680	499,678	0	0	0	0	0	0
7	Reserve for extraordinary risks		0	0	0	0	0	0	0	0	0	0	0
	1) Other covers, including: disability, accidental disability etc.												
8a	Impact of adjusting provisions in respect of new busineses		0	0	0	0	0	0	0	0	0	0	0
81b	Impact of adjusting provisions in respect of current businesses	Changes in assumptions	269,859	23,606	882	282,148	-48,816	25	0	11,159	0	0	856
8b2		Changes in methods	0	0	0	0	0	0	0	0	0	0	0
8b3		Changes in premium	0	0	0	0	0	0	0	0	0	0	0
8b4		Other changes	0	0	0	0	0	0	0	0	0	0	0

Migdal Insurance Company Ltd.

March 29th, 2016

Actuary statement in general insurance lines of business

Part A – Identity of the Actuary

I was asked by Migdal Insurance Company Ltd. to assess the reserves specified in Part B below in general insurance lines of business, for the Financial Statements of Migdal Insurance Company Ltd. (henceforth "Migdal" or "the insurer") dated December 31st, 2015 as specified below.

I am the head of the appointed actuary - general insurance at Migdal from May 1st, 2013.

I am not an interested party and work as a salaried employee with the insurer. חסר משפטים מהעברית

Part B – Scope of actuarial opinion

1. Scope of actuarial opinion

1. For the purpose of calculating the insurer's provisions, I relied on data provided to me by the insurer. My requests for receiving data and information for the sake of assessing reserves for the Financial Statements were answered in a satisfactory manner. I examined the reasonability and adequacy of data, and compared following data to the data of the year to which the statement refer, and to data of previous years. In my assessment, I did not rely upon data received from other sources, except for the data from residual insurance ("pool").
2. The actuarial assumptions I used in my work, including methods for assessing reserves set forth in Section 2 below were determined by me, to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified in Section 1 of Part C below.
3. For the purpose of calculating retention I asked the Reinsurance Division in Migdal Group for information regarding the insurer's reinsurance arrangements, the capability to collect claims, and problems with the payment policy of reinsures. Based on the information I received, I examined the impact and effect of reinsurance arrangements on the reserves.
4. In my opinion, I also took into consideration the following issues:
   a. The reserve calculated in respect of residual insurance settlements (henceforth "the Pool"), was performed based on the calculation performed by the "Pool" actuary.
   b. The reserve calculated for other coinsurance, where the Company is not the leading insurer, was done by me while referring to information received from the leading company.
   c. Migdal serves as a reinsurer in multi-national businesses which do not materially affect retention, therefore there was no need for calculating incoming reinsurance.
   d. We did not take into consideration the lack of correlation between the various lines for the reduction of the overall reserve in respect of outstanding claims for all of the lines of business included in my estimation.

2. Data enclosed to the actuarial opinion scope

		As of December 31st, 2015	
		NIS thousand	
	Outstanding claims	Gross	Retention
2 a 1) a)	Statistical lines of business:		
	Compulsory Motorcar Bodily Injury (CMBI)*	1,460,178	1,443,375
	Employers' liability*	392,713	382,933
	Third party liability*	553,966	455,842
	Professional liability*	325,406	267,690
	Product liability*	83,223	56,642
	Casco	156,100	156,004
	Homeowners	46,046	35,424
	Total non-clustered (statistical) lines of business	3,017,632	2,797,910
	Total clustered (non-statistical) lines of business	244,360	28,216
2 a 1) b)	Total lines of business	3,261,992	2,826,125
2 a 2)	Unallocated loss adjustment expenses	78,017	78,017
	The difference between the unexpired risk reserve and unearned premium less deferred acquisition expenses:		
2 a 3)	Premium deficiency:		
	CMBI	No declaration required	
	Casco	No declaration required	10,507
	Homeowners comprehensive	No declaration required	
	Total insurance liabilities in respect of insurance contracts included in general insurance sector, calculated by actuarial valuation	3,350,516	2,914,650

Notes:

1. The provisions set forth above include the provisions calculated in respect of the retention insurance settlements ("the Pool").

2. The provision for unexpired risks reserve also includes the following elements:
   a. The cost of insurance risk;
   b. Margin for the uncertainty related to risk (as defined in the position paper);
   c. The cost of claim settlement and expenses related to these insurances.

3. The actuarial provisions in Note 17 a2, which I estimated at NIS 4,256,389 thousand, less the provision for unearned premium in the amount of NIS 892,369 thousand, include the above said provisions of NIS 3,017,632 in respect of non-clustered (statistical) lines and indirect expenses in the amount of NIS 78,017, as well as the reserve mentioned above in respect of clustered (non-statistical) lines in the amount of NIS 244,360, as well as reserves for outstanding claims in respect of the personal

accidents line as set forth in the health declaration of NIS 13,504 thousand. In retention, the provision for personal accidents is NIS 13,311 thousand.

4. The provision for outstanding claims in respect of travel insurance line as included in the health statement is NIS 8,218 thousand gross, and NIS 5,577 thousand in retention.

5. For lines excluded from the actuarial valuation clustered (non-statistical) lines, see Part D Section 11 below.

6. In liability lines assessed based on underwriting: the amounts are in respect of outstanding claims and the difference between the unexpired risk reserve and unearned premium less acquisition expenses.

<u>Part C – The opinion</u>

I hereby declare and confirm that in the following lines: CMBI, employers' liability, third party liability, professional liability, product liability, casco and homeowners' comprehensive insurance:

1. I assessed the insurer's reserves detailed in Part B in accordance with the provisions, instructions and rules detailed below, as valid on the date of the Financial Statements:

    a. The provisions of the Insurance Businesses Supervision Law – 1981, and regulations thereof;
    b. The provisions and instructions given by the Commissioner of Insurance;
    c. The Commissioner's position regarding the calculation of reserves in general insurance;
    d. Generally accepted actuarial principles.

2. Having examined the data mentioned in Part B, I have reached the conclusion that the data are reasonable and satisfactory, and that I can rely on them in my assessment.

3. I determined the assumptions and methods for the assessment of reserves according to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified above.

4. The reserves set forth in Part B, Section 2 a 1) a) in respect of the statistical lines of business: CMBI, employers' liability, third party, professional liability, product liability, casco and homeowners, constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of the above said outstanding claims, in each separately detailed statistic line of business, as valid on the date of the Financial Statements.

5. The reserve set forth in Part B, Section 2 a 1) b) constitutes, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of outstanding claims in clustered (statistical) and non-clustered (non-statistical) lines of business in general, as valid on the date of the Financial Statements.

6. The reserve set forth in Part B, Section 2 a 2) constitutes, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of indirect expenses for claim settlement in respect of all the lines of business in which the Company engages in general insurance, as valid on the date of the Financial Statements.

7. The reserves set forth in Part B, Section 2 a 3) constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of the difference between unexpired risk and unearned premium at retention level (should such premium deficiency exist) in the detailed lines, as valid on the date of the Financial Statements.

Part D - Comments and clarifications

1. In the CMBI, employers' liability, third party liability and casco lines the calculations are based on PAID model, the actual claim payments. In the homeowners, personal accidents, professional liability and product liability lines, the calculations are based on claims' aggregate cost (actual claim payments plus case estimation, INCURRED model). There may be new phenomena which are not actually reflected in these data. Should it turn out that the actual experience is different than the aggregate experience, there may be need for additional reserves in the future.

2. In the CMBI line there was a positive development in reserves, due to two main reasons:
   a. On October 2014, an agreement was signed with the National Insurance Institute, including rules, terms and deadlines for the settlement of subrogation demands that will be filed by the NII in the CMBI line. The previous agreement expired on 2010. Further to the signing of the agreement with the NII and the aggregate experience in claim payments throughout the years, the Company decreased the insurance liabilities in the CMBI line.
   b. Further to the impact of the legislative amendment from 2009 regarding the transfer of insurance liability for extending medical services to health funds due to bodily injuries for road accidents casualties as of 2010. Due to the impact of passing years on the actuary's ability to assess the data of claim development.

3. In the employers' liability and third party liability lines, the deterioration in the development of Loss Ratio continued, and in addition, there was an improvement in reinsurers' claim experience, and accordingly, there was a negative development in retention reserves.

4. In the lines of professional and product liability, there was a continued improvement in Loss Ratio, stemming from a positive development in claims, which brought about a release of safety margins in gross and retention, as the level of uncertainty decreased.

5. The Company implemented, for the first time, the Commissioner position regarding the Optimal Way for Calculating Insurance Reserves in General Insurance. I calculated an "adequate reserve for the coverage of insurer's liabilities" as per the interpretation that it is fairly likely that the insurance liability that was set would be sufficient for covering the insurer's liability. Regarding outstanding claims in CMBI and liability lines, the "fairly likely" test means at least 75% probability. The safety margin took into account both random risk and systemic risks, that include a high level of discretion, mainly in the systemic risk element. In future years, the Company will consider ways for improving the valuations of the model's elements, taking into account, *inter alia*, the practices that will be outlined on the market and the knowledge and experience aggregated in coming years.

6. Until December 31st, 2015, actuarial calculations did not include an amortization due to a real discount of future claim payments. Pursuant to the continued decline in the risk-free interest rate, there was an erosion in the conservatism spreads stemming from the non-discounting of reserves, therefore the Company made an examination that attested that the erosion in above-mentioned spreads did not bring about a situation in which there will be need for a supplementary reserve. Beginning from December 31st, 2015, the Company is examining the adequacy of its liabilities in general insurance pursuant to the principles of the Optimal Way for Calculating Insurance Reserves set forth in Note 37b3c5 hereinafter. Further to this examination, the Company adopted the principles of the Optimal Way for Calculating Insurance Reserves in the third party and employers' liability lines, and accordingly, the Company discounts the future claim payments in these lines. Discounting is as per risk-free interest rate curve, with its adjustment to the illiquidity of insurance liabilities (50% of illiquidity premium), and taking into account the way assets against these

liabilities are revalued. For the impact of the shift to the Optimal Way for Calculating Insurance Reserves in these lines, see Note 2j2d)(4).

7. There were no material changes in the actuarial methods compared with the previous annual actuarial valuation, including with respect to discounting, see Section 6 above, except in the lines in which the valuation was set pursuant to the principles of the Optimal Way for Calculating Insurance Reserves, see Section 6 above.

8. Actuarial valuation is based on statistical estimations that include an element of uncertainty. The statistical estimation is based on various assumptions, which will not necessarily come true. The assumptions in the actuarial forecast affect the reserve final result. Therefore, the actual claims cost may be higher or lower than the statistical estimation. Assumptions set in the past may change according to new information received in the future, due to, *inter alia*, Court rulings and precedents which cannot be forecasted ahead of time and changes in social and environmental factors. In such cases, outstanding claims will change according to the change in assumptions and actual results, and the differences created in the reported year will be included in the general insurance business report. In addition, there is another uncertainty embedded in the models that match the principles of the Optimal Way for Calculating Insurance Reserves, which include a high level of discretion, mainly in the systemic risk element.

9. In the personal accidents line of business I perform an actuarial calculation of the outstanding claims. This reserve appears in the health actuary's statement.

10. In the travel insurance line, the Company considered the possibility of implementing actuarial model for reserves. Due to the lack of statistical significance, no actuarial model was applied in this line. This reserve appears in the health actuary's statement.

11. In accordance with the instructions of the Commissioner of Insurance, the Company considered the possibility of calculating actuarial reserves in the following lines as well: commercial comprehensive insurance, engineering insurance, contractors insurance, marine insurance, aviation insurance and goods in transit insurance. Due to the lack of statistical significance, an actuarial model was not applied in these lines of business.

March 29th, 2016	**Appointed actuary - general insurance**	**Daniel Israeli**	________________
Date	Position	Actuary's name	Signature

Migdal Insurance Company Ltd.

March 29th, 2016

Actuary's Declaration for Health Insurance Lines of Business

Part A – Identity of the Actuary

I have been requested by **Migdal Insurance Company Ltd**. (henceforth: "the insurer") to assess the reserves specified in part B below in health insurance lines of business, for the Financial Statements of the insurer (henceforth: "the reserves") dated December 31st, 2015, as specified below.
I am a salaried employee of the Company. I am not an interested party of or relative of an interested party of the insurer. I was appointed actuary of health insurance on July 18th, 2013.

Part B – Scope of actuarial opinion

1. Scope of actuarial opinion

a. For the purpose of calculating the insurer's reserves, I relied on data provided to me by the insurer. My requests for receiving data and information were answered in a satisfactory manner for the sake of assessing reserves for the Financial Statements. I examined the reasonability and adequacy of the data, and compared the reserve data to other data of the year to which the statement refers, and to data of previous years.
b. In my assessment, I also relied upon data received from other reliable sources. I examined the extent of data compatibility and relevance.
c. The actuarial assumptions that I used in my work, including the methods for the aforementioned assessment of reserves, were determined by me to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified in section 1 of part C below.
d. For the purpose of calculating retention I requested information from the authorized reinsurance officers regarding the insurer's reinsurance arrangements, the collectability of claims, and any problems with the payment policy of reinsurers. Based on the information I received, I examined the impact and effect of reinsurance arrangements on the reserves.
e. The Company has no incoming business and/or coinsurance regarding this report.

2. Assessment data as to the reserve amounts

a. Amounts of reserves in NIS thousands:

	Individual insurance		Collective insurance		
Description	**Health business reported in the health sector (including travel insurance)***	**Personal accident****	**Health business reported in the health sector (including travel insurance)***	**Personal accident****	**Total**
Gross					
Outstanding claims (including IBNR)	113,083	42,501	34,325	5,314	195,223
Indirect expenses	2,861	1,526	1,794	243	6,424
Insurance contracts terms	452,514	50,005	10,453	2,275	515,247
Total gross	**568,458**	**94,032**	**46,572**	**7,832**	**716,894**
Retention					
Outstanding claims (including IBNR)	86,433	42,500	33,015	5,122	167,070
Indirect expenses	2,861	1,526	1,794	243	6,424
Insurance contracts terms	452,183	50,005	10,453	2,275	514,916
Total retention	**541,477**	**94,031**	**45,262**	**7,640**	**688,410**

* Travel insurance business reserves were set by the general insurance appointed actuary. See Part d Section 1.f.

** Long-term personal accident business reserves were set by the health insurance appointed actuary. The "Insurance contracts terms" item includes a provision for occupational disability claims in payment in the amount of NIS 10.3 million in individual insurance and NIS 2.3 million in collective insurance. Short-term personal accident business reserves were set by the general insurance appointed actuary. See Part D, section 1.f.

b. Impact of changes on provisions:

1) For policies which became effective after the end of the period of the last annual Financial Statement - the amount of adjustment to the provisions, stemming from differences between premium basis assumptions and provision basis assumptions: **None**.
2) Policies which became effective before the last annual Financial Statement - the amount of adjustment to the provisions, stemming from changes in the assumptions, methods or level of premium to be collected, and from other changes gross and retention: **None.**

Part C – The opinion

I hereby declare and confirm that in the following sub-lines of health insurance:

- Medical expense
- Dread disease
- Dental insurance
- Long term personal accident
- Other

1. I assessed the insurer's provisions detailed in Part B in accordance with the directives, guidelines, and rules detailed below, all as valid on the date of the Financial Statements:
    a. The directives of the Insurance Business Supervision Law – 1981, and regulations thereof;
    b. The directives and guidelines of the Commissioner of Insurance;
    c. Generally accepted actuarial principles.

2. Having examined the data mentioned in Part B, I reached the conclusion that the data were reasonable and satisfactory, and that I could rely on them in my assessment.

3. The assumptions and methods for the assessment of reserves were determined by me to the best of my professional judgment, and in compliance with the provisions, instructions and rules specified above.

4. The reserves set forth in Part B constitute, to the best of my knowledge and assessment, an appropriate reserve for covering the insurer's liabilities in respect of health insurance contracts that belong to the sub-lines of health insurance detailed above, as valid on the date of the Financial Statements.

Part D - Notes and clarifications

1. Notes, clarifications and explanations
    a. Medical expense – reserves stemming from the terms of contract, are as per an actuarial model.
    b. Dread disease – the reserves stemming from the terms of contract were set pursuant to an actuarial model.
    c. Other line – "Healthy Investment" plan covering medical expenses (surgery and other). Unlike ordinary plans, if insureds have no claims for 15 years, they are reimbursed.
    d. The calculation of reserves for outstanding claims and IBNR for medical expense, dread disease and long-term personal accident was set on the basis of a statistical forecasting model for the determination of future claims payments based on past experience.
    e. Outstanding claims in the lines of short-term personal accident and travel insurance were set by the general insurance appointed actuary, Mr. Daniel Israeli.

2. Changes in assumptions and methods
    No material changes occurred in the actuarial assumptions and methods compared with last year's actuarial valuation, including the discount interest rate.

March 29th, 2016	**Appointed Actuary - Health Insurance**	**Daniel Katsman**	__________________
Date	Position	Actuary name	Signature