Translated
from the
Hebrew original

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

INDEX

Details of Notes

MIGDAL INSURANCE AND FINANCIAL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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
+972 3 684 8000

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, 2017. 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, 2017.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 and our report dated March 26, 2018 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 March 26, 2018	SOMEKH CHAIKIN Member of KPMG International	KOST FORER GABBAY & KASIERER Member of Ernst & Young Global

Joint auditors

Building a better
working world

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
+972 3 684 8000

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, 2017 and 2016, 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, 2017. 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 audit.

We did not audit the financial statements of certain investees accounted for at equity, the investment in which amounted to about NIS 341,775 thousand and NIS 312,131 thousand as of December 31, 2017 and 2016, respectively, and the Group's share of their earnings amounted to about NIS 39,723 thousand, NIS 58,112 thousand and NIS 91,270 thousand for each of the three years the latest of which ended on December 31, 2017. 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 audit 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 audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit 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, 2017 and 2016, 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, 2017, in conformity with International Financial Reporting Standards ("IFRS") and with the disclosure requirements of the Commissioner of the Capital Markets, Insurance and Savings Division 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 consolidated 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, 2017, and our report dated March 26, 2018 includes an unqualified opinion as to the effective maintenance of those components.

Tel-Aviv, Israel	SOMEKH CHAIKIN	KOST FORER GABBAY & KASIERER
March 26, 2018	Member of KPMG International	Member of Ernst & Young Global

Joint auditors

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2017	2016
Assets	**Note**	NIS in thousands	
Intangible assets	4	**1,182,273**	1,224,390
Deferred tax assets	21g	**5,639**	10,665
Deferred acquisition costs	5	**1,963,402**	1,894,376
Fixed assets	6	**644,399**	677,120
Investments in affiliates	7	**347,650**	315,454
Investment property for yield dependent contracts	8	**5,992,310**	5,686,004
Investment property - other	8	**605,038**	600,576
Reinsurance assets	15-16	**1,035,690**	1,026,712
Current tax assets		**129,144**	312,241
Debtors and receivables	9	**658,632**	1,008,650
Outstanding premiums	10	**765,307**	719,100
Financial investments for yield dependent contracts	11	**85,292,178**	76,296,715
Other financial investments:	12		
Quoted debt assets	12a	**10,939,902**	8,954,701
Unquoted debt assets	12b	**23,548,565**	23,614,378
Shares	12d	**1,102,334**	1,106,966
Others	12e	**2,565,844**	2,476,913
Total other financial investments		**38,156,645**	36,152,958
Cash and cash equivalents for yield dependent contracts	13	**8,497,605**	7,267,318
Cash and cash equivalents - other	13a	**2,299,697**	1,945,842
Total assets		**147,575,609**	135,138,121
Total assets for yield dependent contracts in an insurance subsidiary	11	**100,525,815**	90,082,984

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2017	**2016**
Equity and liabilities	**Note**	**NIS in thousands**	
Equity	14		
Share capital		**110,629**	110,629
Share premium		**273,735**	273,735
Capital reserves		**497,404**	242,934
Retained earnings		**5,017,616**	4,757,785
Total equity attributable to equity holders of the Company		**5,899,384**	5,385,083
Non-controlling interests		**8,478**	6,702
Total equity		**5,907,862**	5,391,785
Liabilities			
Liabilities in respect of non-yield dependent insurance contracts and investment contracts	15	**34,944,200**	33,789,715
Liabilities in respect of yield dependent insurance contracts and investment contracts	16	**99,893,451**	89,523,192
Liabilities in respect of deferred taxes	21g	**579,937**	466,704
Liabilities in respect of employee benefits, net	22	**328,429**	315,134
Liabilities in respect of current taxes		**26,997**	2,748
Creditors and payables	23	**2,124,098**	1,766,469
Financial liabilities	24	**3,770,635**	3,882,374
Total liabilities		**141,667,747**	129,746,336
Total equity and liabilities		**147,575,609**	135,138,121

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

March 26, 2018			
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

	Note	Year ended December 31, 2017	2016	2015
		NIS in thousands		
Gross premiums earned		**12,622,168**	11,194,490	10,688,814
Premiums earned by reinsurers		**769,593**	708,795	623,156
Premiums earned on retention	25	**11,852,575**	10,485,695	10,065,658
Net investment gains and finance income	26	**9,558,756**	4,921,136	3,485,333
Income from management fees	27	**2,026,140**	1,588,039	1,479,574
Income from commissions	28	**335,922**	317,861	342,596
Other income	29	**60,752**	108,243	41,732
Total income		**23,834,145**	17,420,974	15,414,893
Payments and change in liabilities in respect of gross insurance contracts and investment contracts		**20,740,201**	14,713,193	12,561,742
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts		**411,019**	335,885	347,310
Payments and change in liabilities in respect of insurance contracts and investment contracts on retention	30	**20,329,182**	14,377,308	12,214,432
Commissions, marketing expenses and other acquisition expenses	31	**1,715,267**	1,637,107	1,585,267
General and administrative expenses	32	**1,037,894**	971,285	1,038,443
Other expenses	34	**85,677**	102,898	101,801
Finance expenses	35	**128,480**	104,905	57,731
Total expenses		**23,296,500**	17,193,503	14,997,674
Share earnings of investees accounted for at equity	7b	**40,560**	58,887	91,598
Income before taxes on income		**578,205**	286,358	508,817
Taxes on income	21f	**197,506**	81,234	155,766
Profit for the period		**380,699**	205,124	353,051
Attributable to:				
Equity holders of the Company		**378,955**	203,265	351,869
Non-controlling interests		**1,744**	1,859	1,182
Profit for the period		**380,699**	205,124	353,051
Basic and diluted net earnings per share attributable to equity holders of the Company (in NIS)	36	**0.36**	0.19	0.33

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,		
		2017	2016	2015
	Note	NIS in thousands		
Income for the period		**380,699**	205,124	353,051
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		**597,971**	61,201	143,120
Net change in fair value of available-for-sale financial assets transferred to profit and loss		**(281,367)**	(241,852)	(544,996)
Impairment loss of available-for-sale financial assets allocated to profit and loss		**68,999**	82,848	84,887
Group's share of other comprehensive loss of investee accounted for at equity		**-**	-	(1,755)
Foreign currency translation adjustment of foreign operation		**(1,672)**	854	(844)
Tax effect on available-for sale financial assets	21	**(130,031)**	45,113	121,737
Tax effect on other comprehensive income items	21	**570**	(305)	305
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		**254,470**	(52,141)	(197,546)
Other items of other comprehensive income (loss) that will not be carried to profit and loss:				
Actuarial gain (loss) from defined benefit plan	22b	**(13,938)**	7,330	(8,831)
Revaluation of fixed assets carried to investment property		**-**	5,186	-
Tax effect	21	**4,846**	(3,563)	3,656
Total other comprehensive income (loss) for the period that will not be carried to profit and loss, net of tax		**(9,092)**	8,953	(5,175)
Total other comprehensive income (loss)		**245,378**	(43,188)	(202,721)
Total comprehensive income for the period		**626,077**	161,936	150,330
Attributable to:				
Equity holders of the Company		**624,301**	160,089	149,060
Non-controlling interests		**1,776**	1,847	1,270
Comprehensive income for the period		**626,077**	161,936	150,330

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
			Capital reserves								
	Share capital	Share premium	Available-for-sale financial assets	Revaluation of investment after achieving control	Transactions with non-controlling interests	Translation of foreign operations	Revaluation	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2017	110,629	273,735	230,389	6,989	(1,735)	(55)	7,346	4,757,785	5,385,083	6,702	5,391,785
Income for the period	-	-	-	-	-	-	-	378,955	378,955	1,744	380,699
Other comprehensive income (loss), net of tax	-	-	255,572	-	-	(1,102)	-	(9,124)	245,346	32	245,378
Total comprehensive income (loss)	-	-	255,572	-	-	(1,102)	-	369,831	624,301	1,776	626,077
Dividend paid	-	-	-	-	-	-	-	(110,000)	(110,000)	-	(110,000)
Balance at December 31, 2017	110,629	273,735	485,961	6,989	(1,735)	(1,157)	7,346	5,017,616	5,899,384	8,478	5,907,862

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
			Capital reserves								
	Share capital	Share premium	Available-for-sale financial assets	Revaluation of investment after achieving control	Transactions with non-controlling interests	Translation of foreign operations	Revaluation	Retained earnings	Total	Non-controlling interests	Total equity
	NIS in thousands										
Balance at January 1, 2016	110,629	273,735	283,079	6,989	(1,252)	(604)	3,352	4,550,144	5,226,072	2,482	5,228,554
Income for the period	-	-	-	-	-	-	-	203,265	203,265	1,859	205,124
Other comprehensive income (loss), net of tax	-	-	(52,690)	-	-	549	3,994	4,971	(43,176)	(12)	(43,188)
Total comprehensive income (loss)	-	-	(52,690)	-	-	549	3,994	208,236	160,089	1,847	161,936
Benefit in respect of options to employees	-	-	-	-	-	-	-	(595)	(595)	-	(595)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(2,415)	(2,415)
Acquisition of non-controlling interests					(483)	-	-	-	(483)	(393)	(876)
Exit from consolidation	-	-	-	-	-	-	-	-	-	5,181	5,181
Balance at December 31, 2016	110,629	273,735	230,389	6,989	(1,735)	(55)	7,346	4,757,785	5,385,083	6,702	5,391,785

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
			Capital reserves								
	Share capital	Share premium	Available-for-sale financial assets	Revaluation of investment after achieving control	Transactions with non-controlling interests	Translation of foreign operations	Revaluation	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
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)	3352	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 CASH FLOWS

		Year ended December 31,		
		2017	2016	2015
	Sch.	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES	A	**2,031,098**	(1,801,101)	3,575,245
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment in investees		**(4,531)**	(5,687)	(15,227)
Grant of loan to affiliate		**-**	(23,408)	(857)
Proceeds from the realization of investment in affiliate net of transaction costs		**750**	344,104	-
Cash derecognized due to acquisitions in business combinations, net	D	**-** **(641)**	(17,056)	-
Cash derecognized due to realization of subsidiaries, net	E	**(33,787)**	(630)	(9,624)
Investment in fixed assets		**(112,717)**	(29,306)	(60,187)
Investment in intangible assets		**10,425**	(109,741)	(116,375)
Repayment of loans granted to external parties		**4,085**	4,836	7,879
Dividend received from subsidiaries		**2,169**	11,848	33,887
Proceeds from sale of intangible assets		**2,291**	285	-
Proceeds from sale of fixed assets		**5,531**	89	870
Net cash from (used in) investment activities		**(126,425)**	175,334	(159,634)
CASH FLOWS FROM FINANCE ACTIVITIES				
Receipt of loans from banks and others		**-**	2,574	3,682
Proceeds from issue of debentures		**-**	901,115	1,902,809
Less issue expenses		**-**	(10,877)	(19,006)
Repayment of loans from banks and others		**(2,101)**	(230)	(2,007)
Change in short-term credit from banking institutions and others, net		**1,706**	11,595	(15,748)
Acquisition of non-controlling interests		**-**	(1,458)	-
Dividend to non-controlling interests		**-**	(2,415)	(1,155)
Dividend		**(110,000)**	-	(200,000)
Net cash from (used in) finance activities		**(110,395)**	900,304	1,668,575
Effect of exchange rate fluctuation on balances of cash and cash equivalents		**(210,136)**	(65,247)	(12,936)
Increase (decrease) in cash and cash equivalents		**1,584,142**	(790,710)	5,071,250
Balance of cash and cash equivalents at beginning of period	B	**9,213,160**	10,003,870	4,932,620
Balance of cash and cash equivalents at end of period	C	**10,797,302**	9,213,160	10,003,870

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2017	**2016**	**2015**
	NIS in thousands		
SCHEDULE A - CASH FLOWS FROM CURRENT ACTIVITIES BEFORE TAXES ON INCOME (1)			
Net income for the period	**380,699**	205,124	353,051
Items not involving cash flows:			
Company's share in results of subsidiaries, net	**(40,560)**	(58,887)	(91,598)
Net gains from financial investments for yield dependent insurance and investment contracts	**(7,184,246)**	(2,930,362)	(1,379,469)
Net losses (gains) from other financial investments:			
Quoted debt assets	**(168,832)**	(218,033)	(236,141)
Unquoted debt assets	**(1,172,257)**	(1,064,041)	(967,300)
Shares	**(27,589)**	(34,176)	(149,333)
Other investments	**(427,965)**	(100,920)	(218,351)
Finance expenses in respect of financial liabilities and others	**11,589**	864	(5,993)
Loss (profit) from realization:			
Intangible assets	**(1,792)**	(1,140)	-
Fixed assets	**(581)**	360	5
Investees	**3,356**	(30,395)	(2,966)
Loss from rise to control in affiliate	**-**	1,951	-
Change in fair value of investment property for yield dependent contracts	**(181,931)**	(158,255)	(104,572)
Change in fair value of other investment property	**20**	(5,076)	(48,898)
Depreciation and amortization:			
Fixed assets	**55,040**	64,070	71,656
Intangible assets	**141,590**	153,186	163,838
Impairment of intangible assets	**12,175**	24,709	38,927
Change in liabilities for yield dependent insurance and investment contracts	**10,370,259**	6,210,706	5,266,270
Change in liabilities for non-yield dependent insurance and investment contracts	**1,154,485**	1,463,509	1,034,871
Change in share-based payment transactions	**-**	(595)	140
Change in reinsurance assets	**(8,978)**	(272,419)	148,753
Change in deferred acquisition costs	**(69,026)**	(60,954)	(64,106)
Taxes on income	**197,506**	81,234	155,766
C/forward	**2,662,263**	3,065,336	3,611,499

(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,		
	2017	**2016**	**2015**
	NIS in thousands		
B/forward	**2,662,263**	3,065,336	3,611,499
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	**(108,255)**	(199,296)	(325,824)
Net acquisitions of financial investments	**(4,289,739)**	(5,198,426)	(1,654,610)
Other financial investments and investment property:			
Acquisition of investment property	**(3,144)**	(12,640)	(52,275)
Proceeds from sale of investment property	**-**	130,000	-
Net acquisitions of financial investments	**(1,521,799)**	(2,829,646)	(1,861,592)
Outstanding premiums	**(46,207)**	(149,677)	9,912
Debtors and receivables	**340,367**	(520,588)	497,464
Creditors and payables	**473,404**	303,485	(121,888)
Liabilities for employee benefits, net	**162**	9,697	55,777
Total adjustments required for presenting cash flows from current activities	**(2,492,948)**	(5,401,755)	158,463
Cash paid and received during the period:			
Interest paid	**(122,031)**	(59,507)	(35,246)
Interest received	**2,794,150**	2,632,306	2,552,077
Taxes paid, net	**(9,371)**	(9,604)	(442,129)
Dividend received from financial investments	**1,480,599**	832,335	989,029
Net cash provided by (used in) current activities	**2,031,098**	(1,801,101)	3,575,245

(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,		
	2017	**2016**	**2015**
	NIS in thousands		
SCHEDULE B - CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Cash and cash equivalents for yield dependent contracts	**7,267,318**	7,801,126	3,289,969
Other cash and cash equivalents	**1,945,842**	2,202,744	1,642,651
	9,213,160	10,003,870	4,932,620
SCHEDULE C – CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash and cash equivalents for yield dependent contracts	**8,497,605**	7,267,318	7,801,126
Other cash and cash equivalents	**2,299,697**	1,945,842	2,202,744
	10,797,302	9,213,160	10,003,870
SCHEDULE D – CASH DERECOGNIZED DUE TO ACQUISITIONS IN BUSINESS COMBINATIONS, NET			
Intangible assets	**-**	(23,524)	-
Fixed assets	**-**	(1,165)	-
Investments in affiliates	**-**	(238)	-
Realization of equity rights in affiliate	**-**	4,746	
Debtors and receivables	**-**	(8,190)	-
Deferred tax liabilities	**-**	1,854	-
Liabilities for employee benefits, net	**-**	550	-
Current tax liabilities	**-**	519	-
Creditors and payables	**-**	5,294	-
Financial liabilities	**-**	3,098	-
	-	(17,056)	-
SCHEDULE E – CASH DERECOGNIZED DUE TO REALIZATION OF SUBSIDIARIES, NET			
Intangible assets	**7,622**	4,356	129
Fixed assets	**603**	977	1,018
Investment in affiliate	**-**	248	-
Current tax assets	**648**	-	3,651
Deferred tax assets	**422**	987	9,310
Debtors and receivables	**8,617**	4,630	17,086
Financial investments	**(4,085)**	(420)	(1,075)
Liabilities for employee benefits, net	**(805)**	5,181	-
Non-controlling interests	**-**	(7,040)	(26,016)
Deferred tax liabilities	**(465)**	(6,783)	(13,081)
Current tax liabilities	**(981)**	(2,766)	(646)
Creditors and payables	**(8,550)**		
Financial liabilities	**(311)**		
Capital loss	**(3,356)**		
	(641)	(630)	(9,624)
SCHEDULE F – SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS			
Acquisition of fixed assets, intangible assets and investment property against creditors	**33,974**	24,124	23,782
Dividend from affiliates	**-**	693	4,006
Repayment of capital notes against loans in affiliate	**-**	-	7,581
Proceeds not yet received in the sale of affiliate and insurance portfolio	**11,068**	6,125	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, 2017 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 Eliahu Issues Ltd. (“Eliahu Issues”), a wholly owned subsidiary of Eliahu 1959 Ltd. (formerly – “Eliahu Insurance Company Ltd.”) ("Eliahu Insurance"), which holds about 68% of the Company's share capital. Eliahu Insurance was informed by the Company as follows:

- In September 2017 Eliahu Issues executed a private placement to institutional investors of long-term bonds that were listed for trade on the stock exchange TACT Institutional. Accordingly, after on September 19, 2017 the Commissioner’s permission to holding means of control and control in Mivtachim Migdal Insurance, Migdal Makefet and Yozma was received, on September 26, 2017 shares of the Company were transferred from Eliahu Insurance to Eliahu Issues.
- In the framework of the issue, Eliahu Issues issued to the buyers of the bonds, for no consideration, options to purchase 159,900 thousand shares of the Company from Eliahu Issues, in three series of the same quantity, that will be exercisable over two, three and four years, respectively, from the date the shares were transferred to Eliahu Issues.
- In June 2017 Eliahu Insurance sold 0.73% of its holdings in the Company in an off-floor transaction.
- 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.

Eliahu Insurance has pledged in favor of Bank Leumi Le-Israel about 30% of the Company's share capital. This charge was cancelled on October 2, 2017 after receiving the permission of the Commissioner to the transfer of shares as described above.

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.

NOTE 1: - GENERAL (Cont.)

c. Definitions: (Cont.)

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.
The parent company	- Eliahu Issues Ltd. ("Eliahu Issues").
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 Financial Services Regulations (Insurance) (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.

NOTE 1: - GENERAL (Cont.)

c. Definitions: (Cont.)

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).
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 measured at fair value through profit or loss, available-for-sale financial instruments and investment property, liabilities 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.

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 in view of, among others things, extensive regulatory changes in the insurance branch and long-term savings that 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 its 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 class actions, legal proceedings and other proceedings that were filed against the Group, 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 measurements of unquoted debt assets - 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 the disposal or 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 rates for these cash flows.

  For additional information see Note 4b below.

- Determination of the recoverability of deferred acquisition costs – the recoverability of deferred acquisition costs is examined once a year at least using assumptions regarding rates of cancellations, mortality, morbidity and other variables. As mentioned in paragraph j.1(e) hereunder, if there is no recoverability according to these assumptions, it may be necessary to accelerate the amortization or to even write off the deferred acquisition costs.

  For additional information see Note 5.

- 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 as well as 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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Change in classification

Classifications were executed in the components of notes 13.a and 37.b.2.
The above reclassifications had no effect on the equity, profit and loss or comprehensive income.

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".

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 foreign operation translation reserve.

When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

g. Changes in accounting policies:

Effective from January 1, 2017, the Group applies the amendments to IAS 7, *Statement of Cash Flows*, with respect to additional disclosures of financial liabilities, see Note 24.a.2.

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.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

1. Consolidated financial statements: (Cont.)

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 transactions between the Company and subsidiaries are eliminated in full in the consolidated financial statements.

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:

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.

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.

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 shareholders and non-controlling interests even when the result is a negative balance of the non-controlling interest.

Transactions with non-controlling interests, while retaining control

Transactions with non-controlling interests while retaining control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is included in the equity attributable to the Company’s shareholders within a capital reserve.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

3. Non-controlling interests: (Cont.)

Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. The amounts recognized in capital reserves through other comprehensive income with respect to the same subsidiary are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the subsidiary had itself realized the same assets or liabilities. The gain or loss from loss of control is recognized under other expenses or other income.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Investment in affiliates: (Cont.)

Loss of significant influence (Cont.)

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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management contracts: (Cont.)

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

b) Liabilities in respect of life assurance contracts: (Cont.)

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.

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, distributors 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) At least once a 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 balance 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management contracts: (Cont.)

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

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, and also considers cancellations. The actuary examines the recoverability of the DAC each year so as to reflect the value of the asset. The assumptions used in the examination include assumptions regarding cancellations, operating expenses, rate of return on assets, mortality and morbidity that are determined by the Company’s actuary every year based on past experience and relevant up-to-date research studies.

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 examination is performed for groups of policies that were defined by the Commissioner and in accordance with insurance circular 2015-1-14 from August 2, 2015 with respect to LAT.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management contracts: (Cont.)

i) Investment contracts:

Receipts in respect of investment contracts are not included in the item of earned premiums, but are directly allocated to the item of 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 gross premiums earned item.

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 discretion of the appointed actuary, Ms. Ronnie Ginor who is an employee of Migdal Insurance.

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.

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.)

(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, motor compulsory and comprehensive residential branches the provision is based, among others, on a model determined in Regulations for Calculation of Reserves.

(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 Ms. Ronnie Ginor.

3.2 In the branches of comprehensive business premises, engineering insurance, contractors' insurance, marine insurance, aviation insurance, goods in transit, and incoming branches, the appointed 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, 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.

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 took place when the regulations came into force is 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 was implemented in the financial statements as at December 31, 2015.

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.)

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 the relevant general insurance branches, were updated starting with the financial statements as of December 31, 2015.

The amendment was treated as a change in accounting policy that could not practically be applied retroactively, and therefore the effect of the change was recorded as an adjustment to retained earnings 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 was an increase in retained earnings in the amount of NIS 1,082 thousand.

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 Managing Corporation of Compulsory Vehicle Insurance Pool Ltd. ("the Pool"), from other insurance companies (including co-insurance) 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management contracts: (Cont.)

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.

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 the item of 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:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Insurance contracts and asset management contracts: (Cont.)

3. Health insurance: (Cont.)

f) Deferred acquisition costs: (Cont.)

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

The assumptions used for this examination, including assumptions in respect of cancellations, operating expenses, 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.

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, debt instruments, 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 a 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, other receivables, 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.

Regular way sales of financial assets are recognized on the trade date, meaning on the date the Group undertook to sell the asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

1. Non-derivative financial instruments: (cont.)

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 on banks 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

1. Non-derivative financial instruments: (cont.)

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. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. 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 on the date the entity's right to receive the dividend is established. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to profit or loss.

2. Non-derivative financial liabilities:

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

Financial liabilities are recognized initially at fair value 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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.

6. The Group has made decisions to classify and 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 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 – these instruments 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

6. The Group has made decisions to classify and designate the assets as follows: (cont.)

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.

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, finance income and expenses:

Investment income, net and finance income

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.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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

Finance expenses

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.

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.)

1. Depreciation (Cont.)

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

	%
Buildings	2-4
Leasehold improvements	5-17
Motor vehicles	15
Computers and software	17-33
Furniture and equipment	6-33

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 and adjusted if appropriate.

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 directly attributable to the acquisition. 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 that will never be transferred to profit or loss, 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, 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. Upon initial recognition the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. 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 of principal intangible assets for the current and comparative periods are as follows:

a) 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 5-10 years.

b) 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. Most of the amount is attributed to educational funds and is amortized over 20 years taking into account the cancellation rate.

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

d) Customers' portfolio - over a period of 10 years using the declining sum of digits method.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 these 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 agreements terminating engagements by way of final settlement of the debts (cut-off) in order to reduce the exposure.

3. Outstanding premiums:

The allowance for doubtful accounts in respect of outstanding premiums 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 or cash-generating unit. 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. Reversal of such a loss is recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Share capital:

Ordinary shares are classified as equity.

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 or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave). A liability in respect of a bonus 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.

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 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. 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Employee benefits: (Cont.)

5. Share-based payment transactions: (Cont.)

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. 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 Migdal Insurance due to arrears in payments, subject to legal provisions. The participation in profit of group insurance policyholders is deducted from the item gross earned 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 reinsurance commissions in general insurance, life insurance and health insurance are recognized 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.

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.

Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

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 net 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:

1. IFRS 17, “Insurance Contracts”

In May 2017 the International Accounting Standards Board (IASB) published IFRS 17, “Insurance Contracts” (hereinafter – the new standard).
The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces the current guidance on the matter. The new standard is expected to cause significant changes in the financial reporting of insurance companies.

According to the new standard, an entity shall measure the insurance liability at the present value of the cash flows expected from the insurance contracts taking into consideration the uncertainty inherent in these forecasts (the risk margin). Furthermore, the inherent profit that is expected from the insurance contracts as is derived from those calculations will be recognized over the coverage period, and the effect of changes in assumptions (other than interest) will also be spread over the coverage period. A loss will be recognized immediately if a group of insurance contracts is not expected to be profitable or starts losing.

With respect to certain insurance contracts (usually general insurance contracts with insurance coverage of up to one year) a simpler measurement model can be applied.

The new standard is effective for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted if both IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have also been applied.

The new standard shall be applied retrospectively. If retrospective application is impracticable, one of the following two approaches may be chosen:
1. Modified retrospective approach.
2. Fair value approach.

The Company is examining the effects of adopting IFRS 17 on the financial statements.

2. IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 (hereinafter – the Standard) was issued by the IASB in May 2014. Inter alia, the Standard replaces IAS 18 *Revenue*. The Standard does not apply to revenue from insurance contracts but applies to a part of the Group’s other revenues that are not from insurance contracts.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New standards not yet adopted: (Cont.)

2. IFRS 15, "Revenue from Contracts with Customers" (Cont.)

The Standard introduces a five step model for recognizing revenue from contracts with customers:

- Step 1 - Identifying the contract with the customer, including reference to combining contracts and the treatment of contract modifications.
- Step 2 - Identifying distinct performance obligations in the contract.
- Step 3 - Determining the transaction price, including reference to variable consideration, a significant financing component, non-cash consideration and consideration payable to the customer.
- Step 4 - Allocating the transaction price to each distinct performance obligation on the basis of the relative standalone selling price using observable prices if available, or estimates and assessments.
- Step 5 - Recognizing revenue when the performance obligations are satisfied, while distinguishing between obligations satisfied at a point in time and obligations satisfied over time.

IFRS 15 is applicable on a retrospective basis for annual periods beginning on or after January 1, 2018.

The Standard's application is not expected to have a material effect on the Group's financial statements.

3. IFRS 9, "Financial Instruments"

Classification and measurement

In July 2014 the IASB issued the full and final version of IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 (hereinafter – the new standard) addresses all three aspects of financial instruments: classification and measurement, impairment and hedge accounting.

The new standard prescribes that all financial assets will be measured at fair value upon initial recognition. In subsequent periods, debt instruments will be measured at amortized cost only if the following two conditions are met:

- The asset is held in a business model whose objective is to hold assets in order to collect resulting contractual cash flows.
- According to the contractual terms of the financial asset, the Company is entitled, on specified dates, to receive cash flows representing solely payments of principal and interest on the unpaid principal.

All other debt instruments and financial assets will be subsequently measured at fair value. The new standard distinguishes between debt instruments that will be measured at fair value through profit or loss and debt instruments that will be measured at fair value through other comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New standards not yet adopted: (Cont.)

3. IFRS 9, "Financial Instruments" (Cont.)

The new standard also includes a new three-step expected credit loss model for measuring impairment of financial debt instruments not measured at fair value through profit or loss. Each step specifies the method for measuring expected credit losses based on changes that occurred in the credit risk of the debt instrument. Furthermore, the model includes an expedient for financial assets having a short credit period, such as customers.

As to de-recognition and financial liabilities, the new standard includes the same requirements of IAS 39 concerning de-recognition and concerning financial liabilities for which the fair value alternative was not chosen.
As regards liabilities for which the fair value alternative was chosen, the amount of the change in the fair value of the liability, which is attributable to changes in the Company's credit risk, will be recognized in other comprehensive income. All other changes in fair value will be recognized in profit or loss.

The new standard includes new hedge accounting requirements.

The standard will be adopted in annual periods beginning on January 1, 2018.

In September 2016 an amendment was issued to IFRS 4 that permits an entity that issues insurance contracts to adopt IFRS 9 with adjustments (hereinafter: "the overlay approach") to defer the adoption of IFRS 9 to January 1, 2021 (hereinafter: "the deferral approach").

In order to apply the deferral approach the entity has to meet the following criteria:

1. The entity had not previously applied any version of IFRS 9.
2. The entity's operations are predominantly connected with insurance.

According to the standard, an entity's operations are predominantly connected with insurance when:

a) The carrying amount of its liabilities arising from insurance contracts, together with any unbundled embedded derivatives or deposit components, is significant compared to the total carrying amount of its liabilities; and

b) The ratio of the carrying amount of liabilities connected with insurance to the total carrying amount of its liabilities is:
   - greater than 90%; or
   - between 80% and 90%, and the insurer does not have any other significant activity unconnected with insurance.

An insurer that elects to apply the deferral approach is required to provide disclosure that will allow the users of the financial statements to:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New standards not yet adopted: (Cont.)

3. IFRS 9, "Financial Instruments" (Cont.)

1. understand how the entity meets the criteria for applying the deferral approach;
2. compare between insurers that apply the deferral approach and entities that apply IFRS 9.

The Company meets the aforesaid criteria and therefore expects to defer the application of IFRS 9 as permitted by the aforesaid amendment.

4. IFRS 16, “Leases”

In January 2016 the IASB issued IFRS 16, “Leases” (hereinafter – the new standard). According to the new standard, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The main effects of the new standard are as follows:

- The new standards require from lessees to recognize all the leases as an asset against a liability in the statement of financial position (other than in certain cases) similar to the accounting treatment of a finance lease according to the existing standard IAS 17, Leases.
- Lessees shall recognize a liability for lease payments and on the other hand a right-of-use asset. In addition, the lessees shall recognize interest expenses and depreciation expenses separately.
- Variable lease payments that do not depend on an index or interest rate and are based on performance or use (such as a percentage of turnover) shall be recognized as an expense by the lessees or a revenue by the lessors on the date of their inception.
- In the event of a change in variable lease payments that are linked to an index, the lessor is required to reassess the lease liability and to include the effect of the change in the right-of-use asset.
- The new standard includes two exceptions in which the lessees may account for the leases according to the existing accounting treatment of operating leases, which are leases of assets having a low monetary value and leases having a term of up to one year.
- The accounting treatment of the lessor remains essentially the same as in current guidance, i.e. classification as a finance lease or operating lease.

The new standard is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted. At this time the Company is not planning to early adopt the new standard.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New standards not yet adopted: (Cont.)

4. IFRS 16, "Leases" (Cont.)

The new standard permits lessees to choose one of the following application approaches:

a) Full retrospective application – in this case, the effect of the new standard's application at the beginning of the earliest period presented will be recognized in equity. In addition, the entity will restate the financial statements it presents as comparative data.
b) Partial retrospective application – according to this approach, a restatement of the comparative data is not required. The balance of the liability at the initial date of application of the new standard will be calculated using the discount rate that exists on the new standard's initial date of application. With respect to a right-of-use asset, the company can decide, for each separate lease, to apply one of the following two alternatives:
   - Recognizing an asset at the amount of the recognized liability, with certain adjustments.
   - Recognizing an asset as if it was always measured according to the new standard.

Any difference created at the initial date of application of the new standard as a result of a partial retrospective application, will be recognized in equity.

The Company is presently examining the various alternatives for retrospectively applying the new standard.

5. IFRIC 23, "Uncertainty Over Income Tax Treatments"

In June 2017 the IASB issued IFRIC 23, "Uncertainty Over Income Tax Treatments" (hereinafter – "the interpretation"). The interpretation clarifies application of recognition and measurement requirements of assets or liabilities in accordance with IAS 12, "Income Taxes", when there is uncertainty in income taxes. The interpretation refers to and provides guidance for examining groups of uncertainties in income taxes, examining the position of the tax authorities, measuring effects of the uncertainty over income taxes on the financial statements and for treating changes in facts and circumstances of the uncertainty.
The interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Company will apply the interpretation at the initial application date using one of the following two methods:
a) Full retrospective application without amendment of the comparative data while recognizing the cumulative effect at the date of initial application in the opening balance of retained earnings.
b) Full retrospective application including amendment of the comparative data.

The Company is examining the possible effect of the interpretation, but at this time is unable to assess its effect, if any, on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New standards not yet adopted: (Cont.)

6. Amendments to IAS 40, "Investment Property" – Transfers of Investment Property

In December 2016 the IASB issued amendments to IAS 40 "Investment Property" (hereinafter – the amendments"). The amendments clarify and provide guidance on the application of IAS 40 with respect to transfers into, or out of, investment property. The main amendment is that the list of events provided in the standard with respect to transfers of investment property provides examples of evidence to a change in the use of the property and is not a non-exhaustive list. Furthermore, the amendments clarify that a change in management's intentions does not in itself constitute evidence of a change in use.

The amendments are applicable on a retrospective basis for annual periods beginning on or after January 1, 2018.

Application of the amendments is not expected to have a material effect on the Group's financial statements.

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, 2017	**0.4**	**0.3**	**(9.83)**
Year ended December 31, 2016	(0.2)	(0.3)	(1.5)
Year ended December 31, 2015	(1.0)	(0.9)	0.3

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[(1)], 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.

(1) See Note 39. 2.e.1) regarding the merger of Migdal Stock Exchange Services Ltd.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments:

	Year ended December 31, 2017							
	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	8,915,630	1,325,697	2,380,841	-	-	-	-	12,622,168
Premiums earned by reinsurers	172,620	114,348	482,625	-	-	-	-	769,593
Premiums earned on retention	8,743,010	1,211,349	1,898,216	-	-	-	-	11,852,575
Net investment income and finance income	9,052,026	210,420	138,366	12,294	76	172,020	(26,446)	9,558,756
Income from management fees	1,872,811	-	-	153,343	-	-	(14)	2,026,140
Income from commissions	61,517	27,980	74,967	6,130	337,829	-	(172,501)(*	335,922
Other income	-	-	1,569	307	35,794	72,589	(49,507)	60,752
Total income	19,729,364	1,449,749	2,113,118	172,074	373,699	244,609	(248,468)	23,834,145
Payments and change in liabilities in respect of insurance and investment contracts, gross	17,936,044	1,019,380	1,826,649	-	-	-	(41,872)	20,740,201
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	78,884	78,004	254,131	-	-	-	-	411,019
Payments and change in liabilities in respect of insurance and investment contracts on retention	17,857,160	941,376	1,572,518	-	-	-	(41,872)	20,329,182
Commissions, marketing expenses and other acquisition expenses	842,961	385,485	464,199	56,537	132,328	-	(166,243)	1,715,267
General and administrative expenses	601,253	75,926	50,713	88,568	176,942	63,310	(18,818)	1,037,894
Other expenses	10,667	-	9,955	554	4,703	62,209	(2,411)	85,677
Finance expenses	13,641	327	(2,383)	400	557	131,307	(15,369)	128,480
Total expenses	19,325,682	1,403,114	2,095,002	146,059	314,530	256,826	(244,713)	23,296,500
Share of earnings of investees accounted for at equity	18,284	-	882	-	198	21,196	-	40,560
Income before taxes on income	421,966	46,635	18,998	26,015	59,367	8,979	(3,755)	578,205
Other comprehensive income (loss) before taxes on income	132,623	10,552	88,113	(177)	660	138,222	-	369,993
Total comprehensive income for the period before taxes on income	554,589	57,187	107,111	25,838	60,027	147,201	(3,755)	948,198

*) 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 121,881 thousand, in health insurance in the amount of NIS 26,019 thousand, in general insurance in the amount of NIS 21,463 thousand and in financial services in the amount of NIS 3,138 thousand.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments: (Cont.)

	Year ended December 31, 2016							
	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	7,834,838	1,177,180	2,182,472	-	-	-	-	11,194,490
Premiums earned by reinsurers	187,761	67,303	453,731	-	-	-	-	708,795
Premiums earned on retention	7,647,077	1,109,877	1,728,741	-	-	-	-	10,485,695
Net investment income (losses) and finance income	4,615,145	98,912	113,138	(5,071)	964	121,554	(23,506)	4,921,136
Income from management fees	1,457,252	-	-	130,787	-	-	-	1,588,039
Income from commissions	82,765	10,633	68,215	6,488	307,711	-	(* (157,951)	317,861
Other income	22,125	-	14,874	-	28,216	93,890	(50,862)	108,243
Total income	13,824,364	1,219,422	1,924,968	132,204	336,891	215,444	(232,319)	17,420,974
Payments and change in liabilities in respect of insurance and investment contracts, gross	12,127,413	843,569	1,783,574	-	-	-	(41,363)	14,713,193
Reinsurers' share in payments and in change in liabilities in respect of insurance contracts	74,890	47,565	213,430	-	-	-	-	335,885
Payments and change in liabilities in respect of insurance and investment contracts on retention	12,052,523	796,004	1,570,144	-	-	-	(41,363)	14,377,308
Commissions, marketing expenses and other acquisition expenses	801,746	345,678	453,802	54,653	130,663	-	(149,435)	1,637,107
General and administrative expenses	549,874	71,520	45,655	76,457	159,302	86,723	(18,246)	971,285
Other expenses	25,764	-	14,034	465	8,563	59,017	(4,945)	102,898
Finance expenses	9,838	-	2,687	90	492	103,462	(11,664)	104,905
Total expenses	13,439,745	1,213,202	2,086,322	131,665	299,020	249,202	(225,653)	17,193,503
Share of earnings of investees accounted for at equity	29,649	-	5,435	-	835	22,968	-	58,887
Income (loss) before taxes on income	414,268	6,220	(155,919)	539	38,706	(10,790)	(6,666)	286,358
Other comprehensive income (loss) before taxes on income	(52,866)	(3,372)	(22,110)	55	(257)	(5,883)	-	(84,433)
Total comprehensive income (loss) for the period before taxes on income	361,402	2,848	(178,029)	594	38,449	(16,673)	(6,666)	201,925

*) 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 107,362 thousand, in health insurance in the amount of NIS 27,712 thousand and in general insurance in the amount of NIS 19,294 thousand and in the financial services in the amount of NIS 3,583 thousand.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Reportable segments: (Cont.)

	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.)

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

	Year ended December 31, 2017			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	8,915,630	-	-	8,915,630
Premiums earned by reinsurers	172,620	-	-	172,620
Premiums earned on retention	8,743,010	-	-	8,743,010
Net investment income and finance income	9,048,241	2,882	903	9,052,026
Income from management fees	1,411,357	347,024	114,430	1,872,811
Income from commissions	61,517	-	-	61,517
Other income	-	-	-	-
Total income	19,264,125	349,906	115,333	19,729,364
Payments and change in liabilities for insurance and investment contracts, gross	17,936,044	-	-	17,936,044
Reinsurers' share in payments and change in liabilities for insurance contracts	78,884	-	-	78,884
	17,857,160	-	-	17,857,160
Payments and change in liabilities for insurance and investment contracts on retention				
Commissions, marketing expenses and other acquisition expenses	642,817	154,284	45,860	842,961
General and administrative expenses	371,820	172,734	56,699	601,253
Other expenses	-	-	10,667	10,667
Finance expenses	13,641	-	-	13,641
Total expenses	18,885,438	327,018	113,226	19,325,682
Group's share of earnings of investees accounted for at equity	18,284	-	-	18,284
Income before taxes on income	396,971	22,888	2,107	421,966
Other comprehensive income before taxes on income	130,347	1,647	629	132,623
Total comprehensive income for the period before taxes on income	527,318	24,535	2,736	554,589

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	Year ended December 31, 2016			
	Life assurance	Pension funds	Provident funds	Total
	NIS in thousands			
Gross premiums earned	7,834,838	-	-	7,834,838
Premiums earned by reinsurers	187,761	-	-	187,761
Premiums earned on retention	7,647,077	-	-	7,647,077
Net investment income and finance income	4,609,503	4,029	1,613	4,615,145
Income from management fees	995,198	343,713	118,341	1,457,252
Income from commissions	82,765	-	-	82,765
Other income	22,125	-	-	22,125
Total income	13,356,668	347,742	119,954	13,824,364
Payments and change in liabilities for insurance and investment contracts, gross	12,127,413	-	-	12,127,413
Reinsurers' share in payments and change in liabilities for insurance contracts	74,890	-	-	74,890
Payments and change in liabilities for insurance and investment contracts on retention	12,052,523	-	-	12,052,523
Commissions, marketing expenses and other acquisition expenses	603,954	151,544	46,248	801,746
General and administrative expenses	340,344	153,669	55,861	549,874
Other expenses	-	-	25,764	25,764
Finance expenses	9,838	-	-	9,838
Total expenses	13,006,659	305,213	127,873	13,439,745
Group's share of earnings of investees accounted for at equity	29,649	-	-	29,649
Income (loss) before taxes on income	379,658	42,529	(7,919)	414,268
Other comprehensive income (loss) before taxes on income	(53,443)	745	(168)	(52,866)
Total comprehensive income (loss) for the period before taxes on income	326,215	43,274	(8,087)	361,402

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	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 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.)

d. Additional information regarding the general insurance segment:

	Year ended December 31, 2017				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	428,569	743,904	678,869	350,667	2,202,009
Reinsurance premiums	11,197	7,268	379,985	108,490	506,940
Premiums on retention	417,372	736,636	298,884	242,177	1,695,069
Change in unearned premium balance, on retention	84,290	143,300	(6,364)	(18,079)	203,147
Earned premiums on retention	501,662	879,936	292,520	224,098	1,898,216
Net investment income and finance income	67,495	18,316	4,133	48,422	138,366
Income from commissions	-	297	63,620	11,050	74,967
Other income	747	203	83	536	1,569
Total income	569,904	898,752	360,356	284,106	2,113,118
Payments and change in liabilities for insurance contracts, gross	573,158	671,636	303,358	278,497	1,826,649
Reinsurers' share in payments and in change in liabilities for insurance contracts	16,611	2,916	181,356	53,248	254,131
Payments and change in liabilities for insurance contracts on retention	556,547	668,720	122,002	225,249	1,572,518
Commissions, marketing expenses and other acquisition expenses	60,134	174,728	163,837	65,500	464,199
General and administrative expenses	12,817	13,604	13,219	11,073	50,713
Other expenses	2,539	4,275	1,736	1,405	9,955
Finance expenses	508	145	(3,405)	369	(2,383)
Total expenses	632,545	861,472	297,389	303,596	2,095,002
Share of earnings of investees accounted for at equity	420	114	47	301	882
Income (loss) before taxes on income	(62,221)	37,394	63,014	(19,189)	18,998
Other comprehensive income before taxes on income	41,936	11,376	4,718	30,083	88,113
Total comprehensive income (loss) for the period before taxes on income					
Liabilities in respect of gross insurance contracts at December 31, 2017	2,186,592	522,229	598,066	1,754,555	5,061,442
Liabilities in respect of insurance contracts on retention at December 31, 2017	1,998,504	519,145	228,875	1,435,461	4,181,985

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises, cargo in transit and engineering insurance branches, whose activities constitute about 97% 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, 2016				
	Motor act	Motor casco	Property and other branches *)	Other liability branches *)	Total
	NIS in thousands				
Gross premiums	558,375	884,688	661,471	336,160	2,440,694
Reinsurance premiums	10,951	5,458	370,750	84,804	471,963
Premiums on retention	547,424	879,230	290,721	251,356	1,968,731
Change in unearned premium balance, on retention	(45,737)	(174,398)	(9,883)	(9,972)	(239,990)
Earned premiums on retention	501,687	704,832	280,838	241,384	1,728,741
Net investment income and finance income	54,711	10,389	7,169	40,869	113,138
Income from commissions	-	164	59,302	8,749	68,215
Other income					
Total income	564,632	716,536	347,907	295,893	1,924,968
Payments and change in liabilities for insurance contracts, gross	569,068	615,120	250,756	348,630	1,783,574
Reinsurers' share in payments and in change in liabilities for insurance contracts	13,565	5,733	117,048	77,084	213,430
Payments and change in liabilities for insurance contracts on retention	555,503	609,387	133,708	271,546	1,570,144
Commissions, marketing expenses and other acquisition expenses	61,364	168,885	158,908	64,645	453,802
General and administrative expenses	13,599	11,803	12,420	7,833	45,655
Other expenses	3,902	6,268	2,073	1,791	14,034
Finance expenses	437	96	1,825	329	2,687
Total expenses	634,805	796,439	308,934	346,144	2,086,322
Share of earnings of investees accounted for at equity	2,670	507	263	1,995	5,435
Income (loss) before taxes on income	(67,503)	(79,396)	39,236	(48,256)	(155,919)
Other comprehensive loss before taxes on income	(10,865)	(2,060)	(1,070)	(8,115)	(22,110)
Total comprehensive income (loss) for the period before taxes on income	(78,368)	(81,456)	38,166	(56,371)	(178,029)
Liabilities in respect of gross insurance contracts at December 31, 2017	2,212,892	661,979	548,718	1,685,795	5,109,384
Liabilities in respect of insurance contracts on retention at December 31, 2017	1,964,127	658,149	225,064	1,384,014	4,231,354

*) Property and other branches mainly include the results of comprehensive residential, comprehensive business premises, cargo in transit and engineering insurance branches, whose activities constitute about 97% 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.

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	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 premiums 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, 2016	1,735,607	440,936	567,267	1,512,579	4,256,389
Liabilities in respect of insurance contracts on retention at December 31, 2016	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, cargo in transit and engineering 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.)

e. Details on segment assets and liabilities:

	December 31, 2017							
	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	307,703	-	197,229	352,571	108,961	217,331	(1,522)	1,182,273
Deferred acquisition costs	1,335,679	495,994	204,935	-	-	-	(73,206)	1,963,402
Investments in affiliates	158,294	-	4,750	-	1,380	183,226	-	347,650
Investment property for yield dependent contracts	5,866,933	125,377	-	-	-	-	-	5,992,310
Investment property - other	461,966	19,098	117,903	-	-	6,071	-	605,038
Reinsurance assets	111,317	44,916	879,457	-	-	-	-	1,035,690
Outstanding premiums	316,486	47,059	401,762	-	-	-	-	765,307
Financial investments for yield dependent contracts	83,562,090	1,730,088	-	-	-	-	-	85,292,178
Other financial investments:								
Quoted debt assets	3,653,115	109,358	2,234,663	1,512	1,262	4,939,992	-	10,939,902
Unquoted debt assets	21,956,679	680,587	631,240	7,451	5,894	366,714	(100,000)	23,548,565
Shares	554,614	16,903	222,797	55,214	1	252,805	-	1,102,334
Other	1,478,306	45,026	471,377	80,300	703	490,132	-	2,565,844
Total other financial investments	27,642,714	851,874	3,560,077	144,477	7,860	6,049,643	(100,000)	38,156,645
Cash and cash equivalents for yield dependent contracts	8,319,809	177,796	-	-	-	-	-	8,497,605
Cash and cash equivalents – other	1,320,111	47,981	332,859	29,004	97,070	472,672	-	2,299,697
Other assets	729,558	211,065	86,358	66,872	149,728	1,344,171	(1,149,938)	1,437,814
Total assets	130,132,660	3,751,248	5,785,330	592,924	364,999	8,273,114	(1,324,666)	147,575,609
Total assets for yield dependent contracts	98,609,462	1,916,353	-	-	-	-	-	100,525,815
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	28,793,069	1,089,689	5,061,442	-	-	-	-	34,944,200
Liability due to yield dependent insurance and investment contracts	97,803,234	2,090,217	-	-	-	-	-	99,893,451
Financial liabilities	86,155	3,411	5,781	43,345	101,296	3,623,925	(93,278)	3,770,635
Other liabilities	1,879,684	71,937	718,107	109,738	263,703	1,190,827	(1,174,535)	3,059,461
Total liabilities	128,562,142	3,255,254	5,785,330	153,083	364,999	4,814,752	(1,267,813)	141,667,747

NOTE 3:- OPERATING SEGMENTS (Cont.)

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

	December 31, 2016							
	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	318,371	-	207,184	353,182	116,572	230,814	(1,733)	1,224,390
Deferred acquisition costs	1,312,048	446,904	205,510	-	-	-	(70,086)	1,894,376
Investments in affiliates	142,358	-	4,002	-	1,649	167,445	-	315,454
Investment property for yield dependent contracts	5,564,963	121,041	-	-	-	-	-	5,686,004
Investment property - other	463,128	15,814	115,128	-	-	6,506	-	600,576
Reinsurance assets	112,159	36,523	878,030	-	-	-	-	1,026,712
Outstanding premiums	176,337	26,495	516,268	-	-	-	-	719,100
Financial investments for yield dependent contracts	74,723,267	1,573,448	-	-	-	-	-	76,296,715
Other financial investments:								
Quoted debt assets	3,625,622	88,194	2,051,932	1,510	2,842	3,184,601	-	8,954,701
Unquoted debt assets	21,878,070	553,201	827,421	6,624	3,892	445,976	(100,806)	23,614,378
Shares	594,751	14,764	238,473	49,190	1	209,787	-	1,106,966
Other	1,469,296	36,602	447,836	77,552	334	445,293	-	2,476,913
Total other financial investments	27,567,739	692,761	3,565,662	134,876	7,069	4,285,657	(100,806)	36,152,958
Cash and cash equivalents for yield dependent contracts	7,112,615	154,703	-	-	-	-	-	7,267,318
Cash and cash equivalents – other	373,171	11,019	241,029	96,551	96,447	1,127,625	-	1,945,842
Other assets	1,031,868	194,828	165,968	83,264	134,654	1,789,534	(1,391,440)	2,008,676
Total assets	118,898,024	3,273,536	5,898,781	667,873	356,391	7,607,581	(1,564,065)	135,138,121
Total assets for yield dependent contracts	88,338,809	1,744,175	-	-	-	-	-	90,082,984
Liabilities								
Liability due to non-yield dependent insurance and investment contracts	27,819,260	862,120	5,109,384	-	-	-	(1,049)	33,789,715
Liability due to yield dependent insurance and investment contracts	87,617,303	1,905,889	-	-	-	-	-	89,523,192
Financial liabilities	185,447	5,737	8,818	48,180	103,944	3,623,217	(92,969)	3,882,374
Other liabilities	1,744,339	52,886	780,579	96,489	252,447	1,039,944	(1,415,629)	2,551,055
Total liabilities	117,366,349	2,826,632	5,898,781	144,669	356,391	4,663,161	(1,509,647)	129,746,336

NOTE 4:- INTANGIBLE ASSETS

a. Composition:

	Goodwill	Initial difference attributed to value of insurance portfolios	Future management fees	Brand name	Computer software	Customer portfolio	Other	Total
	NIS in thousands							
Cost								
Balance at January 1, 2016	1,069,209	741,466	213,623	10,939	1,322,133	81,115	22,829	3,461,314
Acquisitions in business combinations	13,146	859	970	-	2	-	8,547	23,524
Acquisitions and internal development (1)	-	-	-	-	111,814	-	-	111,814
Disposals during the year	-	(1,823)	-	-	(64,350)	-	-	(66,173)
Exit from consolidation	(1,372)	-	-	(1,967)	(6,306)	-	-	(9,645)
Balance at December 31, 2016	1,080,983	740,502	214,593	8,972	1,363,293	81,115	31,376	3,520,834
Acquisitions and internal development (1)	-	437	-	-	119,047	-	-	119,484
Disposals during the year	-	(1,334)	-	-	(62,131)	-	-	(63,465)
Exit from consolidation	(12,055)	-	-	(1,413)	(4,537)	-	(8,360)	(26,365)
Balance at December 31, 2017	1,068,928	739,605	214,593	7,559	1,415,672	81,115	23,016	3,550,488
Accumulated amortization and impairment losses								
Balance at January 1, 2016	172,041	722,989	172,378	9,891	1,063,807	30,970	17,935	2,190,011
Amortization recognized during the year	-	4,489	5,680	258	127,301	11,431	4,027	153,186
Impairment	24,709	-	-	-	-	-	-	24,709
Disposals during the year	-	(1,823)	-	-	(64,350)	-	-	(66,173)
Exit from consolidation	-	-	-	(1,314)	(3,975)	-	-	(5,289)
Balance at December 31, 2016	196,750	725,655	178,058	8,835	1,122,783	42,401	21,962	2,296,444
Amortization recognized during the year	-	3,720	5,386	14	120,881	9,955	1,634	141,590
Impairment	12,175	-	-	-	-	-	-	12,175
Disposals during the year	-	(1,334)	-	-	(61,917)	-	-	(63,251)
Exit from consolidation	(7,680)	-	-	(1,290)	(3,350)	-	(6,423)	(18,743)
Balance at December 31, 2017	201,245	728,041	183,444	7,559	1,178,397	52,356	17,173	2,368,215
Net carrying amount								
At December 31, 2017	867,683	11,564	31,149	-	237,275	28,759	5,843	1,182,273
At December 31, 2016	884,233	14,847	36,535	137	240,510	38,714	9,414	1,224,390

(1) In respect of computer software, an amount of about NIS 90 million and NIS 83 million was included in the years 2017 and 2016, respectively, in respect of internal development.

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, 2017, 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,	
	2017	**2016**
	NIS in thousands	
Pension funds	**190,866**	190,866
Provident funds	**86,307**	92,142
Financial services	**349,886**	349,886
General insurance	**168,470**	168,470
Other	**72,154**	82,869
	867,683	884,233

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 the existing pension portfolio based on the embedded value of that portfolio, according to economic discount rates and rates of return. The assumptions used in this assessment include, inter alia, assumptions regarding expected rates of management fees, cancellations, operating expenses, commissions and yield of the investment portfolio, which are made each year by management of the Group based on the business environment and level of competition in the industry, past experience and relevant recent studies. The recoverable amount 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, 2017, mainly due to the decrease in management fee rates and the increase in expenses, it was found that the carrying amount of the unit of provident funds which mainly comprises goodwill, future management fees and deferred acquisition costs, exceeded its recoverable amount which is NIS 168,577 thousand. Accordingly, an impairment loss of NIS 5,835 thousand was recognized (in 2016 – NIS 20,529 thousand). The impairment loss was fully allocated to goodwill.

NOTE 4:- INTANGIBLE ASSETS (Cont.)

b. Examination of impairment of intangible assets with an indefinite life: (Cont.)

The recoverable amount of the financial services unit, which mainly comprises the mutual funds activity, is 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. The unit's recoverable amount exceeds its carrying amount.

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.

As at December 31, 2017 and December 31, 2016 an impairment loss has been recognized in an immaterial amount.

The impairment losses are all included in the item of other expenses.

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 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 13% and post-tax discount rate of about 9% (in the year 2016 the nominal pre-tax discount interest rate was about 14% and post-tax about 10%). This rate was determined using the WACC model, on the basis of parameters characteristic of this type of activity.

Nominal long-term growth rate – about 2% (in 2016 a nominal long term growth rate of about 3%). 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 5 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 mutual funds operation is based on the following main assumptions:

Pre-tax real discount interest rate of about 12.8% and post-tax real discount rate of about 9.2% (in the year 2016 pre-tax real discount interest rate of about 14.2% and post-tax discount rate of about 10.2%). This rate was determined using the WACC model, on the basis of parameters characteristic of this type of activity.

Real long-term growth rate of about 2% (in the year 2016 real long-term growth rate of about 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 0.53% (in the year 2016 about 0.55%).

The cash flow forecast was built for 5 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 15.3% and post-tax discount rate of about 10% (in the year 2016 nominal pre-tax discount rate of about 14.9% and post-tax about 9.7%). The cash flow forecast was built for five years, overall damage ratio in the various general insurance lines of 82.9%-130.5% (in the year 2016 87.5%-134%); premium growth rate in the motor act and property lines of about 1.2% and premium growth rate in the other lines of about 3% (in the year 2016 1.5% in motor act and 3.3% in remaining lines), long-term nominal growth rate of net income from insurance of about 1.5% (in 2016 about 1.5%).

The calculation of the recoverable amount of the insurance agencies and operations unallocated to operating segments is based on the following main assumptions:

Pre-tax discount interest rate of about 16% and post-tax discount rate of about 13% (in the year 2016 about 16% pre-tax and about 13% post-tax) and long-term growth rate mainly of about 1%-2.5% (in the year 2016 about 1%-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, 2017	December 31, 2016
	NIS in thousands	
Life assurance and long-term savings:		
Life assurance	**1,058,395**	1,018,581
Pension and provident funds	**218,418**	236,709
	1,276,813	1,255,290
Health insurance	**481,654**	433,576
General insurance	**204,935**	205,510
	1,963,402	1,894,376

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	Pension and provident funds	Total	Health insurance	Total
	NIS in thousands				
Balance at January 1, 2016	1,012,228	228,953	1,241,181	405,742	1,646,923
Additions:					
Acquisition commissions	117,603	40,038	157,641	91,639	249,280
Other acquisition expenses	79,306	13,046	92,352	56,577	148,929
Total additions	196,909	53,084	249,993	148,216	398,209
Current amortization	122,440	20,305	142,745	88,554	231,299
Amortization due to cancellations	68,116	25,023	93,139	31,828	124,967
Balance at December 31, 2016	1,018,581	236,709	1,255,290	433,576	1,688,866
Additions:					
Acquisition commissions	145,588	32,245	177,833	114,205	292,038
Other acquisition expenses	88,260	12,424	100,684	61,079	161,763
Total additions	233,848	44,669	278,517	175,284	453,801
Current amortization	121,053	20,208	141,261	89,205	230,466
Amortization due to cancellations	72,981	42,752	115,733	38,001	153,734
Balance at December 31, 2017	1,058,395	218,418	1,276,813	481,654	1,758,467

NOTE 6:- FIXED ASSETS

a. Composition and movement:

2017

	Land and office buildings	Computers and software	Motor vehicles	Furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Cost as at January 1, 2017	**791,823**	**232,351**	**964**	**208,185**	**25,224**	**1,258,547**
Additions during the year	**3,368**	**14,167**	**474**	**7,332**	**2,627**	**27,968**
Disposals during the year	**(5,313)**	**(24,205)**	**(526)**	**(7,344)**	**(8,375)**	**(45,763)**
Exit from consolidation	**-**	**(1,140)**	**(182)**	**(158)**	**(248)**	**(1,728)**
Cost as at December 31,	**789,878**	**221,173**	**730**	**208,015**	**19,228**	**1,239,024**
Accumulated depreciation						
Accumulated depreciation as at January 1, 2017	**215,815**	**200,508**	**585**	**143,412**	**21,107**	**581,427**
Additions during the year	**28,906**	**15,235**	**114**	**9,743**	**1,042**	**55,040**
Disposals during the year	**(833)**	**(24,161)**	**(393)**	**(7,033)**	**(8,297)**	**(40,717)**
Exit from consolidation	**-**	**(876)**	**(88)**	**(69)**	**(92)**	**(1,125)**
Accumulated depreciation as at December 31, 2017	**243,888**	**190,706**	**218**	**146,053**	**13,760**	**594,625**
Carrying amount as at December 31, 2017	**545,990**	**30,467**	**512**	**61,962**	**5,468**	**644,399**

NOTE 6:- FIXED ASSETS (Cont.)

a. Composition and movement: (Cont.)

2016

	Land and office buildings	Computers and software	Motor vehicles	Furniture and equipment	Leasehold improvements	Total
	NIS in thousands					
Cost						
Cost as at January 1, 2016	799,456	240,008	848	208,523	25,452	1,274,287
Additions during the year	6,110	14,340	-	4,289	772	25,511
Acquisitions through of business combinations	-	590	135	202	238	1,165
Disposals during the year	-	(22,587)	(19)	(3,205)	(654)	(26,465)
Revaluation of assets transferred to investment property	5,186	-	-	-	-	5,186
Transfer to investment property	(18,929)	-	-	-	-	(18,929)
Exit from consolidation	-	-	-	(1,624)	(584)	(2,208)
Cost as at December 31,	791,823	232,351	964	208,185	25,224	1,258,547
Accumulated depreciation						
Accumulated depreciation as at January 1, 2016	192,505	200,541	465	136,731	20,810	551,052
Additions during the year	29,758	22,541	127	10,584	1,060	64,070
Disposals during the year	-	(22,574)	(7)	(2,783)	(652)	(26,016)
Transfer to investment property	(6,448)	-	-	-	-	(6,448)
Exit from consolidation	-	-	-	(1,120)	(111)	(1,231)
Accumulated depreciation as at December 31, 2016	215,815	200,508	585	143,412	21,107	581,427
Carrying amount as at December 31, 2016	576,008	31,843	379	64,773	4,117	677,120

NOTE 6:- FIXED ASSETS (Cont.)

b. Details of rights to real estate used by the Group as fixed assets:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Freehold	**513,480**	540,660
Capitalized leased *)	**32,510**	35,348
	545,990	576,008

*) Assets under capitalized lease amount to NIS 21,649 thousand (2016 - NIS 23,858 thousand) with a remaining leasehold period of up to 16 years.

Assets under capitalized lease in the amount of NIS 10,861 thousand (2016 - NIS 11,490 thousand) with a remaining leasehold period of over 45 years.

c. Additional information:

The Group has fully depreciated assets which are still operating. The original cost of these assets as of December 31, 2017 is about NIS 238 million (December 31, 2016 - about NIS 212 million).

In the year 2017, the Group derecognized fully depreciated fixed assets that are not utilized by the Group with an original cost of about NIS 28 million (December 31, 2016 - about NIS 26 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, 2017	2016
		%	
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
Ihud Insurance Agencies Network Ltd.	Israel		
Orlan Insurance Agency (1994) Ltd.	Israel		
Migdal Health and Quality of Life Ltd.	Israel	**100**	100
Infomed Medical Sites Ltd. *)	Israel	**100**	100
B-Well Quality of Life Solutions Ltd.	Israel	**-**	100
Migdal Capital Markets (1965) Ltd.	Israel	**100**	100

*) On October 3, 2017 a subsidiary of the Company, Migdal Health and Quality of Life Ltd., sold all its shares and voting rights in the company Infomed Medical Sites Ltd.

b. Details of affiliates:

1. Composition of affiliates:

	December 31, 2017				
	Main place of operation	Company's equity and voting rights	Loans and capital notes provided by the Company to affiliates	Scope of investment in affiliates	Total
		%	NIS in thousands		
Ramat Aviv Mall Ltd.	Israel	**26.60**	(1) **10,416**	**311,789**	**322,205**
Other affiliates			**51**	**25,394**	**25,445**
Total affiliates			**10,467**	**337,183**	**347,650**

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

b. Details of affiliates:

1. Composition of affiliates:

	December 31, 2017				
	Main place of operation	Company's equity and voting rights	Loans and capital notes provided by the Company to affiliates	Scope of investment in affiliates	Total
		%	NIS in thousands		
Ramat Aviv Mall Ltd.	Israel	**26.60**	**(1) 18,831**	**275,924**	**294,755**
Amot Investments Ltd.	Israel	**(2) -**	**-**	**-**	**-**
			18,831	**275,924**	**294,755**
Other affiliates			**102**	**20,597**	**20,699**
Total affiliates			**18,933**	**296,521**	**315,454**

	December 31, 2016				
	Main place of operation	Company's equity and voting rights	Loans and capital notes provided by the Company to affiliates	Scope of investment in affiliates	Total
		%	NIS in thousands		
Ramat Aviv Mall Ltd.	Israel	26.60	(1) 18,831	275,924	294,755
Amot Investments Ltd.	Israel	(2) -	-	-	-
			18,831	275,924	294,755
Other affiliates			102	20,597	20,699
Total affiliates			18,933	296,521	315,454

(1) In September 2016 a sub-subsidiary of the Company, Migdal Real Estate Holdings Ltd., granted a loan in the amount of NIS 23 million to Ramat Aviv Mall Ltd. (hereinafter: “the Mall”). The loan was granted to the Mall by its shareholders on a pro-rata basis. The loan bears annual interest of 4% and is payable out of the Mall’s cash surpluses as they are from time to time.

(2) 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 was made at a price of NIS 12.68 per share (ex dividend) and for an overall net consideration of NIS 329 million. Migdal Insurance recognized a pre-tax gain in the amount of NIS 33 million in 2016.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

b. Details of affiliates: (Cont.)

1. Composition of affiliates: (Cont.)

(2) (Cont.)
On the date of the sale Amot ceased being an affiliate of Migdal Insurance, and the remaining investment in shares of Amot was accounted for as a financial asset measured at fair value through other comprehensive income.

(3) For details of loans granted to affiliates, capital notes issued by affiliates and loans received from affiliates, see Note 38g below regarding balances and transactions with interested and related parties.

2. Composition of investment in affiliates:

	December 31,	
	2017	2016
	NIS in thousands	
Cost of shares	**142,715**	138,184
The Company's share in profits and capital reserves accrued from the date of acquisition, less dividends	**194,468**	158,337
Other investments - capital notes and loans	**10,467**	18,933
	347,650	315,454
Goodwill included in the investment	**6,112**	6,112

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,		
	2017	2016	2015
	NIS in thousands		
Group's share of net income *)	**40,560**	58,887	91,598
Group's share of other comprehensive income (loss)	**(1,672)**	854	(2,599)

*) Including amortization of original differences.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirement 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 Group companies, which are institutional entities are subject to capital requirements laid down by the Commissioner of the Capital Market, Insurance and Savings (hereinafter – “the Commissioner”).

2. The capital regimes that apply to Migdal Insurance

In June 2017 guidelines were issued regarding the application of an economic solvency regime for insurance companies that is based on Solvency II (hereinafter – the Solvency circular), by which an insurance company will maintain an economic solvency regime according to the aforesaid Solvency circular, without derogating from its duty to comply with the provisions of Supervision over Financial Services Regulations (Insurance) (Minimum Capital Required of Insurers) – 1998 (hereinafter – the Capital Regulations).

On March 4, 2018 a circular was issued that includes guidelines regarding required capital for solvency of an insurer (hereinafter – previous regime capital requirements circular). The previous regime capital requirements circular is intended to replace the guidelines regarding existing and required capital that are included in the current Capital Regulations, and after cancellation of the Capital Regulations its guidelines will apply to an insurance company that is not subject to the Solvency circular and to an insurance company that is subject to the Solvency circular until receiving the confirmation of the Commissioner that an audit has been performed for the first time with respect to application of the Solvency circular’s guidelines. Therefore, until receiving such a confirmation from the Commissioner, Migdal Insurance is subject to both the Capital Regulations and the Solvency circular.

Upon the coming into effect of the Solvency circular and the previous regime capital requirements circular as aforesaid, the need arose to clarify the meaning of the terms ‘required capital’ and ‘recognized capital’ in the provisions of previously issued complex equity instruments and particularly with respect to suspending circumstances. Further to the aforesaid, in March 2018 the Commissioner’s position was issued “Definition of Recognized Capital and Required Capital for Complex Equity Instruments” (hereinafter – “the position”). According to the position, the proper interpretation of the terms ‘required capital’ and ‘recognized capital’ with respect to suspending circumstances (as described in Note 24.e.1 and e.2), in the provisions of complex equity instruments, will be according to the definitions of the relevant terms in the regulatory framework replacing the Capital Regulations, meaning the Solvency circular and the previous regime capital requirements circular, as applicable and as described hereunder:

a) For insurance companies that have received the Commissioner’s confirmation to performance of an audit of the application of the Solvency circular guidelines, the terms “required capital” and “shareholders’ equity” will be interpreted according to the definitions of these terms in the Solvency circular.
b) For insurance companies that have not received the Commissioner’s confirmation to performance of an audit of the application of the Solvency circular guidelines, the terms “shareholders’ equity” and “solvency capital requirement” will be interpreted according to their definition in the previous regime capital requirements circular, meaning the previous Capital Regulations.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirement in the Group companies: (Cont.)

2. The capital regimes that apply to Migdal Insurance (Cont.)

The information concerning the capital requirements of the Capital Regulations and the Solvency circular should be read together with the information included in Section 3.2 of the Directors’ Report.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirement in the Group companies: (Cont.)

3. Capital regime according to the Capital Regulations

Presented hereunder is information regarding the required and existing capital of Migdal Insurance according to the Capital Regulations.

	December 31 2017	December 31 2016
	Audited	Audited
	NIS in thousands	
Amount required as per the Capital Regulations and the Commissioner's directives (a)	**4,438,896**	4,349,580
Total existing amount calculated as per the Capital Regulations:		
First tier capital - basic	**5,473,513**	4,851,362
Complex second tier capital (b)	**2,908,011**	2,901,210
Complex third tier capital (b)	**704,916**	703,630
Deduction due to restriction on maximum rate of complex second and third tier capital (c)	**-**	(372,000)
Total recognized second and third tier capital	**3,612,927**	3,232,840
Total existing capital calculated as per the Capital Regulations	**9,086,440**	8,084,202
Surplus as of the reporting date	**4,647,544**	3,734,622
Capital transactions that occurred subsequent to the reporting date		
Tier 2 equity instrument that was paid for subsequent to the reporting date, see paragraphs 4 and 9 below	**1,108,198**	-
Deduction due to restriction on maximum rate of tier 2 capital (c)	**(1,086,549)**	-
Surplus taking into account subsequent to the reporting date capital transactions	**4,669,193**	3,734,622
Amount of investments required against capital surplus based on the Commissioner's directives which represent restricted surplus	**300,759**	265,885
The amount of reduction in capital requirements in respect of the cost of acquisition of provident funds which constitutes restricted surplus	**63,929**	63,929
Surplus taking into account subsequent to the reporting date capital transactions after deduction of restricted surplus, see also paragraph 6 below	**4,304,505**	3,404,808
(a)The required amount includes capital requirements in respect of:		
Activity in general insurance	**473,211**	449,177
Long-term care insurance activity	**44,735**	39,238
Extraordinary risks in life assurance	**467,553**	457,257
Deferred acquisition costs in life assurance and insurance for diseases and hospitalization	**1,608,154**	1,519,140
Requirements in respect of yield-guaranteed plans	**11,106**	11,691
Inadmissible assets as defined in the Capital Regulations	**9,786**	11,795
Investment in insurance subsidiaries and consolidated managing companies	**329,577**	323,740
Decrease in capital requirements in respect of the cost of acquisition of provident funds	**(63,929)**	(63,929)
Investment assets and other assets	**994,160**	976,745
Catastrophe risks in general insurance	**260,670**	333,054
Operating risks	**302,196**	289,744
Guarantees	**1,677**	1,928
Total amount required according to the Capital Regulations and the Commissioner's directives	**4,438,896**	4,439,580

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirement in the Group companies: (Cont.)

3. Capital regime according to the Capital Regulations (Cont.)

b) Including complex second tier equity instruments issued before June 30, 2017. As for bonds that serve as complex capital of Migdal Insurance, see Note 24.

c) According to the insurance circular from 2011 regarding the composition of the recognized capital of an insurer by which the overall rate of the equity components and instruments included in the first tier capital shall be no less than 60% of the insurer's recognized capital.

4. Economic solvency regime based on Solvency II

As mentioned above, in June 2017 the Solvency circular was issued for the purpose of establishing a new solvency regime for insurance companies in Israel that is based on the provisions of a directive that was adopted by the European Union and is called Solvency II (hereinafter – the Directive).

The Directive includes a comprehensive examination of the risks to which insurance companies are exposed and of standards for their management and measurement, and it is based on three pillars – the first pillar is quantitative and relates to risk-based capital requirements, the second pillar is qualitative and relates to internal control processes for risk management, corporate governance and an own risk and solvency assessment (ORSA) process, and the third pillar relates to disclosure requirements.

The Solvency circular is based on the first pillar, with adjustment to the local market, and it is applied in Israel as from June 30, 2017 with respect to data of December 31, 2016.

According to the guidelines there are two levels of capital requirements:

- A solvency capital requirement from an insurance company (hereinafter – SCR). The SCR is sensitive to risks and is based on a forward-looking calculation according to the application guidelines of the new solvency regime. The purpose of this requirement is to ensure precise and timely intervention of the supervisory authorities.
- A minimum capital requirement (hereinafter – MCR or capital threshold).

According to the Solvency circular, the capital threshold will be equal to the higher of the minimum tier 1 capital required from an insurance company according to the Capital Regulations, and an amount deriving from the amount of insurance reserves and premiums as defined in the Solvency circular) that is between 25% and 45% of the capital requirements.

The Solvency circular includes, inter alia, transitional instructions as follows:

1) The solvency capital requirement of an insurance company in the period from June 30, 2017 to December 31, 2024 (hereinafter – the application period) shall increase by 5% each year beginning from 60% of the SCR up to the full SCR.
2) A reduced capital requirement with respect to certain types of investments held by the insurer at each reporting date, with this requirement increasing gradually over 7 years until the capital requirement in respect of these investments reaches its full rate.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

4. Economic solvency regime based on Solvency II (Cont.)

According to the Solvency circular, the capital of an insurance company will be comprised of tier 1 and tier 2 capital (which includes, inter alia, subordinated tier 2 equity instruments, complex tier 2 capital and tier 3 capital issued after the effective date). The circular includes restrictions on the composition of the capital as to SCR, such that the rate of the components included in the tier 2 capital shall not exceed 40% of the SCR (in the application period – 50% of the capital requirements in the application period).

According to a calculation that was prepared by Migdal Insurance as at December 31, 2016, and taking into consideration the transitional provisions in the application period, Migdal Insurance has a capital surplus. Without the transitional provisions, Migdal Insurance has a capital deficit, that requires supplementation until December 31, 2024 as aforesaid. The results of the aforesaid calculation do not include issuances of tier 2 capital (series F bonds) which their proceeds were deposited and recorded in the financial statements subsequent to the reporting date (see Note 24, Financial Liabilities), the effect of the company's activity and its results for 2017 on the mix of investments and insurance liabilities and exogenous effects such as a change in the risk-free interest curve and regulatory changes that affect the business environment.
For further information, unaudited and unreviewed, see Section 3.2 of the Directors' Report.

The calculation that was prepared by Migdal Insurance as aforesaid was not audited or reviewed. According to the instructions of the Commissioner, a special auditors' report (not constituting an audit or review report) was submitted to the Commissioner for the purpose of, inter alia, examining the process, controls and completeness of the data that was used in the calculation of Migdal Insurance as aforesaid.

The model, in its present form, is highly sensitive to changes in market and other variables and therefore the reflected capital situation may be very volatile. Furthermore, the treatment of some matters that have a material effect on the reported results has not yet been decided and is being discussed by the Commissioner and the Israeli insurance companies. The calculation of the existing economic capital and required capital ("the capital calculation") are based on forecasts and assumption that are mainly based on past experience, as derived from actuarial studies that are performed from time to time. In view of the reforms in the capital, insurance and savings market and the changes in the economic, demographic and behavior environment, past experience does not necessarily reflect future results.

It is emphasized that the solvency ratio calculations required according to the Solvency circular are based on cash flows that are produced from various auxiliary systems that are not an integral part of the regular accounting system. These cash flows include a series of pricing assumptions and allocations that an examination of their sensitivity and their validation has not yet been completed. In addition, the calculation includes, inter alia, a long line of correlations between the various risks. Migdal Insurance is acting to integrate systems that enable effective control and analysis. In addition, it has started defining processes for ensuring effectiveness of internal control.

The solvency ratio calculation required according to the Solvency circular are very complex in many aspects. The tools that presently exist, including the actuary models, are not fully ready for calculating at the level of detail and accuracy required for ensuring proper reporting and control over the solvency ratio. Migdal Insurance is continuing to invest resources in automation of the supporting processes, for the purpose of reducing the exposure and gaps on the matter, the effect of which is unknown.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

4. Economic solvency regime based on Solvency II (Cont.)

Based on all the aforesaid, the results may be materially different.

Additional instructions regarding an economic solvency ratio report

In December 2017 a circular "Structure of Disclosure Required in the Periodic Report and Website of Insurance Companies on the Matter of the Economic Solvency Regime Based on Solvency II" (hereinafter: "the disclosure circular") was published. According to the disclosure circular, the economic solvency ratio as at December 31, 2017 will be reported at the time of issuing the periodic report for the second quarter of 2018. The circular includes, inter alia, instructions by which as from the calculation of the December 2018 data, disclosure will be provided on the results of the calculation in the financial statement following the date of the calculation, and that the results of the calculation will be audited or reviewed, as applicable, as from the calculation of the December 2018 data that will be published in 2019. Furthermore, the circular includes instructions regarding the structure of the economic solvency ratio report, its approval by the relevant company bodies, its audit by the company's auditors and requirements regarding the disclosure provided in its respect.

5. The capital requirements from Group 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. Dividend

a) 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 Commissioner which stated, among others, that the distribution of the dividend, at this time, following the exercise IQIS4 filed in August 2015 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 Commissioner'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 for the solvency regime of Solvency II.

On November 18, 2015 it was decided to suspend the distribution until a new date to be notified.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

6. Dividend (Cont.)

b) According to a letter that was issued by the Commissioner in October 2017 (hereinafter – "the letter"), an insurance company may not distribute a dividend unless after the distribution the company has a ratio of recognized capital to required capital ("solvency ratio") of at least 115% according to the existing capital regulations (before the reduction in respect of the mitigation that was granted for an original difference attributed to acquisition of the operation of provident funds and management companies) and a solvency ratio according to the Solvency circular of at least 100% after the distribution, calculated without the transitional provisions and subject to a solvency ratio target as decided by the Company's Board of Directors.
According to the letter, after receiving the Commissioner's confirmation to performance of an audit of the application of the Solvency circular guidelines – an insurance company will be permitted to distribute a dividend if it meets the solvency ratio indicated in the Solvency circular as aforesaid, without examining whether it meets the solvency ratio required in the Capital Regulations.

The calculation that was prepared by Migdal Insurance as at December 31, 2016, as described in Paragraph 4 above and in Section 3.2 of the Directors' Report, which is based on the mix of investments and insurance liabilities at that date, reflects a solvency ratio that is lower than the solvency ratio calculated without taking into account the transitional provisions as required in the letter.

The results of the aforesaid calculation of the solvency ratio do not include an issuance of tier 2 capital (series F bonds) which its proceeds were deposited and recorded in the financial statements subsequent to the reporting date (see Note 24, Financial Liabilities), the effect of the company's activity and its results for 2017 on the mix of investments and insurance liabilities and exogenous effects such as a change in the risk-free interest curve and regulatory changes that affect the business environment.

Insurance companies are required to provide to the Commissioner within twenty business days from the date of the distribution, the annual profit forecast of the company for the two years following the date of the dividend distribution; an updated debt service plan of the company that was approved by the company's board of directors and an updated debt service plan of the holding company that holds the company and was approved by the board of directors of the holding company; a capital management plan that was approved by the company's board of directors; minutes of the meeting of the company's board of directors in which it approved the dividend distribution, with the addition of the meeting's background material.

7. In September 2017 Midroog Ltd. announced that it is leaving unchanged the Aa1.il rating of the financial strength (IFS) of Migdal Insurance, and the Aa2.il(hyb) rating of the subordinated liability certificates (complex third tier capital) and the Aa3.il(hyb) rating of the subordinated liability certificates (complex second tier capital) that were issued by Migdal Insurance by means of Migdal Insurance Funds Raising Ltd. The rating outlook is stable.

NOTE 7:- INVESTMENTS IN INVESTEES (Cont.)

c. Capital management and requirements in the Group companies: (Cont.)

8. In August 2017 the Commissioner gave his approval to Migdal Insurance using an internal credit rating model (hereinafter – “the model”) that was developed by it, further to an approval to use a credit rating model from August 2013. According to the approval, as regards provisions of the law concerning credit rating, the rating according to the model will be considered a rating that is parallel with respect to risk to the rating of a rating agency subject to the conditions provided in the approval.
According to the approval, as from the financial statements for the second quarter of 2017 Migdal Insurance will be permitted to allocate capital in respect of tailor made loans that were rated according to the model and are not rated by an external agency.
The aforesaid does not have a material effect on the capital situation of Migdal Insurance according to the Capital Regulations.

9. See 24.e.1 regarding an issuance of subordinated liability certificates (series F bonds).

NOTE 8:- INVESTMENT PROPERTY

a. Composition and movement:

	For yield dependent contracts					
	Leased for retail use		Leased for office and other use		Total	
	2017	2016	2017	2016	2017	2016
	NIS in thousands					
Balance at January 1,	**1,466,019**	1,401,473	**4,219,985**	3,926,980	**5,686,004**	5,328,453
Additions during the year:						
Purchases	**13,409**	36,048	**104,454**	161,205	**117,863**	197,253
Capitalized costs and expenses	**312**	1,094	**6,200**	949	**6,512**	2,043
Total additions	**13,721**	37,142	**110,654**	162,154	**124,375**	199,296
Disposals during the year:						
Realizations	**-**	-	**-**	-	**-**	-
Total disposals	**-**	-	**-**	-	**-**	-
Changes in fair value (unrealized)	**43,456**	27,404	**138,475**	130,851	**181,931**	158,255
Balance at December 31,	**1,523,196**	1,466,019	**4,469,114**	4,219,985	**5,992,310**	5,686,004

	Investment property - other					
	Leased for retail use		Leased for office and other use		Total	
	2017	2016	2017	2016	2017	2016
	NIS in thousands					
Balance at January 1,	**152,432**	149,302	**448,144**	569,013	**600,576**	718,315
Additions during the year:						
Purchases	**1,235**	2,453	**3,219**	11,619	**4,454**	14,072
Capitalized costs and expenses	**22**	54	**6**	578	**28**	632
Transfer from fixed assets	**-**	-	**-**	12,481	**-**	12,481
Total additions	**1,257**	2,507	**3,225**	24,678	**4,482**	27,185
Disposals during the year:						
Realizations	**-**		**-**	(150,000)	**-**	(150,000)
Total disposals	**-**	-	**-**	(150,000)	**-**	(150,000)
Changes in fair value (unrealized)	**2,095**	623	**(2,115)**	4,453	**(20)**	5,076
Balance at December 31,	**155,784**	152,432	**449,254**	448,144	**605,038**	600,576

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 operating rental income resulting therefrom. Real estate valuation is based on the net annual cash flows discounted using a pre-tax 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 leasing the premises or responsible for meeting lease commitments or likely to be in occupation after letting vacant premises (a lower discount rate for tenants such as a government body, institutional body, tenants having a particularly strong financial back), and a general assessment regarding their creditworthiness 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 real estate with similar characteristics including location, physical condition, designation, and so forth, 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 10 %, weighted average of 7.20% in 2017, and 6% to 15%, weighted average of 7.33% in 2016)	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.)

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 (the analysis below does not include the effect of a change in the discount rate on assets that their value is measured using the approach of comparison to similar assets. The value of these assets is insignificant compared to the total value of the investment property:

NIS in thousands	Increase (decrease) in fair value at December 31		Increase (decrease) in profit and loss before tax	
	2017	**2016**	**2017**	**2016**
0.5% increase	**(356,135)**	(332,805)	**(71,807)**	(69,973)
0.5% decrease	**408,435**	378,265	**82,592**	80,611

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. Transactions for the acquisition of investment property

Regarding transactions for the acquisition of investment property, see Note 39.2.c below.

g. Operating lease agreements

For details of operating lease agreements in which the Group serves as lessor that are classified as investment property, see Note 39.2.g.2 regarding leases.

NOTE 8:- INVESTMENT PROPERTY (Cont.)

h. Rental income and operating expenses recognized in the statement of profit and loss

	Year ended December 31,		
	2017	**2016**	**2015**
	NIS in thousands		
Rental income from investment property	**440,297**	418,659	416,803
Direct operating expenses	**(52,733)**	(45,908)	(48,326)
	387,564	372,751	368,477

*) Direct operating expenses arising from investment property that did not produce rental income during the period are immaterial.

i. Details of real estate rights used by the Group as investment property:

	December 31,	
	2017	**2016**
	NIS in thousands	
Freehold	**3,162,763**	3,052,225
Capitalized leases	**3,434,585**	3,234,355
	6,597,348	6,286,580

Some of the freehold rights and leasehold rights have not yet been registered in the name of the Group companies with the Land Registry Office and the Israel Lands Authority, as relevant, mainly due to technical registration arrangements.

The remaining lease periods in years:

	December 31,	
	2017	**2016**
	NIS in thousands	
Up to 15 years	**264,331**	255,720
15-50 years	**834,457**	706,683
More than 50 years	**2,335,797**	2,271,952
Total	**3,434,585**	3,234,355

NOTE 9: - DEBTORS AND RECEIVABLES

a. Composition:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Government authorities and institutions	**1,839**	6,218
Income receivable	**43,678**	45,153
Prepaid expenses	**24,024**	26,510
Employees	**31,410**	29,639
Advances to suppliers	**9,506**	24,811
Receivables for the TASE Securities and Clearing House	**354,525**	661,346
Advances on account of commissions to insurance agents	**7,240**	7,589
Insurance companies and insurance brokers	**71,305**	53,381
Other *)	**115,794**	154,447
Less - allowance for doubtful accounts	**(689)**	(444)
	658,632	1,008,650

*) With respect to transactions with a controlling shareholder, see Note 38.e and 38.c, Transactions with Controlling Shareholder.

For a breakdown of assets and liabilities according to linkage bases see Note 37.c.

b. Provision for doubtful accounts:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Balance at January 1,	**(444)**	(252)
Change in provision during the period	**(245)**	(192)
Balance at December 31,	**(689)**	(444)

NOTE 10: - OUTSTANDING PREMIUMS

a. Composition:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Outstanding premiums *)	**784,912**	727,464
Less - allowance for doubtful accounts	**(19,605)**	(8,364)
Total outstanding premiums	**765,307**	719,100
*) Including checks receivable and standing orders	**200,169**	226,608

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

NOTE 10: - OUTSTANDING PREMIUMS (Cont.)

b. Aging:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Unimpaired outstanding premiums:		
Without arrears	**378,499**	509,440
In arrears *)		
Less than 90 days	**112,465**	45,162
Between 90 – 180 days	**62,231**	31,730
Over 180 days	**209,561**	130,245
Total unimpaired outstanding premiums	**762,756**	716,577
Impaired outstanding premiums	**2,551**	2,523
Total outstanding premiums	**765,307**	719,100

*) Includes an amount of NIS 316,486 (as at December 31, 2016 – NIS 176,337 thousand) of debts in arrears in the life assurance segment. These debts are mainly backed by the policy's redemption value. Most of the increase is due to returning premiums to employers in respect of deposits not according to the instructions of the payment regulations

c. Movement in provision for doubtful accounts in respect of outstanding premiums:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Balance at January 1,	**(8,364)**	(6,966)
Change in provision in the period	**(11,241)**	(1,398)
Balance at December 31,	**(19,605)**	(8,364)

NOTE 11:- ASSETS FOR YIELD DEPENDENT CONTRACTS

a. Details of assets presented at fair value through profit and loss:

	December 31,	
	2017	**2016**
	NIS in thousands	
Investment property	**5,992,310**	5,686,004
Financial investments:		
Quoted debt assets	**30,526,127**	29,277,685
Unquoted debt assets *)	**16,088,830**	12,342,415
Shares	**17,711,499**	17,301,490
Other financial investments	**20,965,722**	17,375,125
Total financial investments	**85,292,178**	76,296,715
Cash and cash equivalents	**8,497,605**	7,267,318
Other	**743,722**	832,947
Total assets for yield dependent contracts	**100,525,815**	90,082,984
*) Including debt assets measured at amortized cost	**908,248**	905,756
Fair value of debt assets measured at amortized cost	**1,065,222**	1,093,158

Regarding exposure in respect of yield dependent policy assets see Note 37.b.1 below.
Regarding details of 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, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in thousands			
Financial investments:	**27,904,113**	**2,622,014**	**-**	**30,526,127**
Quoted debt assets	**-**	**13,732,947**	**1,447,635**	**15,180,582**
Unquoted debt assets	**15,638,983**	**-**	**2,072,516**	**17,711,499**
Shares	**18,085,963**	**121,505**	**2,758,254**	**20,965,722**
Other financial investments				
	61,629,059	**16,476,466**	**6,278,405**	**84,383,930**
Total financial investments	**-**	**1,065,222**	**-**	**1,065,222**
Unquoted debt assets for which disclosure of fair value is provided (11a above)	**27,904,113**	**2,622,014**	**-**	**30,526,127**

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in thousands			
Financial investments:				
Quoted debt assets *)	25,765,639	3,512,046	-	29,277,685
Unquoted debt assets	-	10,568,752	867,907	11,436,659
Shares	15,682,866	-	1,618,624	17,301,490
Other financial investments	15,089,105	158,180	2,127,840	17,375,125
Total financial investments	56,537,610	14,238,978	4,614,371	75,390,959
Unquoted debt assets for which disclosure of fair value is provided (11a above)	-	1,093,158	-	1,093,158

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

c. Level 3 financial assets carried 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 at January 1, 2017	**-**	**867,907**	**1,618,624**	**2,127,840**	**4,614,371**
Total gains (losses) recognized in profit and loss *)	**-**	**(49,989)**	**126,638**	**(5,377)**	**71,272**
Investments	**-**	**927,591**	**410,191**	**744,577**	**2,082,359**
Realizations	**-**	**-**	**(9,834)**	**(108,786)**	**(118,620)**
Surrenders	**-**	**(297,874)**	**(73,103)**	**-**	**(370,977)**
Transfers to Level 3	**-**	**-**	**-**	**-**	**-**
Transfers from Level 3	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2017	**-**	**1,447,635**	**2,072,516**	**2,758,254**	**6,278,405**
*) Including Total gains in the period included in profit and loss for assets held at December 31, 2017	**-**	**(38,929)**	**68,639**	**(209,960)**	**(180,250)**

	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 at January 1, 2016	-	375,938	1,564,850	2,780,806	4,721,594
Total gains (losses) recognized in profit and loss *)	-	(42,373)	21,744	(188,987)	(209,616)
Investments	-	550,103	157,508	445,824	1,153,435
Realizations	-	-	(101,908)	(909,803)	(1,011,711)
Surrenders	-	(17,650)	-	-	(17,650)
Transfers to Level 3	-	96,596	-	-	96,596
Investments	-	(94,707)	(23,570)	-	(118,277)
	-				
Balance at December 31, 2016	-	867,907	1,618,624	2,127,840	4,614,371
*) Including Total gains (losses) in the period included in profit and loss for assets held at December 31, 2016	-	(43,131)	9,720	(147,474)	(180,885)

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

NOTE 12:- DETAILS OF OTHER FINANCIAL INVESTMENTS

	December 31, 2017			
	Presented in fair value through profit or loss	Available for sale	Loans and receivables	Total
	NIS in thousands			
Quoted debt assets (a)	**1,512**	**10,938,390**	**-**	**10,939,902**
Unquoted debt assets (b)	**1,398**	**-**	**23,547,167**	**23,548,565**
Shares (d)	**55,214**	**1,047,120**	**-**	**1,102,334**
Other (e)	**208,287**	**2,357,557**	**-**	**2,565,844**
Total	**266,411**	**14,343,067**	**23,547,167**	**38,156,645**

	December 31, 2016			
	Presented in fair value through profit or loss	Available for sale	Loans and receivables	Total
	NIS in thousands			
Quoted debt assets (a)	1,510	8,953,191	-	8,954,701
Unquoted debt assets (b)	552	-	23,613,826	23,614,378
Shares (d)	59,630	1,047,336	-	1,106,966
Other (e)	122,700	2,354,213	-	2,476,913
Total	184,392	12,354,740	23,613,826	36,152,958

a. Quoted debt assets:

Composition

	December 31,	
	2017	2016
	NIS in thousands	
Government bonds:		
Presented at fair value through profit and loss held for trade	**1,512**	1,510
Available for sale	**7,050,634**	4,190,207
Total government bonds	**7,052,146**	4,191,717
Other debt assets:		
Unconvertible:		
Presented at fair value through profit and loss - held for trade	**-**	-
Available for sale	**3,887,756**	4,762,984
Total other unconvertible debt assets	**3,887,756**	4,762,984
Total quoted debt assets	**10,939,902**	8,954,701
Impairment allocated to profit and loss (accumulated)	**1,866**	382

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

b. Unquoted debt assets:

Composition:

	December 31,			
	Carrying amount		Fair value	
	2017	2016	2017	2016
	NIS in thousands			
Government bonds - designated bonds *)	**20,811,223**	20,450,242	**27,710,870**	26,514,946
Other unconvertible debt assets:				
Presented at fair value through profit and loss	**1,386**	552	**1,386**	552
Presented as loans and receivables, excluding bank deposits	**2,163,787**	1,904,337	**2,387,194**	2,112,050
Bank deposits	**572,169**	1,259,247	**766,342**	1,459,988
Total unconvertible debt assets	**2,737,342**	3,164,136	**3,154,922**	3,572,590
Total unquoted debt assets	**23,548,565**	23,614,378	**30,865,792**	30,087,536
Impairment allocated to profit and loss (accumulated)	**51,640**	46,222		

*) 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,	
	2017	2016
	%	
Quoted debt assets:		
Linkage basis:		
Linked to the CPI	**0.2**	1.1
In NIS	**0.9**	2.1
Linked to foreign currency	**3.4**	4.1
Unquoted debt assets:		
Linkage basis:		
Linked to the CPI	**5.1**	5.1
In NIS	**2.2**	1.0
Linked to foreign currency	**5.1**	5.2

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

d. Shares:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Quoted:		
Presented at fair value through profit and loss - held for trade	**-**	-
Presented at fair value through profit and loss designated for the first time	**-**	10,440
Available for sale	**983,224**	993,305
Total quoted shares	**983,224**	1,003,745
Unquoted:		
Presented at fair value through profit and loss	**55,214**	49,190
Available for sale	**63,896**	54,031
Total unquoted shares	**119,110**	103,221
Total shares	**1,102,334**	1,106,966
Impairment allocated to profit and loss (accumulated)	**126,193**	88,388

e. Other financial investments:

Other financial investments mainly include investments in exchange traded notes, mutual fund participation certificates, investment funds, hedge funds, financial derivatives, futures contracts, options and structured products.

	December 31, 2017	December 31, 2016
	NIS in thousands	
Quoted:		
Presented at fair value through profit and loss - held for trade	**77,760**	77,414
Available for sale	**1,758,473**	1,831,306
Derivative instruments (e1)	**5,181**	6,378
Total quoted financial investments	**1,841,414**	1,915,098
Unquoted:		
Presented at fair value through profit and loss – designated at initial recognition	**68,609**	-
Available for sale	**599,084**	522,907
Derivative instruments (e1)	**56,737**	38,908
Total unquoted financial investments	**724,430**	561,815
Total other financial investments	**2,565,844**	2,476,913
Impairment allocated to profit and loss (accumulated)	**334,817**	298,601

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, 2017	December 31, 2016
	NIS in thousands	
Shares	**(177,705)**	51,119
Quoted	**-**	50,017
Foreign currency	**(4,232,929)**	(4,321,865)
Interest	**78**	856

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.

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

	December 31, 2017	December 31, 2016
	%	
AA and above	**0.1**	0.5
A	**1.0**	2.0
BBB	**4.3**	4.9
Lower than BBB	**-**	60.3
Not rated	**4.4**	3.0

(*) 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).

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, 2017			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	**9,693,995**	**1,245,907**	**-**	**10,939,902**
Unquoted debt assets	**-**	**-**	**1,386**	**1,386**
Shares	**983,224**	**-**	**119,110**	**1,102,334**
Other	**1,841,414**	**52,308**	**672,122**	**2,565,844**
Total	**12,518,633**	**1,298,215**	**792,618**	**14,609,466**
Unquoted debt assets for which disclosure of fair value is provided (12b above)	**-**	**30,563,442**	**300,964**	**30,864,406**

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Quoted debt assets	6,719,844	2,234,857	-	8,954,701
Unquoted debt assets	-	-	552	552
Shares	1,003,745	-	103,221	1,106,966
Other	1,915,098	38,608	523,207	2,476,913
Total	9,638,687	2,273,465	626,980	12,539,132
Unquoted debt assets for which disclosure of fair value is provided (12b above)	-	29,904,872	182,112	30,086,984

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

	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 at January 1, 2017	**-**	**552**	**103,221**	**523,207**	**626,980**
Total gains (losses) recognized:					
In profit and loss *)	**-**	**836**	**5,549**	**(55,959)**	**(49,574)**
In other comprehensive income	**-**	**-**	**10,340**	**(16,552)**	**(6,212)**
Investments	**-**	**-**	**-**	**221,426**	**221,426**
Realizations	**-**	**(2)**	**-**	**-**	**(2)**
Balance at December 31, 2017	**-**	**1,386**	**119,110**	**672,122**	**792,618**
*) Including Total gains (losses) in the period included in profit and loss for assets held at December 31, 2017	**-**	**836**	**5,549**	**(55,958)**	**(49,573)**

	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 at January 1, 2016	-	790	122,081	480,040	602,911
Total losses recognized:					
In profit and loss *)		(62)	(14,463)	(40,347)	(54,872)
In other comprehensive income	-	-	(3,484)	9,893	6,409
Investments	-	-	1,094	76,158	77,252
Realizations	-	(176)	(2007)	(2,537)	(4,720)
Balance at December 31, 2016	-	552	103,221	523,207	626,980
*) Including Total losses in the period included in profit and loss for assets held at December 31, 2016	-	(62)	(14,463)	(40,365)	(54,890)

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

h. Aging of investments in unquoted debt assets:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Government bonds - bonds designated	**20,811,223**	20,450,242
Unimpaired debt assets:		
Without arrears	**2,718,445**	3,129,187
In arrears *)		
Less than 90 days	**1,835**	3,527
Between 90 – 180 days	**872**	1,737
Over 180 days	**4,821**	4,298
Total unimpaired debt assets	**2,725,973**	3,138,749
Impaired assets, gross		
Specifically impaired assets, gross	**63,009**	71,609
Impairment allocated to profit and loss (accumulated)	**(51,640)**	(46,222)
Total debt assets specifically impaired	**11,369**	25,387
Total unquoted debt assets	**23,548,565**	23,614,378

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 pledged loans against which there are full surrender values and/or mortgages.

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

	December 31,	
	2017	2016
	NIS in thousands	
Cash and deposits for immediate withdrawal	**8,497,605**	7,267,318
Short-term deposits	**-**	-
Cash and cash equivalents	**8,497,605**	7,267,318

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 0.11% - (2016 - about 0.07%).

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,	
	2017	2016
	NIS in thousands	
Cash and deposits for immediate withdrawal	**2,299,697**	1,945,842
Short-term deposits	**-**	-
Cash and cash equivalents	**2,299,697**	1,945,842

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 0.17% - (2016 - about 0.07%).

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, 2017		December 31, 2016		December 31, 2015	
	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	10,539

*) 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, 2015	1,053,908,234	10,539
Realization of employees options into shares	-	-
Balance at December 31, 2015	1,053,908,234	10,539
Realization of employees options into shares	-	-
Balance at December 31, 2016	1,053,908,234	10,539
Realization of employees options into shares	-	-
Balance at December 31, 2017	**1,053,908,234**	**10,539**

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, 2017	2016	2015
	NIS in thousands		
Total dividend	**(* 110,000**	-	(* 200,000

*) NIS 0.10 per share.
**) NIS 0.19 per share.

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 meeting that was convened to approve the said dividend distribution was postponed indefinitely.

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

	December 31, 2017	2016	2017	2016	2017	2016
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long-term savings:						
Insurance contracts	**28,612,261**	27,647,390	**107,208**	108,136	**28,505,053**	27,539,254
Investment contracts	**241,944**	240,480	**-**	-	**241,944**	240,480
	28,854,205	27,887,870	**107,208**	108,136	**28,746,997**	27,779,734
Less - amounts deposited in the Group under defined benefit plan for the Group's employees	**61,136**	68,610	**-**	-	**61,136**	68,610
Total life assurance and long-term savings	**28,793,069**	27,819,260	**107,208**	108,136	**28,685,861**	27,711,124
Insurance contracts included in the health insurance segment	**1,089,689**	862,120	**39,909**	32,384	**1,049,780**	829,736
Insurance contracts included in the general insurance segment	**5,061,442**	5,108,335	**879,457**	878,030	**4,181,985**	4,230,305
Total liabilities in respect of non-yield dependent insurance and investment contracts	**34,944,200**	33,789,715	**1,026,574**	1,018,550	**33,917,626**	32,771,165

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

	December 31,					
	2017	2016	2017	2016	2017	2016
	Gross		Reinsurance		On retention	
	NIS in thousands					
Life assurance and long-term savings:						
Insurance contracts	**96,245,176**	86,081,025	**4,109**	4,023	**96,241,067**	86,077,002
Investment contracts	**1,704,283**	1,678,850	**-**	-	**1,704,283**	1,678,850
	97,949,459	87,759,875	**4,109**	4,023	**97,945,350**	87,755,852
Less - amounts deposited in the Group under defined benefit plan for the Group's employees	**146,225**	142,572	**-**	-	**146,225**	142,572
Total life assurance and long-term savings	**97,803,234**	87,617,303	**4,109**	4,023	**97,799,125**	87,613,280
Insurance contracts included in the health insurance segment	**2,090,217**	1,905,889	**5,007**	4,139	**2,085,210**	1,901,750
Total liabilities in respect of yield dependent insurance and investment contracts	**99,893,451**	89,523,192	**9,116**	8,162	**99,884,335**	89,515,030

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,					
	2017	2016	2017	2016	2017	2016
	Gross		Reinsurance		On retention	
	NIS in thousands					
Motor act and liability branches						
Provision for unearned premium (1)	**373,670**	429,144	**53,790**	43,053	**319,880**	386,091
Outstanding claims and provision for premium deficiency	**3,567,477**	3,469,543	**453,392**	507,492	**3,114,085**	2,962,051
Total motor act and liability branches (see b1 below)	**3,941,147**	3,898,687	**507,182**	550,545	**3,433,965**	3,348,142
Of which: liabilities in respect of the motor act branch (see c3 and c4 below)	**2,186,592**	2,212,892	**188,088**	248,765	**1,998,504**	1,964,127
Property and other branches:						
Provision for unearned premium (1)	**598,089**	721,447	**168,286**	154,708	**429,803**	566,739
Provision for premium deficiency	**-**	10,222	**-**	-	**-**	10,222
Outstanding claims	**522,206**	479,028	**203,989**	172,777	**318,217**	306,251
Total property and other branches (see b2 below)	**1,120,295**	1,210,697	**372,275**	327,485	**748,020**	883,212
Total liabilities in respect of insurance contracts included in the general insurance segment	**5,061,442**	5,109,384	**879,457**	878,030	**4,181,985**	4,231,354
Deferred acquisition costs:						
Motor act and liability branches	**62,239**	61,702	**7,967**	6,563	**54,272**	55,139
Property and other branches	**142,696**	143,808	**34,448**	31,469	**108,248**	112,339
Total deferred acquisition costs	**204,935**	205,510	**42,415**	38,032	**162,520**	167,478
Liabilities in respect of general insurance contracts less deferred acquisition costs:						
Motor act	**2,159,468**	2,179,831	**188,088**	248,765	**1,971,380**	1,931,066
Other liabilities branches	**1,719,440**	1,657,154	**311,127**	295,217	**1,408,313**	1,361,937
Property and other branches	**977,599**	1,066,889	**337,827**	296,016	**639,772**	770,873
Total liabilities in respect of general insurance contracts less deferred acquisition costs	**4,856,507**	4,903,874	**837,042**	839,998	**4,019,465**	4,063,876

(1) The decrease in the provision for unearned premiums is mainly due to the motor vehicle branches following the signing of a large group at the end of 2016.

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,					
	2017	2016	2017	2016	2017	2016
	Gross		Reinsurance		On retention	
	NIS in thousands					
Actuarial valuations:						
Ms. Ronnie Ginor						
Total actuarial valuations *)	**3,676,256**	3,509,034	**272,901**	261,435	**3,403,355**	3,247,599
Provisions on the basis of other valuations:						
Claims department valuation in respect of known outstanding claims	**402,886**	444,300	**376,527**	415,914	**26,359**	28,386
Addition to outstanding claims due to claims incurred but not yet reported (IBNR)	**10,541**	5,459	**7,953**	2,920	**2,588**	2,539
Provision for unearned premium	**971,759**	1,150,591	**222,076**	197,761	**749,683**	952,830
Total insurance liabilities in respect of insurance contracts included in the general insurance segment	**5,061,442**	5,109,384	**879,457**	878,030	**4,181,985**	-

*) In 2016 the actuarial valuations were calculated by Dr. Stewart Coutts.

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,					
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	Gross		**Reinsurance**		**On retention**	
			NIS in thousands			
Balance at the beginning of the year (1)	**3,836,985**	3,190,683	**543,982**	243,718	**3,293,003**	2,946,965
Estimate of the cumulative cost of claims in respect of the current underwriting year (2)	**767,772**	903,386	**76,206**	49,221	**691,566**	854,165
Change in balances at the beginning of the year as a result of linkage to the index	**10,391**	(8,778)	**1,447**	(673)	**8,944**	(8,105)
Change in the estimate of the cumulative cost of claims in respect of previous underwriting years (3)	**17,481**	69,194	**1,539**	36,595	**15,942**	32,599
Total change in cumulative cost of claims	**795,644**	963,802	**79,192**	85,143	**716,452**	878,659
Payments for settlement of claims during the year (4)						
In respect of current underwriting year	**6,706**	8,120	**228**	116	**6,478**	8,004
In respect of previous underwriting years	**747,015**	576,017	**123,731**	42,108	**623,284**	533,909
Total payments for the period (5)	**753,721**	584,137	**123,959**	42,224	**629,762**	541,913
Change following acquisition of a run-off general insurance portfolio (6)	**-**	266,637	**-**	257,345	**-**	9,292
Balance at the end of the year (1)	**3,878,908**	3,836,985	**499,215**	543,982	**3,379,693**	3,293,003

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, and unearned premium, net of deferred acquisition costs.

(2) The ultimate claims cost is: outstanding claims balance, 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 underwriting years before 2017 stems mainly from an increase in the estimate in the motor act branch, which was partly offset by a decrease in the product warranty and professional liability branches.

(4) The payments include indirect expenses for settling claims attributable to underwriting.

(5) The change in payments is due to payments in the insurance portfolio of Eliahu that were acquired last year.

(6) The balances in 2016 relate to the acquisition of a general insurance portfolio, see Note 38.e.2.

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,					
	2017	2016	2017	2016	2017	2016
	Gross		Reinsurance		On retention	
			NIS in thousands			
Balance at the beginning of the year (1)	**1,066,889**	879,207	**296,016**	338,491	**770,873**	540,716
Estimate of the cumulative cost of claims in respect of events during the reporting year (2)	**1,015,141**	853,639	**197,420**	127,551	**817,721**	726,088
Change in the estimate of the cumulative cost of claims in respect of events prior to the reporting year (3)	**(29,925)**	2,149	**(13,148)**	(14,962)	**(16,777)**	17,111
Payment to settle claims during the year (4)	**642,960**	546,912	**67,667**	61,500	**575,293**	485,412
In respect of events during the reporting year	**299,078**	312,761	**85,393**	111,402	**213,685**	201,359
In respect of events prior to the reporting year						
Total payments	**942,038**	859,673	**153,060**	172,902	**788,978**	686,771
Change in provision for unearned premium, net of deferred acquisition costs (7)	**(122,246)**	184,788	**10,599**	10,955	**(132,845)**	173,833
Change in provision for premium deficiency (5)	**(10,222)**	(285)	**-**	-	**(10,222)**	(285)
Change following acquisition of a run-off general insurance portfolio (6)	**-**	7,064	**-**	6,883	**-**	181
Balance at the end of the year (1)	**977,599**	1,066,889	**337,827**	296,016	**639,772**	770,873

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.
The increase in the cost of claims is due to an increase in the amount of business particularly in the motor act casco branch.

(3) The change in the estimate of the cumulative cost of claims is mainly due to the motor casco and comprehensive residential branches in which there was a positive development in claims experience.

(4) Payments for claims settlement during the year include payments in respect of events in the reporting year and events preceding the reporting year.
The payments for claims settlement include direct and indirect expenses attributed to the years of damage.
The increase in payments is due to an increase in business particularly in the motor casco branch.

(5) There is no provision for premium deficiency as the result of an underwriting improvement.

(6) The balances in 2016 relate to the acquisition of a run-off general insurance portfolio, see Note 38.e.2.

(7) The decrease in the provision for unearned premiums in 2017 is mainly due to the motor vehicle branches following the signing of a large group at the end of 2016.

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, 2017										
	Underwriting year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	NIS in thousands adjusted to the CPI of November 2016 **)										
Claims paid (accumulated) at the end of the year: (1)											
After the first year	11,826	9,434	6,557	5,847	4,958	6,651	6,676	6,996	8,144	6,706	
After two years	78,341	47,969	32,093	28,772	29,087	42,690	57,913	63,045	83,957		
After three years	132,736	90,470	78,077	68,585	76,850	144,588	162,663	190,127			
After four years	187,251	139,587	136,250	132,445	141,190	244,250	276,915				
After five years	247,434	203,098	184,854	213,463	192,820	327,867					
After six years	301,472	248,578	242,265	276,056	263,286						
After seven years	359,628	309,925	291,069	339,064							
After eight years	414,357	346,934	331,774								
After nine years	450,268	376,731									
After ten years	464,039										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	579,880	530,823	478,041	464,352	439,275	709,836	737,106	723,990	906,096	767,772	
After two years	600,259	545,291	495,518	479,556	454,791	757,472	739,222	766,720	897,059		
After three years	621,131	559,680	506,345	498,641	472,599	705,953	725,115	762,175			
After four years	555,464	481,096	430,651	458,040	408,443	691,816	761,779				
After five years	533,287	460,491	439,523	464,614	424,269	712,349					
After six years	510,418	444,167	418,973	465,697	448,158						
After seven years	525,349	442,982	436,986	464,126							
After eight years	525,591	456,490	430,175								
After nine years	536,026	443,220									
After ten years	528,542										
Excess (deficiency) after release of accumulation (2)	26,922	37,876	476	(6,086)	(39,715)	(6,396)	(22,557)	(38,185)	9,037		(38,628)
The rate of deviation in relation to the first year that does not include accumulation, in percentage	4.85%	7.87%	0.11%	(1.33)%	(9.72)%	(0.91)%	(3.05)%	(5.27)%	1.00%		(0.71)%
Accumulated claims cost as at December 31, 2017	528,542	443,220	430,175	464,126	448,158	712,349	761,779	762,175	897,059	767,772	6,215,355
Accumulated payments up to December 31, 2017	464,039	376,731	331,774	339,064	263,286	327,867	276,915	190,127	83,957	6,706	2,660,466
Outstanding claims balance	64,503	66,489	98,401	125,062	184,872	384,482	484,864	572,048	813,102	761,066	3,554,889
Outstanding claims in respect of the years up to and including the underwriting year 2008 (3)											132,655
Balance of outstanding claims in respect of acquisition of run-off general insurance portfolio (4)											191,364
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2017											3,878,908

(1) The amounts presented above are in values adjusted for inflation so that it may be possible to examined development on the basis of real values.
(2) Excess (deficiency) in the first year does not include the accrual in the claims estimate.
The change in the estimate of the cumulative cost of claims in respect of previous underwriting years is mainly due to, inter alia, a change in the cost of individual claims in its effect on the actuarial model as well as regulatory changes.
(3) Excluding data regarding the acquisition of a general insurance portfolio that were added last year. See Note 38.e.2.
(4) Data of a run-off insurance portfolio that was added last year and was excluded from the claims triangle. See Note 38.e.2.

Comments
* According to an examination the Company performed of the property and others branches, the cost of claims is usually resolved within one year. Therefore, no information is provided regarding the development in claims in these branches.
** The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
*** The data include the accumulation (excess of income over expenses).

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, 2017										
	Underwriting year										
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	NIS in thousands adjusted to the CPI of November 2016 **)										
Claims paid (accumulated) at the end of the year: (1)											
After the first year	11,030	9,369	6,067	5,701	4,842	6,399	6,490	6,887	8,028	6,478	
After two years	61,396	46,521	30,691	27,185	27,674	41,499	57,351	61,722	82,831		
After three years	114,752	87,917	74,332	65,345	74,379	143,154	161,430	187,971			
After four years	168,035	135,536	129,759	118,481	138,297	239,675	273,758				
After five years	224,406	195,757	176,527	184,452	187,912	323,106					
After six years	275,933	239,183	227,012	241,132	248,960						
After seven years	331,810	298,222	271,756	293,866							
After eight years	385,161	332,348	306,918								
After nine years	418,591	359,344									
After ten years	430,925										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	483,891	449,827	393,274	389,254	387,598	647,794	671,093	694,455	856,728	691,566	
After two years	489,639	454,769	394,991	387,738	392,459	683,090	696,675	723,577	850,143		
After three years	503,128	466,346	402,820	403,447	407,933	624,267	681,244	725,427			
After four years	495,088	437,450	388,218	392,763	391,281	662,090	712,629				
After five years	479,142	420,852	398,217	404,237	397,016	683,191					
After six years	455,270	406,749	399,776	403,382	421,609						
After seven years	469,570	422,847	403,939	402,113							
After eight years	487,128	426,859	393,736								
After nine years	491,206	417,229									
After ten years	482,872										
Excess (deficiency) after release of accumulation (2)	12,216	20,221	(5,518)	(9,350)	(30,328)	(58,924)	(15,954)	(30,972)	6,585		(112,024)
The rate of deviation in relation to the first year that does not include accumulation, in percentage	2.47%	4.62%	(1.42)%	(2.38)%	(7.75)%	(9.44)%	(2.29)%	(4.46)%	0.77%		(2.25)%
Accumulated claims cost as at December 31, 2017	482,872	417,229	393,736	402,113	421,609	683,191	712,629	725,427	850,143	691,566	5,780,515
Accumulated payments up to December 31, 2017	430,925	359,344	306,918	293,866	248,960	323,106	273,758	187,971	82,831	6,478	2,514,157
Outstanding claims balance	51,947	57,885	86,818	108,247	172,649	360,085	438,871	537,456	767,312	685,088	3,266,358
Outstanding claims in respect of the years up to and including the underwriting year 2008 (3)											110,809
Balance of outstanding claims in respect of acquisition of run-off general insurance portfolio (4)											2,526
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2017											3,379,693

(1) The amounts presented above are in values adjusted for inflation so that it may be possible to examined development on the basis of real values.

(2) Excess (deficiency) in the first year does not include the accrual in the claims estimate.
The change in the estimate of the cumulative cost of claims in respect of previous underwriting years is mainly due to, inter alia, a change in the cost of individual claims in its effect on the actuarial model as well as regulatory changes.

(3) Excluding data regarding the acquisition of a general insurance portfolio that were added last year. See Note 38.e.2.

(4) Data of a run-off insurance portfolio that was added last year and was excluded from the claims triangle. See Note 38.e.2.

Comments

* The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.

** The data include the accumulation (excess of income over expenses).

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, 2017										
	Underwriting year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	NIS in thousands adjusted to the CPI of November 2016 **)										
Claims paid (accumulated) at the end of the year: (1)											
After the first year	8,452	6,983	3,807	3,737	2,915	3,600	3,527	5,109	5,391	4,827	
After two years	42,308	33,491	15,929	13,442	15,487	26,509	41,903	45,789	65,567		
After three years	79,227	61,382	41,279	35,546	44,288	104,256	124,613	147,920			
After four years	110,632	92,943	70,761	60,222	83,687	176,176	203,830				
After five years	145,225	131,282	96,891	100,527	112,032	233,852					
After six years	176,907	162,238	133,135	133,359	153,532						
After seven years	215,915	207,279	160,772	170,443							
After eight years	250,078	231,423	176,837								
After nine years	271,241	248,311									
After ten years	276,282										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	340,106	309,994	251,736	241,732	241,424	481,462	474,382	450,933	563,443	414,370	
After two years	339,720	310,926	247,830	240,367	244,835	497,701	479,336	469,795	560,297		
After three years	346,145	319,943	252,506	246,632	251,332	507,493	431,380	462,608			
After four years	325,782	286,270	231,030	220,372	209,428	435,386	466,261				
After five years	306,247	269,286	223,508	203,993	220,072	459,238					
After six years	284,446	258,474	203,007	213,477	244,814						
After seven years	286,578	268,980	215,537	214,096							
After eight years	293,863	278,957	209,360								
After nine years	301,834	276,432									
After ten years	302,287										
Excess (deficiency) after release of accumulation (2)	23,495	9,838	21,670	6,276	(35,385)	48,255	13,075	(11,675)	3,146		78,695
The rate of deviation in relation to the first year that does not include accumulation, in percentage	7.21%	3.44%	9.38%	2.85%	(16.90)%	9.51%	2.73%	(2.59)%	0.56%		2.40%
Accumulated claims cost as at December 31, 2017	302,287	276,432	209,360	214,096	244,814	459,238	466,261	462,608	560,297	414,370	3,609,763
Accumulated payments up to December 31, 2017	276,282	248,311	176,837	170,443	153,532	233,852	203,830	147,920	65,567	4,827	1,681,401
Outstanding claims balance	26,005	28,121	32,523	43,653	91,282	225,386	262,431	314,688	494,730	409,543	1,928,362
Outstanding claims in respect of the years up to and including the underwriting year 2008 (3)											59,268
Balance of outstanding claims in respect of acquisition of run-off general insurance portfolio (4)											171,838
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2017											2,159,468

(1) The amounts presented above are in values adjusted for inflation so that it may be possible to examined development on the basis of real values.

(2) Excess (deficiency) in the first year does not include the accrual in the claims estimate.
The change in the estimate of the cumulative cost of claims in respect of previous underwriting years is mainly due to, inter alia, a change in the cost of individual claims in its effect on the actuarial model as well as regulatory changes.

(3) Excluding data regarding the acquisition of a general insurance portfolio that were added last year. See Note 38.e.2.

(4) Data of a run-off insurance portfolio that was added last year and was excluded from the claims triangle. See Note 38.e.2.

Comments

* The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.

** The data include the accumulation (excess of income over expenses).

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, 2017										
	Underwriting year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	NIS in thousands adjusted to the CPI of November 2016 **)										
Claims paid (accumulated) at the end of the year: (1)											
After the first year	8,452	6,983	3,807	3,737	2,915	3,600	3,527	5,109	5,391	4,768	
After two years	42,308	33,491	15,929	13,442	15,487	26,509	41,903	45,789	65,567		
After three years	79,227	61,382	41,279	35,546	44,288	104,256	124,613	147,920			
After four years	110,632	92,943	70,761	60,222	83,687	176,175	203,830				
After five years	145,225	131,282	96,891	100,527	112,032	234,416					
After six years	176,907	162,238	131,066	133,360	153,615						
After seven years	215,915	207,279	157,761	170,447							
After eight years	250,078	231,423	173,505								
After nine years	271,241	248,608									
After ten years	276,221										
Estimate of accumulated claims (including payments) at the end of the year:											
After the first year	332,904	303,238	245,925	236,696	237,120	474,861	466,519	442,192	560,328	411,701	
After two years	331,379	303,945	242,106	234,767	239,016	486,882	455,006	466,680	556,181		
After three years	337,554	312,752	246,610	240,863	245,338	444,129	428,265	459,998			
After four years	320,593	281,195	227,369	218,794	207,741	431,955	463,651				
After five years	302,441	266,486	221,924	202,398	218,693	456,205					
After six years	281,210	256,582	200,938	215,042	242,953						
After seven years	284,380	268,519	213,453	214,690							
After eight years	293,863	279,609	206,467								
After nine years	302,296	276,998									
After ten years	301,206										
Excess (deficiency) after release of accumulation (2)	19,387	4,197	20,902	4,104	(35,212)	(12,076)	(8,645)	(17,806)	4,147		(21,002)
The rate of deviation in relation to the first year that does not include accumulation, in percentage	6.05%	1.49%	9.19%	1.88%	(16.95)%	(2.72)%	(1.90)%	(4.03)%	0.74%		(0.67)%
Accumulated claims cost as at December 31, 2017	301,206	276,998	206,467	214,690	242,953	456,205	463,651	459,998	556,181	411,701	3,590,050
Accumulated payments up to December 31, 2017	276,221	248,608	173,505	170,447	153,615	234,416	203,830	147,920	65,567	4,768	1,678,897
Outstanding claims balance	24,985	28,390	32,962	44,243	89,338	221,789	259,821	312,078	490,614	406,933	1,911,153
Outstanding claims in respect of the years up to and including the underwriting year 2008 (3)											58,060
Balance of outstanding claims in respect of acquisition of run-off general insurance portfolio (4)											2,167
Total liability in respect of insurance contracts in the motor act and liability branches net of deferred acquisition costs at December 31, 2017											1,971,380

(1) The amounts presented above are in values adjusted for inflation so that it may be possible to examined development on the basis of real values.

(2) Excess (deficiency) in the first year does not include the accrual in the claims estimate.
The change in the estimate of the cumulative cost of claims in respect of previous underwriting years is mainly due to, inter alia, a change in the cost of individual claims in its effect on the actuarial model as well as regulatory changes.

(3) Excluding data regarding the acquisition of a general insurance portfolio that were added last year. See Note 38.e.2.

(4) Data of a run-off insurance portfolio that was added last year and was excluded from the claims triangle. See Note 38.e.2.

Comments

* The accumulated claims estimate at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.

** The data include the accumulation (excess of income over expenses).

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						
	2017	2016	2015	2014	2013	2012	2011
	NIS in thousands						
Year ended December 31, 2017:							
Gross premiums	428,892	565,520	508,762	528,210	547,154	267,262	255,658
Cumulative comprehensive income (loss) on retention in respect of the underwriting year *)	(38,778)	(40,289)	6,388	40,218	86,250	32,936	59,801
*) Including excess of income over expenses on retention that were recognized in 2016 directly to retained earnings of	-	-	889	12,514	52,222	-	-
Cumulative effect of investment income on cumulative comprehensive income on retention in respect of the underwriting year	11,144	39,269	44,695	59,089	87,910	58,721	64,640

c6. Cumulative data regarding underwriting years in the other liability insurance branches:

	Underwriting year						
	2017	2016	2015	2014	2013	2012	2011
	NIS in thousands						
Year ended December 31, 2017:							
Gross premiums	341,162	337,617	303,606	306,065	283,502	243,161	270,511
Cumulative comprehensive income (loss) on retention in respect of the underwriting year *)	(94,241)	(85,985)	(59,986)	(36,888)	(25,867)	2,535	(1,532)
*) Including excess of income over expenses on retention that were recognized in 2016 directly to retained earnings of	-	-	2,210	4,831	6,638	-	-
Cumulative effect of investment income on cumulative comprehensive income on retention in respect of the underwriting year	5,734	21,090	25,532	32,869	39,880	41,765	44,995

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:

	Income (loss) in respect of current underwriting year	Comprehensive income in respect of open years	Comprehensive income in respect of 2012 underwriting year that was released in 2015	Adjustments for previous underwriting 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

Composition of comprehensive income (loss) in the motor act insurance branch:

	Comprehensive income (loss) in respect of current underwriting year	Comprehensive income (loss) in respect of previous underwriting years	Comprehensive income (loss) in respect of current underwriting year	Comprehensive income (loss) in respect of previous underwriting years
	Gross		Retention	
	NIS in thousands			
Year ended December 31:				
2017	(34,183)	8,484	(38,778)	18,493
2016	(61,478)	(19,504)	(66,531)	(11,837)

c8. Composition of comprehensive income (loss) on retention in the other liability insurance branch:

	Income (loss) in respect of current underwriting year	Comprehensive income in respect of open years	Comprehensive income in respect of 2012 underwriting year that was released in 2015	Adjustments for previous underwriting years	Activity not included in calculation of reserves	Comprehensive income
	NIS in thousands					
Year ended December 31, 2015	(54,707)	(54,576)	(1,437)	57,825	(2,284)	(55,179)

Composition of comprehensive income (loss) in the other liability insurance branch:

	Comprehensive income (loss) in respect of current underwriting year	Comprehensive income (loss) in respect of previous underwriting years	Comprehensive income (loss) in respect of current underwriting year	Comprehensive income (loss) in respect of previous underwriting years
	Gross		Retention	
	NIS in thousands			
Year ended December 31:				
2017	(81,389)	125,737	(94,241)	105,134
2016	(76,547)	16,234	(999,716)	43,345

NOTE 18:- ADDITIONAL INFORMATION REGARDING THE 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, 2017						
	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	-	-	-	2,406,032	-	-	2,406,032
Annuity with guaranteed coefficients:							
Up to May 2001	19,433,428	45,987,470	-	-	-	-	65,420,898
From June 2001	-	10,395,416	61,482	27,936,490	-	-	38,393,388
Annuity in payment	5,070,847	3,340,046	276,647	897,817	-	-	9,585,357
Equity (without annuity option)	1,201,310	1,218,065	-	14,989	-	-	2,434,364
Supplementary annuity reserve **)	2,914,649	1,062,035	-	1,519	-	-	3,978,203
Other risk components	172,226	862,438	-	899,604	523,661	181,266	2,639,195
Total in respect of insurance contracts	28,792,460	62,865,470	338,129	32,156,451	523,661	181,266	124,857,437
Liabilities in respect of investment contracts	-	679	241,265	1,704,283	-	-	1,946,227
Total	28,792,460	62,866,149	579,394	33,860,734	523,661	181,266	126,803,664
(b) According to financial exposure:							
Non yield dependent	26,996,573	398,795	579,394	479,196	342,305	57,942	28,854,205
Yield dependent	1,795,887	62,467,354	-	33,381,538	181,356	123,324	97,949,459
Total	28,792,460	62,866,149	579,394	33,860,734	523,661	181,266	126,803,664

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

**) The supplementary annuity reserve included in the table above is in respect of a deferred annuity component. Another component is included in the annuity in payment item. See Note 37.b.3)b)(6). An additional amount of NIS 2,912 million in respect of the existing accumulation will be recognized in profit or loss over the remaining life of the policy until the age of retirement. See Note 37.b.3)b)(6) for more details.

NOTE 18:- ADDITIONAL INFORMATION REGARDING THE 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, 2016						
	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	-	-	-	1,247,905	-	-	1,247,905
Annuity with guaranteed coefficients:							
Up to May 2001	19,273,646	42,980,143	-	-	-	-	62,253,789
From June 2001	-	9,385,327	75,333	24,578,848	-	-	34,039,508
Annuity in payment	4,232,090	2,563,842	283,624	573,655	-	-	7,653,211
Equity (without annuity option)	1,305,707	1,210,638	-	14,852	-	-	2,531,197
Supplementary annuity reserve **)	2,836,638	700,175	-	1,237	-	-	3,538,050
Other risk components	197,051	835,521	-	768,007	467,587	196,589	2,464,755
Total in respect of insurance contracts	27,845,132	57,675,646	358,957	27,184,504	467,587	196,589	113,728,415
Liabilities in respect of investment contracts	-	646	239,834	1,678,850	-	-	1,919,330
Total	27,845,132	57,676,292	598,791	28,863,354	467,587	196,589	115,647,745
(b) According to financial exposure:							
Non yield dependent	26,321,616	291,785	598,791	338,551	267,283	69,844	27,887,870
Yield dependent	1,523,516	57,384,507	-	28,524,803	200,304	126,745	87,759,875
Total	27,845,132	57,676,292	598,791	28,863,354	467,587	196,589	115,647,745

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

**) The supplementary annuity reserve included in the table above is in respect of a deferred annuity component. Another component is included in the annuity in payment item. See Note 37.b.3)b)(6). An additional amount of NIS 2,822 million in respect of the existing accumulation will be recognized in profit or loss over the remaining life of the policy until the age of retirement. See Note 37.b.3)b)(6) for more details.

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

b. Details of results according to types of policies:

	Data for the year ended December 31, 2017						
	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	32,721	25,398	-	-	-	-	58,119
Savings component	295,603	2,224,855	-	4,909,008	-	-	7,429,466
Other	51,264	258,121	-	545,399	521,125	52,289	1,428,198
Total	379,588	2,508,374	-	5,454,407	521,125	52,289	8,915,783
Financial margin including management fees	425,463	1,043,776	7,293	366,467	-	-	1,842,999
Payments and change in liabilities in respect of gross insurance contracts	1,940,999	8,053,650	10,011	7,483,039	293,287	52,119	17,833,105
Payments and change in liabilities in respect of investment contracts	-	47	11,930	90,962	-	-	102,939
Income (loss) from life assurance business	(36,845)	366,910	(4,259)	(59,672)	116,467	14,370	396,971
Other comprehensive income from life assurance business	104,841	4,618	10,418	5,464	4,074	932	130,347
Total comprehensive income (loss) from life assurance business	67,996	371,528	6,159	(54,208)	120,541	15,302	527,318
Profit from pension and provident funds							24,995
Other comprehensive income from pension and provident funds							2,276
Total comprehensive income from life assurance and long term savings							554,589
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	32,799	418,108	-	-	450,907
Annualized premium in respect of insurance contracts – new business	-	-	-	577,771	146,434	-	724,205
One time premium in respect of insurance contracts	41	-	-	1,481,333	-	-	1,481,374
Annualized premium in respect of investment contracts – new business	-	-	-	23,122	-	-	23,122
One time premium in respect of investment contracts	-	-	32,799	272,027	-	-	304,826
Transfers to the Company of insurance and investment contracts	-	-	-	629,742	-	-	629,742
Transfers from the Company of insurance and investment contracts	15,623	406,211	-	528,883	-	-	950,717

Comments:

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.
4. Payments and change in liabilities in respect of investment contracts include only the amount of the gains (losses) from investments in respect of investment contracts.

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

b. Details of results according to types of policies:

	Data for the year ended December 31, 2016						
	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	39,548	29,667	-	-	-	-	69,215
Savings component	309,044	2,171,700	-	3,887,584	-	-	6,368,328
Other	56,609	277,028	-	509,928	484,858	65,321	1,393,744
Total	405,201	2,478,395	-	4,397,512	484,858	65,321	7,831,287
Financial margin including management fees	248,959	677,483	10,425	314,379	-	-	1,251,246
Payments and change in liabilities in respect of gross insurance contracts	1,763,374	5,034,918	4,938	4,981,616	219,542	77,789	12,082,177
Payments and change in liabilities in respect of investment contracts	-	21	(2,877)	48,092	-	-	45,236
Income (loss) from life assurance business	(171,210)	301,204	23,995	83,769	153,498	(11,598)	379,658
Other comprehensive loss from life assurance business	(39,869)	(1,755)	(7,709)	(1,817)	(786)	(1,507)	(53,443)
Total comprehensive income (loss) from life assurance business	(211,079)	299,449	16,286	81,952	152,712	(13,105)	326,215
Profit from pension and provident funds							34,610
Other comprehensive income from pension and provident funds							577
Total comprehensive income from life assurance and long term savings							361,402
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	2,329	444,996	-	-	447,325
Annualized premium in respect of insurance contracts – new business	-	-	-	396,220	112,721	-	508,941
One time premium in respect of insurance contracts	83	-	-	879,425	-	-	879,508
Annualized premium in respect of investment contracts – new business	-	-	-	58,851	-	-	58,851
One time premium in respect of investment contracts	-	-	2,329	294,631	-	-	296,960
Transfers to the Company of insurance and investment contracts	-	-	-	242,229	-	-	242,229
Transfers from the Company of insurance and investment contracts	11,693	263,412	-	308,588	-	-	583,693

Comments:

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.
4. Payments and change in liabilities in respect of investment contracts include only the amount of the gains (losses) from investments in respect of investment contracts.

NOTE 18:- ADDITIONAL INFORMATION REGARDING THE 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, 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
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
Receipts in respect of investment contracts allocated directly to insurance reserves	-	-	141,683	704,632	-	-	846,315
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

Comments:

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.
4. Payments and change in liabilities in respect of investment contracts include only the amount of the gains (losses) from investments in respect of investment contracts.

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, 2017				
	Long term care		Other *)		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	**1,940,344**	**-**	**149,873**	**-**	**2,090,217**
Other	**356,204**	**27,096**	**693,299**	**13,090**	**1,089,689**
Total	**2,296,548**	**27,096**	**843,172**	**13,090**	**3,179,906**

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

	Data as at December 31, 2016				
	Long term care		Other *)		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Yield dependent	1,741,439	-	164,450	-	1,905,889
Other	229,848	23,977	594,926	13,369	862,120
Total	1,971,287	23,977	759,376	13,369	2,768,009

*) 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, 2017				
	Long term care		Other *)		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	**163,607**	**19,154**	**16,048**	**-**	**198,809**
Other risk components	**2,132,941**	**7,942**	**827,124**	**13,090**	**2,981,097**
Total	**2,296,548**	**27,096**	**843,172**	**13,090**	**3,179,906**

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

	Data as at December 31, 2016				
	Long term care		Other *)		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Annuity being paid	132,693	17,296	12,858	-	162,847
Other risk components	1,838,594	6,681	746,518	13,369	2,605,162
Total	1,971,287	23,977	759,376	13,369	2,768,009

*) 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, 2017				
	Long term care		Other *)		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	**344,875**	**14,936**	**930,211**	**36,366**	**1,326,388**
Payments and change in liabilities in respect of insurance contracts, gross	**388,387**	**17,583**	**587,829**	**25,581**	**1,019,380**
Profit (loss) from health insurance business	**(603)**	**(1,651)**	**52,470**	**(3,581)**	**46,635**
Other comprehensive income from health insurance business	**3,942**	**330**	**6,235**	**45**	**10,552**
Total comprehensive income (loss) from health insurance business	**3,339**	**(1,321)**	**58,705**	**(3,536)**	**57,187**
Annualized premium - new **)	**54,875**	**-**	**167,149**	**-**	**222,024**

*) The most significant coverage included in other long-term health insurance is medical expenses, and in short term travel insurance.
Of this, individual premiums in the amount of NIS 800,967 thousand and group premiums in the amount of NIS 165,610 thousand.

**) 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, 2016				
	Long term care		Other*)		
	Individual	Group	Long-term	Short-term	Total
	NIS in thousands				
Gross premiums	302,076	12,655	830,374	32,144	1,177,249
Payments and change in liabilities in respect of insurance contracts, gross	290,451	15,801	515,187	22,130	843,569
Profit (loss) from health insurance business	(14,641)	(4,465)	28,680	(3,354)	6,220
Other comprehensive loss from health insurance business	(1,038)	(121)	(2,198)	(15)	(3,372)
Total comprehensive income (loss) from health insurance business	(15,679)	(4,586)	26,482	(3,369)	2,848
Annualized premium - new **)	57,427	-	147,639	-	205,066

*) The most significant coverage included in other long-term health insurance is medical expenses, and in short term travel insurance.
Of this, individual premiums in the amount of NIS 738,876 thousand and group premiums in the amount of NIS 123,642 thousand.

**) Including policy riders.

	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
Payments and change in liabilities in respect of insurance contracts, gross	256,360	13,356	488,937	20,386	779,039
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

*) The most significant coverage included in other long-term health insurance is medical expenses, and in short term travel insurance.
Of this, individual premiums in the amount of NIS 657,7561 thousand and group premiums in the amount of NIS 91,288 thousand.

**) 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, 2016	107,130,641	1,997,909	109,128,550	2,459,426
Interest, linkage differences and investment income (1)	4,029,340	49,221	4,078,561	45,262
Increase in respect of premiums and deposits allocated to liabilities (2)	6,399,227	447,325	6,846,552	229,498
Decline in management fees from accrued savings	(979,464)	(15,734)	(995,198)	-
Decrease in respect of claims, surrenders and maturities	(3,273,037)	(516,517)	(3,789,554)	(34,484)
Other changes (3)	382,819	(3,985)	378,834	68,307
Balance as at December 31, 2016	113,728,415	1,919,330	115,647,745	2,768,009
Interest, linkage differences and investment income (1)	**8,080,349**	**98,690**	**8,179,039**	**105,727**
Increase in respect of premiums and deposits allocated to liabilities (2)	**7,452,537**	**450,907**	**7,903,444**	**248,650**
Decline in management fees from accrued savings	**(1,395,647)**	**(15,710)**	**(1,411,357)**	**-**
Decrease in respect of claims, surrenders and maturities	**(3,826,299)**	**(511,239)**	**(4,337,538)**	**(36,024)**
Other changes (3)	**818,082**	**4,249**	**822,331**	**93,544**
Balance as at December 31, 2017	**124,857,437**	**1,946,227**	**126,803,664**	**3,179,906**

Comments:

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 – In 2017 and 2016, immediate provisions in the amount of about NIS 452 million and NIS 431 million, respectively, were recorded following a study of the adequacy of the life assurance reserves including the supplementary reserve for annuity (see Note 37b(3)(b)(5)(a) below). 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 item 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. Most of the increase in the item in the reporting year is due to the investment income that is included in the reserves as aforesaid being considerably higher than that included last year.

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:

Industry agreements were signed between the Association of Life Assurance Companies and the Tax Authorities that arrange the unique issues of the insurance business, as described below. The most recent industry agreement that was signed between the Tax Authorities and the Association of Life Insurance Companies is for the 2016 tax year. The taxes in the financial statements for the year 2017 are based on the aforementioned agreements.

The industry 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 that 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 insurance are not included in the industry agreement and are amortized over a period of six years, similar to the amortization in the financial statements. Expenses relating to such policies that have been canceled will be deductible in the year of the cancellation

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 (Cont.)

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 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.

In January 2017, the Board of Directors of Migdal Insurance decided to withdraw from the Association of Insurance Companies in Israel (RA) and from the Association of Life Insurance Companies, effective as from the end of 2017. As from such time Migdal Insurance no longer handles the various regulatory issues by means of these bodies. In the opinion of Migdal Insurance, the withdrawal will not have material effects on the tax items in the Company's financial statements.

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 January 2016 the Law for the Amendment of the Income Tax Ordinance (Amendment 216) – 2016 was issued, by which, inter alia, the corporate tax rate would be reduced from 26.5% to 25% as from January 1, 2016. According to the aforesaid amendment, the overall tax rate applicable to financial institutions, including Migdal Insurance, will be 35.9% as from January 1, 2016.

NOTE 21:- TAXES ON INCOME (Cont.)

c. The tax rates: (Cont.)

3. In December 2016 the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016 was approved, which lowered the corporate tax rate from 25% to 24% as from January 2017 and to 23% as from January 2018. According to the aforesaid amendment the overall tax rate applicable to financial institutions, will be 35.04% in 2017 and 34.19% as from January 2018.

4. The effect in 2016 of the changes in the tax rates described in paragraphs 2 and 3 above is a decrease in the deferred tax balances at the date of the change of the Company’s investee companies in the amount of NIS 37,745 thousand, against a decrease in deferred tax expenses in the amount of NIS 27,459 thousand and against an increase in other comprehensive income in the amount of NIS 10,286 thousand. In addition, the effect of the changes in the corporate tax rate was an increase in the share of profits of investee companies accounted for at equity in the amount of NIS 24,210 thousand.

5. Hereunder are the statutory tax rates applicable to Group's companies, including financial institutions following the changes:

Year	Corporate tax rate	Profit tax rate	Overall tax rate in financial institutions
		%	
2015	26.50	(* 17.75	37.58
2016	25.00	17.00	35.90
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.19

*) Weighted tax rate.

NOTE 21:- TAXES ON INCOME (Cont.)

d. Tax assessments

Corporate tax assessments

1. Migdal Insurance has final tax assessments up to and including the year 2012, other than the issue of paying profit tax on dividends from investee companies that were concatenated to the company, for which the tax assessor issued Migdal Insurance rulings for the years 2011 and 2012. In respect of these rulings, Migdal Insurance filed appeals to the Tel Aviv District Court in January 2016 and May 2016, respectively. The tax liability resulting from these rulings (including linkage and rate differences as at the date of publication of the financial statements) amounts to about NIS 1.5 million.

   Migdal Insurance's management believes that no tax provision is required with respect to the aforesaid rulings and this issue in addition to that already recorded in the financial statements.

2. In November 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 72 million.

   The Company submitted reservations regarding these assessments and they were rejected by the tax assessor who gave the Company orders for these years, on which the Company submitted appeals to the Tel-Aviv District Court.

   Following a ruling that was recently issued by the District Court, the Company adjusted the amount of the provision in respect of this matter.

   The Company believes, based on its legal counsel, that no tax provision is required beyond that recorded in the financial statements.

3. 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 2012, except for a subsidiary with final tax assessments up to and including the year 2013.

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 193 million as of December 31, 2017 (December 31, 2016 - about NIS 229 million) in respect of which deferred tax assets of about NIS 45 million (December 31, 2016 - about NIS 53 million) were recognized in the financial statements.

Furthermore, deferred tax assets relating to carryforward business losses of about NIS 81 million and capital losses for tax purposes of about NIS 98 million (December 31, 2016 - about NIS 74 million and NIS 77 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,		
	2017	**2016**	**2015**
		NIS in thousands	
Current taxes	**179,886**	116,160	188,651
Deferred taxes relating to the creation and reversal of temporary differences *)	**(6,313)**	(24,085)	(21,705)
Taxes in respect of previous years	**23,933**	16,618	(5,938)
Effect of change in tax rates	**-**	(27,459)	(5,242)
Taxes on income	**197,506**	81,234	155,766

*) See also paragraph g hereunder.

NOTE 21:- TAXES ON INCOME (Cont.)

g. Deferred taxes:

Composition:

	Deferred acquisition costs	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, 2016	(294,208)	(103,463)	(56,517)	(54,935)	(155,317)	65,558	51,908	(546,974)
Changes recognized in profit and loss	26,754	(20,738)	(3,215)	25,253	(10,697)	(4,555)	11,283	24,085
Changes recognized in other comprehensive income	-	45,113	(1,193)	(305)	-	-	(2,370)	(* 41,245
Effect of reduction in profit tax rate	22,384	(3,352)	7,868	515	13,285	(8,484)	(4,757)	27,459
First-time consolidation	-	-	-	-	(2,027)	173	-	(1,854)
Balance of deferred tax asset (liability) as at December 31, 2016	(245,070)	(82,440)	(53,057)	(29,472)	(154,756)	52,692	56,064	(456,039)
Changes recognized in profit and loss	38,400	(19,014)	(3,624)	(2,414)	(9,120)	(7,698)	9,783	6,313
Changes recognized in other comprehensive income	-	(130,031)	-	570	-	-	4,846	(124,615)
Exit from consolidation	-	-	-	-	465	(422)	-	43
Balance of deferred tax asset (liability) as at December 31, 2017	(206,670)	(231,485)	(56,681)	(31,316)	(163,411)	44,572	70,693	(574,298)

*) Includes the effect of reduction in the corporate tax rate in the amount of NIS 10,286 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,	
	2017	**2016**
	NIS in thousands	
Deferred tax assets	**5,639**	10,665
Liabilities in respect of deferred taxes	**(579,937)**	(466,704)
	(574,298)	(456,039)

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,		
	2017	**2016**	**2015**
	NIS in thousands		
Income before taxes on income	**578,205**	286,358	508,817
Overall statutory tax rate applicable to financial institutions (see c above)	**35.04%**	35.90%	37.58%
Tax computed at the overall statutory tax rate	**202,603**	102,803	191,213
Deduction in respect of companies that are not financial institutions	**(13,594)**	(8,923)	(15,529)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses	**5,295**	6,328	7,554
Exempt dividend income	**(15,263)**	(13,850)	(17,964)
Group's share of earnings of affiliates	**(13,691)**	(18,242)	(17,413)
Effect of increase in tax rates on deferred taxes	**-**	(27,459)	(5,242)
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	**2,422**	7,145	12,658
Temporary differences for which deferred taxes are not provided	**-**	11,142	-
Taxes in respect of previous years	**23,933**	16,618	(5,938)
Other	**5,801**	5,672	6,427
Taxes on income	**197,506**	81,234	155,766
Effective tax rate	**34.16%**	28.37%	30.61%

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.

Regarding benefits for those who hold key management positions see Note 38i 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 Group’s liability for employee benefits after termination of employment is made in accordance with a valid employment contract and is based on the Group’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:

Defined contribution plans

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 2017, 2016 and 2015, the expenses in respect of the defined contribution plans amounted to NIS 57,126 thousand, NIS 52,526 thousand and NIS 49,608 thousand, respectively, and were included under general and administrative expenses.

Defined benefit plans

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

The Group has defined benefit plans for which deposits are made to provident funds, pension funds and appropriate insurance policies.

a. Composition of employee benefit liabilities, net:

	December 31, 2017	December 31, 2016
	NIS in thousands	
Liabilities in respect of defined benefit plan which is not financed	**13,972**	13,388
Liability in respect of financed defined benefit plan	**400,131**	366,037
Total liability in respect of defined benefit plan – see b1	**414,103**	379,425
Less - fair value of the plan's assets – see b1 and d below	**155,519**	137,278
Total net liability in respect of defined benefit plans	**258,584**	242,147
Short term benefits – provision for vacation	**51,923**	47,835
Other long term benefits – see c below	**17,922**	25,152
Total liabilities for employee benefits, net	**328,429**	315,134

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 *)					Actuarial gain (loss) from re-measurement in other comprehensive income							
	Balance at January 1, 2017	Interest expenses, net	Current service cost	Total	Payments from the plan	Yield on plan assets **)	Changes in demographical assumptions	Changes in financial assumptions	Other actuarial loss (gain)	Total	Employer contributions to plan	Exit from consolidation	Balance at December 31, 2017
Defined benefit liabilities	379,425	15,310	41,377	56,687	(38,696)	-	2,922	14,727	617	18,266	-	(1,579)	414,103
Fair value of plan assets	(137,278)	(5,782)	-	(5,782)	14,695	(4,328)	-	-	-	(4,328)	(23,992)	1,166	(155,519)
Net liability (asset) from defined benefit	242,147	9,528	41,377	50,905	(24,001)	(4,328)	2,922	14,727	617	13,938	(23,992)	(413)	258,584

*) The expenses are included in wages and related expenses in general and administrative expenses, see Note 32.

**) Other than amounts recognized in interest expenses, net.

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) allocated to profit or loss *)						Actuarial gain (loss) from re-measurement in other comprehensive income								
	Balance at January 1, 2016	Past service cost	Interest expenses, net	Current service cost	Total	Payments from the plan	Yield on plan assets **)	Changes in demographical assumptions	Changes in financial assumptions	Other actuarial loss (gain)	Total	Employer contributions to plan	Entry into consolidation	Exit from consolidation	Balance at December 31, 2016
Defined benefit liabilities	365,564	368	15,468	36,440	52,276	(31,061)	-	-	(2,116)	(6,283)	(8,399)	-	1,513	(468)	379,425
Fair value of plan assets	(123,889)	-	(5,416)	-	(5,416)	12,365	1,069	-	-	-	1,069	(20,440)	(1,065)	98	(137,278)
Net liability (asset) from defined benefit	241,675	368	10,052	36,440	46,860	(18,696)	1,069	-	(2,116)	(6,283)	(7,330)	(20,440)	448	(370)	242,147

*) The expenses are included in wages and related expenses in general and administrative expenses, see Note 32.

**) Other than amounts recognized in interest expenses, net.

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:

	2017	2016	2015
		%	
Discount rate on December 31*)	**3.64**	4.46	4.18
Anticipated real salary increase	**3.94**	3.91	3.91

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, 2017		December 31, 2016	
	+1%	-1%	+1%	-1%
	NIS in thousands			
Future increase in salary costs	**22,905**	**(13,773)**	15,084	(9,388)
Discount rate	**(19,300)**	**29,038**	(9,209)	14,754

3. Actual yield:

	Year ended December 31,		
	2017	2016	2015
		%	
Actual yield on plan assets	**6.95**	3.55	3.64

4. Impact of the plan on future cash flows of the Group:

- The Group estimates the expected deposits in plan assets in 2018 to fund the defined benefit plan to amount to about NIS 27 million.
- The Group estimates the weighted average life of the plan at the end of the reporting period to be 6 years.

c. Other long-term benefits:

	December 31,	
	2017	2016
	NIS in thousands	
Liability for sick pay	**3,411**	4,607
Jubilee grant	**14,511**	20,545
	17,922	25,152

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

d. Composition of plan assets

	December 31, 2017	December 31, 2016
	NIS in thousands	
Central severance pay fund	**6.1**	7.8
Executive insurance	**22.7**	24.8
Provident funds and pension funds	**71.2**	67.4
	100	100

NOTE 23:- CREDITORS AND PAYABLES

	December 31, 2017	December 31, 2016
	NIS in thousands	
Stock Exchange Clearinghouse and securities	**223,365**	64,413
Employees and other salary-related liabilities	**136,527**	81,294
Expenses payable	**178,215**	169,666
Suppliers and service providers	**116,316**	121,613
Government authorities and institutions	**20,237**	36,903
Deferred acquisition costs in respect of reinsurance	**42,431**	38,043
Insurance companies and brokers		
Deposits by reinsurers	**215,050**	284,194
Other accounts	**108,149**	114,336
Total insurance companies and brokers	**323,199**	398,530
Insurance agents	**438,536**	393,117
Policyholders and members	**444,211**	341,794
Provision for profit participation of policyholders	**5,356**	6,385
Prepaid premium	**120,330**	44,750
Others	**75,375**	69,961
Total creditors and payables	**2,124,098**	1,766,469

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

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.1. Details of financial liabilities:

	December 31,			
	Carrying amount		Fair value	
	2017	2016	2017	2016
	NIS in thousands			
1. Financial liabilities at amortized cost:				
Loans from banking institutions	**-**	6,085	**-**	6,085
Loans from non-banking institutions	**20,388**	14,388	**20,389**	14,364
Subordinated liability certificates (hereinafter: “bonds”) *)	**3,684,550**	3,677,789	**3,959,861**	3,765,238
Total financial liabilities reported at amortized cost	**3,704,938**	3,698,262	**3,980,250**	3,785,687
2. Financial liabilities at fair value through profit or loss:				
Derivatives for yield dependent contracts	**73,542**	168,947	**73,542**	168,947
Derivatives for non-yield dependent contracts	**30,181**	43,674	**30,181**	43,674
Short sales	**26,874**	36,603	**26,874**	36,603
Total financial liabilities reported at fair value through profit and loss ****)	**130,597**	249,224	**130,597**	249,224
Total	**3,835,535**	3,947,486	**4,110,847**	4,034,911
Less accrued interest on subordinated liability certificate presented in the balance sheet under the creditors item	**64,900**	65,112		
Total financial liabilities	**3,770,635**	3,882,374		

*) 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 according to their price at the closing of trade on the reporting date.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

a.2. Movement in liabilities deriving from financing activities

	December 31, 2017			
	Bank loans	Non-bank loans	Subordinated liability certificates	Total
	NIS in thousands			
Balance at December 31, 2016	**6,085**	**14,388**	**3,677,789**	**3,698,262**
Movement in liabilities deriving from financing activities				
Changes deriving from cash flows from financing activities				
Additions	**6,311**	**10,706**	**-**	**17,017**
Maturities	**(12,421)**	**(905)**	**-**	**(13,326)**
Interest payments	**(96)**	**-**	**(121,935)**	**(122,031)**
Total net cash from financing activities	**(6,206)**	**9,801**	**(121,935)**	**(118,340)**
Changes due to obtaining or losing control over subsidiaries or other businesses	**(13)**	**(3,366)**	**-**	**(3,379)**
Effect of changes in foreign currency exchange rates	**-**	**(1,036)**	**-**	**(1,036)**
Changes in fair value	**-**	**-**	**-**	**-**
Other changes	**134**	**601**	**128,696**	**129,431**
Balance at December 31, 2017	**-**	**20,388**	**3,684,550**	**3,704,938**

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

b. Financial liabilities at amortized cost:

1. Details of interest and linkage:

	Effective interest December 31, 2017	Effective interest December 31, 2016
	%	%
Linkage basis		
The Consumer Price Index	**3.2**	3.2
In NIS	**3.6**	3.6
Foreign currency	**3.5**	3.5

2. Maturity dates:

	December 31, 2017	December 31, 2016
	NIS in thousands	NIS in thousands
First year	**922,623**	81,233
Second year	**-**	838,247
Third year	**-**	208
Fourth year	**-**	124
Fifth year and thereafter	**2,782,315**	2,778,450
Total	**3,704,938**	3,698,262

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, 2017			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	**35,952**	**64,142**	**3,629**	**103,723**
Short sales	**26,874**	**-**	**-**	**26,874**
Total financial liabilities	**62,826**	**64,142**	**3,629**	**130,597**
Financial liabilities whose fair value is disclosed (Note 24a above)	**3,105,134**	**875,116**	**-**	**3,980,250**

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Derivatives	101,095	110,521	1,005	212,621
Short sales	36,603	-	-	36,603
Total financial liabilities	137,698	110,521	1,005	249,224
Financial liabilities whose fair value is disclosed (Note 24a above)	2,910,192	875,495	-	3,785,687

d. Interest rates used in determining fair value:

	December 31,	
	2017	2016
	%	
Loans	**3.5**	3.5
Bonds constituting second tier capital	**1.7**	2.9
Bonds constituting third tier capital	**1.6**	2.9
Other financial liabilities	**(1.6)**	(1.0)

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 1 par value	500,000	324,656
Nominal value	500,000	324,656
Nominal value according to linkage terms	511,740	327,555
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 semiannual payments on June 30 and December 31 of each of the years 2012-2021 (inclusive)	2 equal semiannual payments on June 30 and December 31 of each of the years 2013-2021 (inclusive)
Midroog Ltd. rating (***)	Aa3.il (hyb) (stable outlook)	Aa3.il (hyb) (stable outlook)
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, 2017, without accrued interest		
Accrued interest as of December 31, 2017		
Fair value as of December 31, 2017		
Carrying amount as at December 31, 2016, without accrued interest		
Accrued interest as of December 31, 2016		
Fair value as of December 31, 2016		
Balance of deferred issue expenses (****)		
December 31, 2017		
December 31, 2016		
Is the series material	Yes	Yes

(*) 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.

(***) See e.5 hereunder regarding the rating of Midroog.

(****) The carrying amount of the bonds is net of deferred issue expenses.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds: (Cont.)

In 2016, 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 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 2017-2027	One annual payment, on March 31 of each of the years 2017-2027
Midroog Ltd. rating (***)	Aa3.il (hyb) (stable outlook)	Aa2.il (hyb) (stable outlook)
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, 2017, without accrued interest	1,182,789	706,491
Accrued interest as of December 31, 2017	31,994	18,083
Market value as at December 31, 2017	1,333,632	792,080
Carrying amount as at December 31, 2016, without accrued interest	1,181,317	705,485
Accrued interest as of December 31, 2016	31,994	25,563
Market value as at December 31, 2016	1,260,706	755,310
Balance of deferred issue expenses (****)		
December 31, 2017	8,805	4,724
December 31, 2016	10,277	5,730
Is the series material	Yes	Yes

(*) 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.

(***) See e.5 hereunder regarding the rating of Midroog.

(****) The carrying amount of the bonds is net of deferred issue expenses.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e. Issue of bonds: (Cont.)

In September 2016, Migdal Capital Raising completed an issue of Series E bonds on the Tel Aviv Stock Exchange as detailed below (the data in the table are presented in NIS in thousands):

	Series E bonds	
Class of capital	Second tier hybrid capital in Migdal Insurance	
Date of issue	9.2016	
Amount of issue NIS 1 par value		
Nominal value		
Issue proceeds (*)		
Nominal interest rate	Fixed, 3.29%	
Effective interest rate	3.51%	
Linkage to CPI	Not linked	
Contractual maturity date	6.2029	
Interest payment dates (**)	One annual payment, on June 30 of each of the years 2016-2029	
Midroog Ltd. rating (***)	Aa3.il (hyb) (stable outlook)	
First possible early repayment date	6.2024	
Pledge of bonds	Not secured under any pledge	
Carrying amount as at December 31, 2017, without accrued interest		
Accrued interest as of December 31, 2017		
Market value as at December 31, 2017		
Carrying amount as at December 31, 2016, without accrued interest		
Accrued interest as of December 31, 2016		
Market value as at December 31, 2016		
Balance of deferred issue expenses (****)		
December 31, 2017		
December 31, 2016		
Is the series material	Yes	

(*) 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.

(***) See e.5 hereunder regarding the rating of Midroog.

(****) The carrying amount of the bonds is net of deferred issue expenses.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.1 Bonds constituting second tier hybrid capital (Series A, Series B, Series C, Series E)

In 2012 Migdal 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 Capital Raising completed an issue of bonds (Series C) that were listed on the Tel Aviv Stock Exchange.

In September 2016 Migdal Capital Raising completed an issue of bonds (Series E) that were listed on the Tel Aviv Stock Exchange.

The issue proceeds from these bonds were deposited in Migdal Insurance and pursuant to approvals by the Commissioner were recognized as second tier hybrid capital in Migdal Insurance, subject to restrictions on the maximum rate of the second tier capital.

Migdal Insurance undertook to bear all the amounts required to settle the 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 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 that 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, Series C, Series E) (Cont.)

With respect to the deferral of the principal and/or interest payments:

a) According to 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).

As regards the position of the Commissioner that was issued in March 2018 regarding the proper interpretation of the terms ‘required capital and ‘recognized capital’ with respect to
suspending circumstances, see Note 7c.2.

The terms of the bonds 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 Insurance will be entitled to redeem the bonds 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 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, Series C, Series E) (Cont.)

It was determined that the bonds 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 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, 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.

Bonds (Series F)

In December 2017 Migdal Capital Raising issued a tender in which orders were received for the purchase of 1,120,617,000 bonds (Series F) of NIS 1 par value each, pursuant to a shelf offering report from December 28, 2017 and a shelf prospectus that was issued on August 17, 2016. The bonds are not linked to the CPI and bear annual interest of 2.63%. The interest on the bonds (Series F) is payable once a year on December 31, between the years 2018 and 2030. The bonds (Series F) will be repaid in one payment on December 31, 2030.
The issue proceeds of the bonds (Series F) were deposited and recorded in the financial statements as at January 1, 2018 in Migdal Insurance, and pursuant to the approvals of the Commissioner of the Capital Market, Insurance and Savings Division in the Ministry of Finance (“the Commissioner”) will be recognized as second tier capital in Migdal Insurance, subject to restrictions on the maximum rate of the second tier capital. Migdal Insurance undertook to bear all the amounts required to repay the bonds (Series F) to their holders. The bonds (Series F) were rated As3.il (hyb) by Midroog Ltd. (hereinafter: “Midroog”) with a stable outlook.

e.2 Bonds constituting third tier hybrid capital (Series D)

In December 2015, Migdal Capital Raising completed a public offering of bonds (Series D) that 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, subject to restrictions on the maximum rate of the third tier capital.

Migdal Insurance undertook to bear all the amounts required to settle the 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.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.2 Bonds constituting third tier hybrid capital (Series D) (Cont.)

The terms of the bonds 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 that constitute third tier hybrid capital refer to the existence of one or more of the following circumstances:

1) According to 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.
2) 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).

As regards the position of the Commissioner that was issued in March 2018 regarding the proper interpretation of the terms ‘required capital and ‘recognized capital’ with respect to suspending circumstances, see Note 7c.2.

The terms of the bonds 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 a above regarding the terms of bonds constituting second tier hybrid capital.

Migdal Insurance will be entitled to redeem the bonds 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 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 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 the bonds due to suspending circumstances as mentioned, does not establish the right to declare the bonds immediately due and payable.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.2 Bonds constituting third tier hybrid capital (Series D) (Cont.)

The trustee may not declare unpaid bonds 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, deferred issue expenses on bonds (Series D) totaling NIS 2.9 million and deferred issue expenses on bonds (Series E) totaling NIS 3.7 million were paid to a related party of the Company.
Deferred issue expenses on bonds (Series F) totaling NIS 3.3 million were paid to a related party of the Company subsequent to the reporting date.

e.4 The trustee for the bonds is Reznik Paz Nevo Trusts Ltd. The person in charge at the trust company – Adv. Hagar Shaul, email: hagar@rpn.co.il; tel.: 03-6389200; fax: 03-6389222; address: 14 Yad Harutsim, Tel Aviv.

e.5 Rating

Migdal Insurance is rated Aa1 for financial stability (IFSR) by Midroog Ltd. with a stable outlook.

On September 12, 2016 the rating agency, Midroog Ltd., announced that it is lowering the IFSR rating of Migdal Insurance from Aaa to Aa1 and as a result is lowering the rating of the Series A, B and C bonds that serve as hybrid tier 2 capital in Migdal Insurance from Aa2 to Aa3 and lowering the rating of the Series D bonds that serve as hybrid tier 3 capital in Migdal Insurance from Aa1 to Aa2. The rating outlook remained stable.

On December 18, 2017 the rating agency, Midroog Ltd., announced that is awarding a rating of Aa3 stable outlook to the new series of bonds (Series F) that Migdal Capital Raising in planning to raise.

NOTE 24:- FINANCIAL LIABILITIES (Cont.)

e.5 Rating (cont'd)

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 at the reporting date and the date the rating was awarded
			Date	Rating	Outlook	
Bonds (Series A)	Midroog Ltd.	Aa2 (awarded on 18.12.11)	29.11.12 27.11.13 13.01.15 15.11.15 12.09.16	Aa2 Aa2 Aa2 Aa2 Aa3	Stable	28.09.17 Aa3
Bonds (Series B)	Midroog Ltd.	Aa2 (awarded on 29.11.12)	27.11.13 13.01.15 28.05.15 15.11.15 12.09.16	Aa2 Aa2 Aa2 Aa2 Aa3	Stable	28.09.17 Aa3
Bonds (Series C)	Midroog Ltd.	Aa2 (awarded on 28.05.15)	15.11.15 12.09.16	Aa2 Aa3	Stable	28.09.17 Aa3
Bonds (Series D)	Midroog Ltd.	Aa1 (awarded on 15.11.15)	15.11.15 12.09.16	Aa1 Aa2	Stable	28.09.17 Aa2
Bonds (Series E)	Midroog Ltd.	Aa3 (awarded on 15.09.16)	15.09.16	Aa3	Stable	28.09.17 Aa3

e.6 To the best of the Company's knowledge, as of December 31, 2017 and as of the date of issuing the report, Migdal Capital Raising was in compliance with all the conditions and obligations under the trust deeds for the bonds, no grounds existed for declaring the bonds immediately due and payable, and Migdal Capital Raising 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 issue expenses, 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, 2017		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	**8,915,783**	**172,620**	**8,743,163**
Premiums in health insurance	**1,326,388**	**114,360**	**1,212,028**
Premiums in general insurance	**2,202,009**	**506,940**	**1,695,069**
Total premiums	**12,444,180**	**793,920**	**11,650,260**
Less - change in the unearned premium balance *)	**177,988**	**(24,327)**	**202,315**
Total premiums earned	**12,622,168**	**769,593**	**11,852,575**

	Year ended December 31, 2016		
	Gross	Reinsurance	On retention
	NIS in thousands		
Premiums in life assurance	7,831,287	187,761	7,643,526
Premiums in health insurance	1,177,249	67,313	1,109,936
Premiums in general insurance	2,440,694	471,963	1,968,731
Total premiums	11,449,230	727,037	10,722,193
Less - change in the unearned premium balance *)	(254,740)	(18,242)	(236,498)
Total premiums earned	11,194,490	708,795	10,485,695

	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	1,065,058

*) Mainly in general insurance, see Note 17.
The change in the unearned premium between 2016 and 2017 is mainly due to a transaction that was signed in 2016 with a large group.

NOTE 26:- INVESTMENT INCOME (LOSS), NET AND FINANCE INCOME

	Year ended December 31,		
	2017	**2016**	**2015**
	NIS in thousands		
Profits (losses) from assets held against yield dependent liabilities			
Investment property	**537,005**	498,940	445,655
Financial investments			
Quoted debt assets	**1,046,982**	366,129	356,951
Unquoted debt assets	**606,817**	221,639	274,544
Shares	**2,058,544**	847,852	625,616
Other financial investments	**3,661,598**	1,557,506	132,013
Cash and cash equivalents	**(184,485)**	(46,897)	(12,712)
Total profits from assets held against yield dependent liabilities, net	**7,726,461**	3,445,169	1,822,067
Profits (losses) from assets held against non-yield dependent liabilities, capital and others			
Income from investment property			
Revaluation of investment property	**(20)**	5,076	48,898
Current income in respect of investment property	**32,487**	30,869	35,304
Total income from investment property	**32,467**	35,945	84,202
Profits (losses) from financial investments, except for interest, linkage differences, rate differences and dividend			
Available for sale assets (a)	**103,912**	97,767	407,198
Assets reported at fair value through profit and loss (b)	**233,677**	27,986	20,718
Assets reported as loans and debtors (c)	**(9,882)**	(21,107)	(9,249)
Interest income *) and linkage differences from financial assets not at fair value through profit and loss	**1,412,002**	1,266,079	1,067,431
Interest income and linkage differences from financial assets at fair value through profit and loss	**204**	(43)	6
Profit (losses) from exchange rate differences in respect of investments not measured at fair value through profit and loss and other assets **)	**(161,727)**	(55,321)	(12,668)
Income from dividend	**221,642**	124,661	105,628
Total profits from net investments and finance income	**9,558,756**	4,921,136	3,485,333
*) The above income includes interest in respect of financial assets not reported at fair value through profit and losses whose value was impaired	**9,377**	5,126	7,579

**) Regarding exchange rate differences in respect of financial liabilities see Note 35.

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,		
	2017	**2016**	**2015**
	NIS in thousands		
Net gains from realized securities	**281,367**	241,852	544,996
Net impairment recognized in profit and loss	**(177,455)**	(144,085)	(137,798)
Total gains from investments in respect of available for sale assets	**103,912**	97,767	407,198

b. Gains (losses) from investments in respect of assets presented at fair value through profit and loss:

	Year ended December 31,		
	2017	**2016**	**2015**
	NIS in thousands		
Net changes in fair value, including realization profit:			
In respect of assets designated upon initial recognition	**(205)**	(2)	(2)
In respect of assets held for trade	**233,882**	27,988	20,720
Total gains(losses) from investments in respect of assets reported at fair value through profit and loss	**233,677**	27,986	20,718

c. Gains (losses) from investments in respect of assets presented as loans and receivables:

	Year ended December 31,		
	2017	**2016**	**2015**
	NIS in thousands		
Net gains (losses) from the realization of assets reported as loans and receivables	**240**	(1)	(1,522)
Net increase (decrease) in value recognized in profit and loss	**(10,122)**	(21,106)	(7,727)
Total gains (losses) from investments in respect of assets reported as loans and receivables	**(9,882)**	(21,107)	(9,249)

NOTE 27:- INCOME FROM MANAGEMENT FEES

Composition:

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Management fees in the pension and provident branches	**461,454**	462,054	480,148
Variable management fees in respect of life assurance contracts	**679,457**	330,452	231,800
Fixed management fees in respect of life assurance contracts	**716,190**	649,012	611,735
Management fees in respect of investment contracts	**15,710**	15,734	14,360
Total income from management fees from members and policyholders	**1,872,811**	1,457,252	1,338,043
Other management fees	**153,329**	130,787	141,531
Total income from management fees	**2,026,140**	1,588,039	1,479,574

NOTE 28:- INCOME FROM COMMISSIONS

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Insurance agencies' commissions	**165,328**	149,760	158,948
Reinsurance commissions, net of change in deferred acquisition costs in respect of reinsurance	**164,464**	161,613	128,086
Other commissions	**6,130**	6,488	55,562
Total income from commissions	**335,922**	317,861	342,596

NOTE 29:- OTHER INCOME

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Income from other non-insurance activities	**58,602**	74,821	38,766
Income from acquired run-off general insurance portfolio *)	**1,569**	3,838	-
Capital gain on sale of fixed assets, net	**581**	-	-
Other capital gains, net	**-**	29,584	2,966
Total other income	**60,752**	108,243	41,732

*) For more information see Note 38.e.2.

NOTE 30:- PAYMENTS AND CHANGE IN LIABILITIES IN RESPECT OF INSURANCE CONTRACTS AND INVESTMENT CONTRACTS ON RETENTION

	Year ended December 31,		
	2017	**2016**	**2015**
	NIS in thousands		
In respect of life assurance contracts:			
Death, disability and others	**1,114,935**	972,667	971,010
Less reinsurance	**77,708**	73,639	69,357
	1,037,227	899,028	901,653
Surrenders	**2,168,649**	1,884,717	1,711,032
Maturities	**1,869,185**	1,558,658	1,233,452
Annuities	**672,379**	545,918	460,426
Total claims	**5,747,440**	4,888,321	4,306,563
Increase in liabilities in respect of life assurance contracts (except for change in outstanding) on retention	**12,006,781**	7,118,966	5,962,480
Increase in liabilities in respect of investment contracts for yield component	**102,939**	45,236	20,733
Total payments and change in liabilities in respect of insurance contracts and investments contracts on retention, in respect of life assurance contracts	**17,857,160**	12,052,523	10,289,776
Total payments and change in liabilities in respect of general insurance contracts:			
Gross	**1,825,449**	1,781,325	1,453,183
Reinsurance	**254,131**	213,430	216,487
On retention	**1,571,318**	1,567,895	1,236,696
Total payments and change in liabilities in respect of health insurance contracts:			
Gross	**978,708**	804,455	752,585
Reinsurance	**78,004**	47,565	64,625
On retention	**900,704**	756,890	687,960
Total payments and change in liabilities in respect of insurance contracts and investment contracts on retention	**20,329,182**	14,377,308	12,214,432

NOTE 31:- COMMISSIONS, MARKETING EXPENSES AND OTHER ACQUISTION EXPENSES

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Acquisition expenses:			
Acquisition commissions	**547,992**	512,873	532,571
Other acquisition expenses	**565,708**	541,746	526,127
Change in deferred acquisition costs	**(69,026)**	(60,954)	(64,106)
Total acquisition expenses	**1,044,674**	993,665	994,592
Other current commissions	**656,975**	622,073	567,164
Other marketing expenses	**13,618**	21,369	23,511
Total commission, marketing expenses and other acquisition expenses	**1,715,267**	1,637,107	1,585,267

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Salaries and related expenses	**1,154,463**	1,024,285	1,016,383
Depreciation and amortization	**175,921**	191,371	201,618
Maintenance of office premises and communications	**131,583**	136,288	144,409
Marketing and advertising	**62,846**	70,665	84,026
Professional and legal counseling	**70,521**	65,219	72,138
Others	**183,878**	186,867	202,112
Total *)	**1,779,212**	(** 1,674,695	(***1,720,686
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contract item	**(161,992)**	(140,295)	(127,527)
Amounts classified in commissions, marketing expenses and other acquisition expenses	**(579,326)**	(563,115)	(554,716)
General and administrative expenses	**1,037,894**	971,285	1,038,443
*) General and administrative include expenses in respect of IT	**319,590**	321,648	334,437

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES (Cont.)

**) On February 17, 2015, 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.

On November 23, 2017 it was agreed to extend the effect of the collective agreement for an additional year until December 31, 2018. Pursuant to that stated in the agreement and its extension, in this year too, like every year, a salary increment of 3.5% will be paid to the permanent employees to whom the agreement applies and who are employed on the date of the payment.

NOTE 33:- SHARE-BASED PAYMENT

a. Expenses (income) recognized in the financial statements:

The expenses (income) recognized in the financial statements for services that were received from the employees are presented in the following table:

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
In respect of grants settled in cash *)	-	(183)	370
In respect of capital grants **)	-	(595)	118
	-	(778)	488

*) Put option on shares of a subsidiary that expired in 2016.

**) Share-based payment transactions that were granted by the Company to its employees have ended.

NOTE 34:- OTHER EXPENSES

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Amortization of intangible assets (except for computer software) *)	**20,709**	25,885	33,876
Impairment	**12,175**	24,709	38,927
Expenses from other non-insurance activities	**51,123**	51,944	28,993
Capital loss from sale of fixed assets	**-**	360	5
Other capital losses	**1,670**	-	-
Total other expenses	**85,677**	102,898	101,801

*) For additional details see Note 4a.

NOTE 35:- FINANCE EXPENSES

	Year ended December 31,		
	2017	**2016**	**2015**
	NIS in thousands		
Interest expenses and linkage differences			
Liabilities to banks and affiliate *)	**523**	130	219
Finance expenses in respect of bonds	**128,695**	100,510	44,064
Interest expenses to reinsurers	**614**	557	521
Exchange rate differences, net in respect of liabilities **)	**823**	1,090	880
Commissions and other finance expenses	**(2,175)**	2,618	12,047
Total finance expenses	**128,480**	104,905	57,731

*) For details regarding a loan from an affiliate see Note 38g(3).

**) For exchange rate difference in respect of financial investments see Note 26.

NOTE 36:- EARNINGS PER SHARE

	Year ended December 31,		
	2017	**2016**	**2015**
	NIS in thousands		
Basic and diluted earnings per NIS 1 share attributed to the Company's shareholders (in NIS)	**0.36**	0.19	0.33

a. Basic earnings per share:

The calculation of the basic earnings per share for 2017 was based on the net income attributable to holders of ordinary shares in the amount of NIS 378,955 thousand (2016 and 2015 - net income of NIS 203,265 thousand and NIS 351,869 thousand, respectively), 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,		
	2017	2016	2015
	NIS in thousands		
Balance at January 1	**1,053,908**	1,053,908	1,053,908
Effect of options exercised into shares	**-**	-	-
Weighted average number of ordinary shares used for calculation of basic earnings per share at December 31	**1,053,908**	1,053,908	1,053,908

b. Diluted earnings per share:

The diluted earnings per share for 2017 and 2016 is the same as the basic earnings for share because of the expiry of the Group's option plans.
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, 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,		
	2017	2016	2015
	NIS in thousands		
Weighted average number of ordinary shares used for calculation of basic earnings per share	**1,053,908**	1,053,908	1,053,908
Effect of dilutive potential ordinary shares		-	477
Weighted average number of ordinary shares used for calculation of diluted earnings per share at December 31	**1,053,908**	1,053,908	1,054,385

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 for details regarding the conclusion of share-based payment plans.

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 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 on this matter and the application of Solvency II instructions see Note 7c above.

Risk management

In January 2014, the Commissioner issued Chapter 10 in a combined 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.

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"), IT risk management and cyber risk management that comes into effect during 2017 and revokes the circular on data protection risks management ("data protection").

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 applicable to them, and are subject to the supervision of various regulators such as the Israel Securities Authority which have set guideline rules and limitations on the activities of Group companies including: rules for managing investments and for managing mutual funds, conduct with managed customers, and so forth.

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.

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.

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.

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.

From time to time the Company carries out various studies and analyses of developments in exposures to insurance/actuarial risks such as death, life expectancy, occupational disability, cancellations, expenses, etc. and their effect on the insurance reserves as well as 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 which is the main catastrophe to which it is exposed) 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. In addition, the Group regularly carries out profitability tests for the various operating segments.

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.

The Group deals with the insurance risks by means of reinsurance. In addition, spreading the insurance contracts and spreading between sectors, geographical locations, risk types, coverage amount, etc. reduce the risks.

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 financial strength of the reinsurers.

The finance division regularly monitors collection from reinsurers.

The Company deals with credit risks of reinsurers through diversification of reinsurers, limitations on the exposure to a single insurer and credit rating limitations.

Operating risks

Main operating risks – managed by the department heads and supported by various units and functions in the organization including the control units, organization and methods unit, compliance and enforcement, SOX, information security, operating risk management, including fraud and embezzlement, IT governance 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 solvency ratio 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 mapping the operational risks and preparing plans to reduce the 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 structured but flexible work plan that is updated from time to time according to emerging threats. The plan is based on ongoing data security and cyber accompaniment beginning from the stage of initiating technological and general projects having security aspects up to regularly 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 and a control system that is responsible for the controls in this area.

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 (emergency) - The Company has a general business continuity framework that includes reference scenarios and their effects on the Company, mapping crucial processes in a disaster, service objectives in the event of a disaster and a business continuity plan. The business continuity plan (BCP) refers to various aspects required in a disaster, including personnel, physical infrastructures and technological infrastructures. The plan includes, inter alia, work procedures at the time of a disaster for the essential business processes and those supporting them, a back-up plan for essential personnel, a plan for moving to an alternative site (for employees of the Company who support the business processes that are essential in a disaster) and a back-up site (DRP site) for information about policyholders and members that facilitates RPO (Return Point Objective) and RTO (Return to Operations) at predetermined time spans for supporting service objectives in a disaster. The Company has an additional copy (third), that ensures recovery of the information in the event of information being damaged at both the main site and the alternative site. The business continuity plan is instilled in the employees by means of performing periodic drills at various scopes, subject to the directives of the Commissioner.

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, 2017 is about NIS 64 billion (previous year - about NIS 60 billion), will affect the management fees by an amount of about NIS 96 million (previous year - about NIS 91 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 800 million after tax. A 1% increase in the interest rate will result in a decrease in the yield dependent reserves and to an increase in the profit and the comprehensive income totaling NIS 200 million after tax For additional information, see Note 27 above.

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, 2017, the designated bonds covered about 67% of all the insurance liabilities in life assurance in these programs (about 69% last year).

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, 2017

	Rate of change in interest rate (1) (2)		Rate of change in prices of 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)	**273,063**	**(723,480)**	**(8,017)**	**3,816**	**(32,453)**	**32,453**	**(168,671)**	**178,785**
Comprehensive income (loss) (4)	**(99,196)**	**(305,464)**	**208,694**	**(212,895)**	**(32,453)**	**32,453**	**31,492**	**(20,098)**

December 31, 2016

	Rate of change in interest rate (1) (2)		Rate of change in prices of 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)	125,687	(688,077)	7,458	7,452	(35,369)	35,369	(126,942)	126,942
Comprehensive income (loss) (4)	(235,093)	(278,529)	225,951	(225,994)	(35,369)	35,369	51,059	(51,059)

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 2017 account for about 23% 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 680 million after tax (previous year – loss of NIS 654 million after tax). The increase in interest relates to the elimination of the LAT provision and amounts to a profit of NIS 233 million after tax (previous year – profit of NIS 94 million after tax). In general insurance, the Company discounts its insurance liabilities in the third party and employer's liability lines, following the transition to best practice, as of December 31, 2015. A decrease of 1% in the risk-free interest rate will lead to an increase in liabilities and to a decrease of NIS 38 million after tax in profit and comprehensive income (last year NIS 33 million after tax). An increase of 1% in the risk-free interest rate will result in an increase in profit and comprehensive income in the amount of NIS 35 million after tax (last year NIS 30 million after tax) by reducing the liabilities.

(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 2.4 billion (last year – NIS 2.5 billion).

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

1. Market risks: (Cont.)

b) Direct interest risk:

Direct interest risk is the risk that the change in the market interest will cause a change in the fair value or in the cash flows deriving from the asset or the liability. This risk relates to assets settled in cash. The addition of the word "direct" emphasizes the fact that the interest change can also 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, 2017		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	**10,939,902**	**30,526,127**	**41,466,029**
Unquoted debt assets:			
"Hetz" bonds	**20,811,223**	**817,679**	**21,628,902**
Other	**2,737,342**	**15,271,151**	**18,008,493**
Other financial investments	**74,363**	**14,705**	**89,068**
Cash and cash equivalents	**2,299,697**	**8,497,605**	**10,797,302**
Reinsurance assets	**1,026,574**	**9,116**	**1,035,690**
Total assets with direct interest risk	**37,889,101**	**55,136,383**	**93,025,484**
Assets without direct interest risk *)	**9,160,693**	**45,389,432**	**54,550,125**
Total assets	**47,049,794**	**100,525,815**	**147,575,609**
Liabilities with direct interest risk:			
Financial liabilities	**3,710,036**	**-**	**3,710,036**
Liabilities in respect of insurance contracts and investment contracts	**34,944,200**	**99,893,451**	**134,837,651**
Others	**182,204**	**146,225**	**328,429**
Total liabilities with direct interest risk	**38,836,440**	**100,039,676**	**138,876,116**
Liabilities without direct interest risk **)	**2,469,279**	**322,352**	**2,791,631**
Total liabilities	**41,305,719**	**100,362,028**	**141,667,747**
Total assets net of liabilities	**5,744,075**	**163,787**	**5,907,862**
Off balance sheet risk (liabilities to grant credit)	**147,671**	**854,059**	**1,001,730**

*) 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:

	December 31, 2016		
	Non-yield dependent	Yield dependent	Total
	NIS in thousands		
Assets with direct interest risk:			
Quoted debt assets	8,954,701	29,277,685	38,232,386
Unquoted debt assets:			
"Hetz" bonds	20,450,242	785,467	21,235,709
Other	3,164,136	11,556,948	14,721,084
Other financial investments	1,960	2,224	4,184
Cash and cash equivalents	1,945,842	7,267,318	9,213,160
Reinsurance assets	1,018,550	8,162	1,026,712
Total assets with direct interest risk	35,535,431	48,897,804	84,433,235
Assets without direct interest risk *)	9,519,706	41,185,180	50,704,886
Total assets	45,055,137	90,082,984	135,138,121
Liabilities with direct interest risk:			
Financial liabilities	3,699,366	-	3,699,366
Liabilities in respect of insurance contracts and investment contracts	33,789,715	89,523,192	123,312,907
Others	172,562	142,572	315,134
Total liabilities with direct interest risk	37,661,643	89,665,764	127,327,407
Liabilities without direct interest risk **)	2,150,503	268,426	2,418,929
Total liabilities	39,812,146	89,934,190	129,746,336
Total assets net of liabilities	5,242,991	148,794	5,391,785
Off balance sheet risk (liabilities to grant credit)	98,559	585,696	684,255

*) 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.)

c) Details of the exposure to economic branches for investments in shares *):

	December 31, 2017					
	Listed in Tel-Aviv 125 Index	Listed in Yeter index	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:	264,904	8,495	-	69,031	342,430	31.1
Industry	51,551	4,648	2,725	17,191	76,115	6.9
Construction and real estate	38,960	2,973	-	-	41,933	3.8
Electricity and water	11,130	-	-	6,081	17,211	1.6
Commercial	-	-	-	-	-	0.0
Hotels and tourism	-	-	-	8,201	8,201	0.7
Transportation and storage	115,334	3,181	-	117,632	236,147	21.4
Communication and computer services	125,069	-	-	23,771	148,840	13.5
Banks	-	-	55,214	26,146	81,360	7.4
Financial services	32,893	2,244	4,047	12,051	51,235	4.6
Other business services	43,188	-	-	55,674	98,862	9.0
Holding companies						
Total	683,029	21,541	61,986	335,778	1,102,334	100.0

	December 31, 2016					
	Listed in Tel-Aviv 100 Index	Listed in Yeter index	Not listed in Israel	Abroad	Total	% of Total
	NIS in thousands					
Sector:						
Industry	229,539	7,121	-	119,746	356,406	32.1
Construction and real estate	78,142	-	2,730	16,131	97,003	8.8
Electricity and water	-	-	-	-	-	-
Commercial	11,096	-	-	8,361	19,457	1.8
Hotels and tourism	-	-	-	-	-	-
Transportation and storage	-	-	-	-	-	-
Communication and computer services	68,938	2,225	-	87,250	158,413	14.3
Banks	109,212	-	-	27,484	136,696	12.3
Financial services	-	-	49,190	27,869	77,059	7.0
Other business services	90,252	5,427	3,677	44,394	143,750	13.0
Holding companies	83,287	-	-	34,895	118,182	10.7
Total	670,466	14,773	55,597	366,130	1,106,966	100

*) 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 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 31 billion, which account for about 24% of the insurance liabilities in life assurance at December 31, 2017 (previous year, about NIS 30 billion and 25%, 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, 2017, these assets constitute about 11% of the Group's total assets (about NIS 16 billion). As of December 31, 2016, these assets constituted about 11% of the Group's total assets (about NIS 15 billion).

Of said asset balance as of December 31, 2017, about NIS 10 billion (about NIS 8 million last year) 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 non-aggregated (statistical) insurance branches, estimated by an actuary - are reported based on an actuarial estimate, according to past claims payments experience.
Insurance liabilities in property and other insurance branches, which are aggregated branches (not statistical), and in branches in which the provisions are based on non-actuarial assumptions - 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, 2017	**6,327,396**	**8,600,267**	**10,410,635**	**6,808,320**	**2,537,943**	**1,477,175**	**36,161,736**
December 31, 2016	5,552,058	8,574,750	10,001,047	7,438,269	2,304,913	1,215,895	35,086,932

*) 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, 2017	**2,777,631**	**896,893**	**1,209,900**	**1,347**	**4,885,771**
December 31, 2016	3,048,145	818,567	1,087,039	1,360	4,955,111

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 (1)	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, 2017:							
Financial liabilities (2)	**1,112,222**	**385,664**	**2,931,787**	**-**	**-**	**-**	**4,429,673**
Liabilities in respect of non-yield dependent investment contracts	**55,816**	**80,959**	**107,527**	**16,874**	**238**	**-**	**261,414**
Liabilities in respect of yield dependent investment contracts (3)	**1,704,283**	**-**	**-**	**-**	**-**	**-**	**1,704,283**
December 31, 2016:							
Financial liabilities (2)	388,284	1,248,536	3,030,951	-	-	-	4,667,771
Liabilities in respect of non-yield dependent investment contracts *)	43,355	92,873	112,166	20,659	507	-	269,560
Liabilities in respect of yield dependent investment contracts (3)	1,678,850	-	-	-	-	-	1,678,850

(1) As at December 31, 2017 there were no financial liabilities for settlement upon demand. In 2016 - an amount of about NIS 5 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.

(2) Including financial liabilities in respect of yield-dependent policies in the amount of about NIS 74 million at December 31, 2017 (2016 - about NIS 169 million).

(3) Liabilities in respect of yield-dependent investment contracts are for up to a year, since they are payable on demand.

*) Reclassified, see Note 2.D.

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 and cancellation (including 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. The actuarial models that on their basis, inter alia, the Company assesses its insurance liabilities assume that the past pattern of behavior and claims represents that in the future.

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 5,731 million, gross, of which about NIS 200 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 contractual reinsurance agreements, 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 catastrophe type (CAT) 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). As from 2017 the coverage in this type of reinsurance agreement is USD 80 million after a deductible of USD 20 million. Before then the CAT coverage was 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.
It is noted that a CAT contract does not cover risk of epidemic outbreaks.

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 long-term profitability of insurance companies. Regarding sensitivity analysis with respect to changes in cancellation rates see b(3)(b)(7) 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.

A decline 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.

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.)

Furthermore, 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). 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 paragraph b(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 paragraph 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 0.02%, and for profit sharing policies at 0.83% (as of December 31, 2016 – 0.09% and 0.85%, respectively).

The K values decreased in 2017 because of a decrease in the interest rate.

For details on the financial effect, see paragraph b(3)(b)(5)(a) 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.)

(3) Main assumptions used in the calculation of the insurance liabilities: (Cont.)

(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.

(f) Continuity rates:

In group health insurances and group 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 an obligation 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.

(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 and regulatory directives.

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.)

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 paragraph b(3)(b)(5)(a) below.

The carrying amount of the provision for LAT amounts to NIS 362 million and NIS 147 million as of December 31, 2017 and 2016, respectively.

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, including changes that were made in the supplementary annuity reserve.

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

(a) Effect of changes on the supplementary annuity reserve and on the LAT:

	December 31	
	2017	**2016**
	NIS in millions	
Effect of decrease in discount rate in calculating the supplementary annuity reserve	**110**	202
Increase in annuity reserves due to a decrease in expected future income derived from the decrease in the discount rate (K)	**70**	171
Increase in annuity provisions due to the decrease in the discount rate	**180**	373
Change in annuity assumptions	**57**	76
Increase (decrease) following the LAT	**215**	(18)
Total before tax	**452**	431
Total after tax	**294**	276

(b) Subsequent to the reporting date there was a decrease in the risk-free interest curve, which may lead to an additional increase in the liabilities for insurance contracts. See Note 40e regarding events subsequent to the reporting date.

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.)

(6) The supplementary reserve for annuity included in the Company's books approximates NIS 5,449 million and NIS 4,709 million as of December 31, 2017 and 2016, 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 2,912 million as of December 31, 2017 (previous year – NIS 2,882 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.

* Of which about NIS 3,978 million is in respect of a deferred annuity (in 2016 about NIS 3,538 million in respect of a deferred annuity).

(7) Sensitivity test:

	December 31, 2017							
	Morbidity rate		Rate of cancellations ***)		Mortality rates		Annuity take-up rate **)	
	NIS in thousands							
	+10%	-10%	+10%	-10%	+10%	(* -10%	+5%	-5%
Profit (loss)	**(4,061)**	**4,065**	**15,068**	**(14,086)**	**311,256**	**(1,213,605)**	**(341,113)**	**150,573**

	December 31, 2016							
	Morbidity rate		Rate of cancellations ***)		Mortality rates		Annuity take-up rate **)	
	NIS in thousands							
	+10%	-10%	+10%	-10%	+10%	(* -10%	+5%	-5%
Profit (loss)	(17,390)	3,529	14,944	(13,970)	198,271	(935,849)	(215,702)	94,061

*) 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. See Note 18a regarding the amount of the supplementary annuity reserve.

***) The cancellation rates include surrenders, maturities and reductions.

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.

The tariff for motor act insurance requires the approval of the Commissioner of Insurance and 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 safety systems, etc.), as well as those relating to the characteristics of the policyholders (the age of the youngest driver, years of holding driver license, previous claims experience, etc.).

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.).

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:

The underwriting process is performed partly through the tariff itself and partly through the underwriting policy of the Group as determined from time to time.

In most instances, the motor casco insurance policies are issued for a period of one year. Furthermore, in most cases, claims in respect of these policies are clarified close to the time of occurrence of the insured event.

Liability insurance is designed to cover the policyholders' liability by law in respect of damage that he may cause to any third party. The main types of insurance are: liability insurance towards a third party, employers' liability insurance and other liability insurance such as professional liability, product liability and directors' and officeholders' liability. The policies in liability insurances are usually issued for the period of one year. However, the time it takes to handle the claims in this branch is longer and might 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.

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:

In most cases, the property insurance policies are issued for a period of one year. In addition, in most cases the claims in respect of these policies are handled close to the time the insurance event had occurred.

(2) Principles for calculating actuarial valuations in general insurance:

(a) Liabilities in respect of general insurance contracts include the following main components:

- Provision for unearned premium
- 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.

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.

According to the Commissioner’s directives, the outstanding claims, including the reinsurers' share therein, in the non-aggregated (statistical) branches (the liabilities, motor act, motor casco, comprehensive residential and personal accidents branches), were calculated by the appointed actuary in general insurance Ms. Ronnie Ginor, 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 her, according to her best professional judgment, and in accordance with the relevant guidelines, directives and principles.

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:

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.

(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. On the basis of this test the Company found that in the employers' liability and third party branches a supplement is required based on the best practice principles, and accordingly as from December 31, 2015 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. In 2017 there was an increase of NIS 20 million in the insurance liabilities in these branches, compared with an increase of NIS 13 million before tax in 2016, due to a decline in the risk-free interest curve.

(j) The outstanding claims are calculated on a gross level. The reinsurers’ share in the outstanding claims is estimated taking into consideration the type of the agreement (proportional/non-proportional), actual claims experience and the premium that was transferred to the reinsurers.

(k) The provision for outstanding claims for residual insurance arrangements ("the Pool") was performed based on the calculations of the Pool's actuary.

(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 a non-linear distribution to the development coefficients that were calculated using the Link Ratio method. This distribution makes it possible to calculate the development coefficients for earlier periods on which there is no information (“the development tail).

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:

In these lines the liabilities are calculated on the basis of the development in claims' payments and/or the development in payments and outstanding claims (Link Ratio). The model is at the level of the underwriting year and is calculated at the level of the gross claims.

For immature periods use is made of a combination of the claims' cost/loss ratio based on an a priori estimate and the cost from the development of payments/claim amounts model.

Specific assessments of the claims departments are taken into consideration in cases of long-standing claims and large claims.

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 estimate is based on a large claims model that forecasts the number of claims that will surpass the excess as well as the average amount 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.

A stochastic model is also used for valuing the reserves, so as to comply with the requirements of the Commissioner's position regarding the best practice for calculating general insurance reserves (see Note 2.j.2)d)(4)).

(b) Motor casco:

In the motor casco branch the liabilities are calculated on the basis of development in claims payments (Link Ratio) while taking into consideration the type of coverage such as comprehensive/third party, the type of vehicle and the type of damage such as accidents, theft and natural disasters.

In the recent damage months, the Company uses the averages method, which is based on claim cost per policy.

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.)

(b) Motor casco: (Cont.)

Specific assessments of the claims departments are taken into consideration in cases of long-standing claims. Subrogations are taken into account since the actuarial model is based on the development in all payments (positive and negative).

The outstanding claims valuation is calculated on the gross level. The reinsurance component in this line of business is insignificant.

(c) Comprehensive residential:

In the comprehensive residential branch the liabilities are calculated based on the development in claim amounts (Link Ratio). In the last damage months, the averages method was used. This model is based on claims per policy.

Specific assessments of the claims departments are taken into consideration in cases of long-standing claims.

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:

In the personal accidents branch the liabilities are calculated based on the development in claim amounts (Link Ratio).

In the last underwriting years, the Bornhuetter Ferguson method was used, on the basis of Loss Ratio.

Specific assessments of the claims departments are taken into consideration in cases of long-standing claims.

In this line of business, the reinsurance is in part proportional and in part excess of loss type reinsurance. The retention is calculated based on the actual reinsurance rates in each underwriting year.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

3. 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:

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.

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.
  In addition, the provision for a run-off general insurance portfolio that was added during the year was based on specific assessments of the Company's experts.

(5) Changes in principal assumptions and estimates 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, a change in the discount rate of benefits, 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 estimates used to calculate insurance liabilities in respect of general insurance contracts: (Cont.)

- As from December 31, 2015, the Company applies the Commissioner's position on the best practice for calculating insurance reserves in general insurance, in accordance with the Commissioner's directives as set out in Note 2(j)(2)(d)(4), including the following determinations:

(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.)

3. Insurance risks: (Cont.)

c) General insurance contract insurance risks: (Cont.)

(5) Changes in principal assumptions and estimates used to calculate insurance liabilities in respect of general insurance contracts: (Cont.)

- In March 2016 the recommendations of an inter-ministerial committee headed by the former judge Dr. Eliahu Vinograd were published which adjusted the life expectancy and interest rate for discounting the annual annuity of the National Insurance Institute, which was set to be 2% instead of 3%, and established a mechanism for adjusting the discount rate in the future. The Company evaluates that the amendment may have an effect on the amounts it will have to pay to policyholders. In September 2016 regulations were promulgated that postponed their effect by one year to October 2017. In the opinion of Migdal Insurance, which is based also on the opinion of its legal counsel, the courts will not necessarily adopt the discount rate provided in the regulations, and therefore a provision was made that takes into account the discount rates provided in the regulations and interest rates based on the opinion of its advisors as aforesaid. The provision in the motor act branch amounts to NIS 152 million and in the liability branches to NIS 58 million (as at December 31, 2016: NIS 115 million and NIS 45 million, respectively).

  In February 2018, in the framework of a hearing on this matter at the Supreme Court, after it was argued that the discount rate on damages to an injured party should be reduced to 1%, the position of the Attorney General on those regulations was presented to the Court, in which it was stated, inter alia, that the considerations taken into account in the amendment to the regulations are not necessarily all the considerations that should be taken into account with respect to the discount rate in compensatory damages, but are wider.
  Furthermore, the Attorney General stated that it was decided to form an inter-ministerial committee that will examine the matter and submit its recommendations within three months. Accordingly, the Court postponed its ruling on the matter to a later date. It is emphasized that at this time the effect of the said adjustment on the Company's liabilities, if any, is highly uncertain.
  In view of the aforesaid, the future development in claims may be significantly different from the Company's assessments, and

accordingly the Company may have to adjust its assessments in the future.

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 estimates used to calculate insurance liabilities in respect of general insurance contracts: (Cont.)

- In the professional liability and product warranty branches the improvement in the rate of damages continued as did the positive development trend in claims, whereas in the third party and employers' liability branches the deterioration in claims experience stopped.

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) and d(3) below.

The carrying amount approximates the maximum credit risk. Therefore, the "total" column represents the maximum credit risk.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts: (Cont.)

a) Debt assets credit risks:

(1) Breakdown of debt assets according to their location:

	December 31, 2017		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	**9,693,995**	**23,269,343**	**32,963,338**
Abroad	**1,245,907**	**279,222**	**1,525,129**
Total debt assets	**10,939,902**	**23,548,565**	**34,488,467**

	December 31, 2016		
	Quoted *)	Unquoted	Total
	NIS in thousands		
In Israel	6,719,844	23,438,910	30,158,754
Abroad	2,234,857	175,468	2,410,325
Total debt assets	8,954,701	23,614,378	32,569,079

*) 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, 2017				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets:					
Government bonds	7,052,146	-	-	-	7,052,146
Corporate bonds	2,092,459	535,216	3,688	10,486	2,641,849
Total quoted debt assets in Israel	9,144,605	535,216	3,688	10,486	9,693,995
Unquoted debt assets:					
Government bonds	20,811,223	-	-	-	20,811,223
Corporate bonds	350,181	249,233	1,555	18,966	619,935
Deposits in banks and financial institutions	572,169	-	-	-	572,169
Other debt assets according to security:					
Mortgages	-	-	-	241,954	241,954
Loans on policies	-	-	-	51,466	51,466
Loans against real estate charges	26,333	2,318	-	-	28,651
Loans against charges on shares conferring control	-	-	-	-	-
Other security	356,936	407,571	-	179,438	943,945
Not secured	-	-	-	-	-
Total unquoted debt assets in Israel	22,116,842	659,122	1,555	491,824	23,269,343
Total debt assets in Israel	31,261,447	1,194,338	5,243	502,310	32,963,338
Of which debt assets according to internal rating	308,415	149,770	-	-	458,185
Includes debt assets in internal rating whose rating was reduced by Migdal Insurance	75,206	5,001	-	-	80,207

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, 2017				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets:					
Government bonds	-	-	-	-	-
Corporate bonds	-	789,066	456,841	-	1,245,907
Total quoted debt assets abroad	-	789,066	456,841	-	1,245,907
Unquoted debt assets:					
Corporate bonds	-	20,439	-	6,403	26,842
Deposits in banks and financial institutions	-	-	-	-	-
Other debt assets	-	49,035	-	203,345	252,380
Total unquoted debt assets abroad	-	69,474	-	209,748	279,222
Total debt assets abroad	-	858,540	456,841	209,748	1,525,129
Of which debt assets according to internal rating	-	-	-	-	-

*) 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, 2016				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets in Israel					
Quoted debt assets:					
Government bonds	4,048,315	-	-	-	4,048,315
Corporate bonds	1,939,172	711,346	3,821	17,190	2,671,529
Total quoted debt assets in Israel	5,987,487	711,346	3,821	17,190	6,719,844
Unquoted debt assets:					
Government bonds	20,450,242	-	-	-	20,450,242
Corporate bonds	257,145	273,924	11,518	7,783	550,370
Deposits in banks and financial institutions	1,259,247	-	-	-	1,259,247
Other debt assets according to security:	-	-	-	-	-
Mortgages	-	-	-	153,099	153,099
Loans on policies	-	-	-	64,338	64,338
Loans against real estate charges	27,907	2,652	-	-	30,559
Loans against charges on shares conferring control	-	-	11,796	-	11,796
Other security	425,315	303,560	-	190,384	919,259
Not secured	-	-	-	-	-
Total unquoted debt assets in Israel	22,419,856	580,136	23,314	415,604	23,438,910
Total debt assets in Israel	28,407,343	1,291,482	27,135	432,794	30,158,754
Of which debt assets according to internal rating	379,931	237,244	11,796	-	628,971
Includes debt assets in internal rating whose rating was reduced by Migdal Insurance	-	82,697	-	-	82,697

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, 2016				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debt assets abroad					
Quoted debt assets					
Government bonds	124,839	18,563	-	-	143,402
Corporate bonds	209,087	1,273,961	608,407	-	2,091,455
Total quoted debt assets abroad	333,926	1,292,524	608,407	-	2,234,857
Unquoted debt assets:					
Corporate bonds	-	22,874	-	6,581	29,455
Deposits in banks and financial institutions	-	-	-	-	-
Other debt assets	108,349	10,273	-	27,391	146,013
Total unquoted debt assets abroad	108,349	33,147	-	33,972	175,468
Total debt assets abroad	442,275	1,325,671	608,407	33,972	2,410,325
Of which debt assets according to internal rating	108,349	-	-	-	108,349

*) 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, 2017				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	**36,590**	**3,315**	-	**215,491**	**255,396**
Deferred tax assets	**5,639**	**-**	-	**-**	**5,639**
Other financial investments	**-**	**-**	-	**309,062**	**309,062**
Cash and cash equivalents	**2,009,130**	**9,403**	-	**-**	**2,018,533**

	Local rating *)				
	December 31, 2016				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Debtors and receivables, excluding balances of reinsurers	23,621	14,940	-	259,662	298,223
Deferred tax assets	10,665	-	-	-	10,665
Other financial investments	-	-	-	464,913	464,913
Cash and cash equivalents	1,753,181	17,357	-	-	1,770,538

*) 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, 2017				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	-	**88,723**	-	**43,083**	**131,806**

	Local rating *) December 31, 2016				
	AA and above	BBB to A	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	22,601	62,763	-	-	85,364

*) 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, 2017				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Loans to affiliates**)	-	-	-	**24,828**	**24,828**
Debtors and receivables, excluding balances of reinsurers	-	**719**	-	**3,744**	**4,463**
Deferred tax assets	-	-	-	-	-
Other financial investments	-	-	-	**2,256,782**	**2,256,782**
Cash and cash equivalents	**281,164**	-	-	-	**281,164**

*) Each rating includes all the ranges, for example: A includes A-up to A+.

**) See Note 38(g)(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, 2016				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Loans to affiliates**)	-	-	-	27,391	27,391
Debtors and receivables, excluding balances of reinsurers	34,291	14,630	-	1,789	50,710
Deferred tax assets	-	-	-	-	-
Other financial investments	-	-	-	2,012,000	2,012,000
Cash and cash equivalents	175,304	-	-	-	175,304

*) Each rating includes all the ranges, for example: A includes A-up to A+.

**) See Note 38(g)(9).

(e) Credit risks in respect of off balance sheet instruments (abroad):

	International rating *)				
	December 31, 2017				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	-	**9,304**	-	**6,561**	**15,865**

	International rating *)				
	December 31, 2016				
	A and above	BBB	Rated lower than BBB	Unrated	Total
	NIS in thousands				
Unutilized credit facilities	13,195	-	-	-	13,195

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.)

(1) (Cont.)

(e) In August 2017 the Commissioner gave his approval to Migdal Insurance using an internal credit rating model that was developed by it, further to an approval to use a credit rating model from August 2013. According to the approval, as regards provisions of the law concerning credit rating, the rating according to the model will be considered a rating that is parallel with respect to risk to the rating of a rating agency subject to the conditions provided in the approval.
According to the approval, as from the financial statements for the second quarter of 2017 Migdal Insurance will be permitted to allocate capital in respect of tailor made loans that were rated according to the model and are not rated by an external agency.

(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 765,307 thousand (2016 – NIS 719,100 thousand) see Note 10.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

4. Information regarding credit risks in respect of assets against non-yield dependent contracts: (Cont.)

b) Additional information regarding credit risks: (Cont.)

(6) Details of exposure of market branches to investments in quoted and unquoted financial debt assets:

	December 31, 2017		
	Balance sheet credit risk		Off-balance sheet risk
	Amount	%	
	NIS in thousands	of the total	NIS in thousands
Economic sector:			
Industry	699,227	2.0	-
Construction and real estate	1,160,987	3.4	46,447
Electricity and water	694,274	2.0	68,319
Commerce	46,302	0.1	-
Transportation and storage	218,460	0.6	-
Communication and computer services	358,197	1.0	-
Banks	2,384,308	6.9	-
Financial services	376,001	1.1	-
Other business services	138,956	0.4	25,907
Holding companies	80,497	0.2	6,998
Private individuals	467,889	1.4	-
Other	-	0.0	-
Government bonds	27,863,369	80.9	-
Total	34,488,467	100.0	147,671

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, 2016		
	Balance sheet credit risk		Off-balance sheet risk
	Amount	%	
	NIS in thousands	of the total	NIS in thousands
Economic sector:			
Industry	945,736	2.9	-
Construction and real estate	1,384,849	4.3	-
Electricity and water	525,984	1.6	76,840
Commerce	42,075	0.1	-
Transportation and storage	228,775	0.7	-
Communication and computer services	271,108	0.8	21,719
Banks	3,227,802	9.9	-
Financial services	355,443	1.1	-
Other business services	206,228	0.6	-
Holding companies	102,878	0.3	-
Private individuals	407,821	1.3	-
Other	208,429	0.6	-
Government bonds	24,661,951	75.8	-
Total	32,569,079	100.0	98,559

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, 2017									
	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	**27,863,369**	**3,370,815**	**811,335**	**31,989**	**35,102**	**605,038**	**4,564,832**	**37,282,480**	**(220,987)**	**37,061,493**
US	**-**	**182,784**	**211,651**	**518,988**	**30,869**	**-**	**394,528**	**1,338,820**	**21,951**	**1,360,771**
Switzerland	**-**	**33,210**	**-**	**22,721**	**-**	**-**	**589,261**	**645,192**	**-**	**645,192**
Other	**-**	**947,724**	**79,348**	**688,907**	**507,657**	**-**	**888,422**	**3,112,058**	**21,331**	**3,133,389**
Total amount	**27,863,369**	**4,534,533**	**1,102,334**	**1,262,605**	**573,628**	**605,038**	**6,437,043**	**42,378,550**	**(177,705)**	**42,200,845**

Details of countries/regions the exposure to which exceeds 1% of the investment:

	December 31, 2016									
	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	24,623,396	3,329,639	822,617	195,138	-	600,576	4,912,297	34,483,663	(33,050)	34,450,613
US	-	1,053,854	215,393	789,695	22,999	-	298,864	2,380,805	60,783	2,441,588
Switzerland	-	56,569	-	24,995	-	-	551,468	633,032	-	633,032
Other	18,563	902,747	68,956	656,717	219,177	-	589,443	2,455,603	73,403	2,529,006
Total amount	24,641,959	5,342,809	1,106,966	1,666,545	242,176	600,576	6,352,072	39,953,103	101,136	40,054,239

*) 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 Migdal Insurance from its commitment towards its 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 rating. These exposures are managed in the Company by individual assessment of each of the reinsurers.

In addition, Migdal Insurance's exposures are dispersed between various reinsurers, and the principal ones are reinsurers who are rated at relatively high ratings.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

4.1 Reinsurers' credit risks: (Cont.)

	December 31, 2017										
			Reinsurance assets							Debts in arrears (b)	
Rating group (d)	Total reinsurance premiums for 2017	Balances in debit (credit) net	In life assurance	In health insurance	In property insurance	In liability insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure (a) (c)	Between half a year and one year	Over one year
	NIS in thousands										
AA and above											
Swiss Reinsurance Co (e)	201,539	(27,756)	8,895	16,688	59,018	213,872	(* 151,044	-	119,673	-	-
Hannover Reinsurance Co	86,561	(18,358)	558	16,467	10,715	5,425	186	-	14,621	-	-
Others	184,789	(19,108)	98,054	9,502	95,084	79,832	28,661	5,950	228,753	-	-
	472,889	(65,222)	107,507	42,657	164,817	299,129	179,891	5,950	363,047	-	-
A											
Assicurazioni Generali SpA (f)	104,220	(4,076)	1,596	1,333	72,001	107,898	59	746	177,947	-	-
Others	210,838	(24,555)	2,214	926	133,774	95,826	34,516	308	173,361	-	-
	315,058	(28,631)	3,810	2,259	205,775	203,724	34,575	1,054	351,308	-	-
BBB											
Lower than BBB – or unrated (g)	-	(50)	-	-	80	-	-	-	30	-	-
Total	5,973	(4,861)	-	-	1,603	4,329	584	-	487	106	255
	793,920	(98,764)	111,317	44,916	372,275	507,182	215,050	7,004	714,872	106	255

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 2,012 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 2,012 thousand which constitutes about 0.3% of the exposure at December 31, 2017.
   (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) Includes balances deriving from a reinsurance agreement in the framework of the acquisition of a run-off general insurance portfolio. For details see Note 38.e.2.
   (f) 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 64 million in respect of one policyholder.
   (g) The unrated group includes balances for outstanding claims through brokers from businesses that were received up to and including 2003 in the amount of about NIS 1,138 thousand.
2. The total exposure of the reinsurers for an earthquake event in general insurance is about NIS 5,531 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 1,076 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 2017. There is also an exposure of about NIS 92 million to an Israeli insurance company with respect to life assurance reinsurance.

*) See Note 38.e.2.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

4.1 Reinsurers' credit risks: (Cont.)

	December 31, 2016										
			Reinsurance assets							Debts in arrears (b)	
Rating group (d)	Total reinsurance premiums for 2016	Balances in debit (credit) net	In life assurance	In health insurance	In property insurance	In liability insurance	Deposits by reinsurers	Amount of letters of credit received from reinsurers	Total exposure (a) (c)	Between half a year and one year	Over one year
	NIS in thousands										
AA and above											
Swiss Reinsurance Co (e)	223,261	(30,896)	6,214	11,380	61,824	284,453	(* 236,707	-	96,268	-	-
Others	178,317	(20,636)	97,820	23,758	62,523	81,008	13,226	6,284	224,963	-	1
	401,578	(51,532)	104,034	35,138	124,347	365,461	249,933	6,284	321,231	-	1
A											
Assicurazioni Generali SpA (f)	128,652	(10,466)	3,095	1,000	98,107	106,991	183	827	197,717	-	-
Others	192,035	(28,834)	4,930	385	103,769	73,403	33,580	657	119,416	669	6
	320,687	(39,300)	8,025	1,385	201,876	180,394	33,763	1,484	317,133	669	6
BBB	1,377	(178)	-	-	937	-	498	-	261	-	-
Lower than BBB – or unrated (g)	3,395	(5,129)	100	-	325	4,690	-	-	(14)	151	258
Total	727,037	(96,139)	112,159	36,523	327,485	550,545	284,194	7,768	638,611	820	265

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 2,172 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 2,172 thousand which constitutes about 0.3% of the exposure at December 31, 2016.
   (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) Includes balances deriving from a reinsurance agreement in the framework of the acquisition of a run-off general insurance portfolio. For details see Note 38.e.2.
   (f) 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 71 million in respect of one policyholder.
   (g) 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 1,195 thousand.
2. The total exposure of the reinsurers for an earthquake event in general insurance is about NIS 5,025 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 1,192 million.

*) See Note 38.e.2.

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. In 2016 the economic data showed a continuation in growth and low unemployment. 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, and form a basis for imposing sanctions, monetary claims and in the extreme case also cancellation of a license.

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.)

Several significant arrangements were published in recent years that could impact on the Group's profitability, such as: consolidation, simplification and transparency of pension products, increasing competition in the industry, changing the method for allocating designated bonds, prohibition on connection between the rate of the distribution fee paid to an agent and the management fees, annulment of the payment of distribution commissions on a pension product sold not in a regular pension consultation process, reduction in management fees, creating uniform formats for risk insurance products, a circular on the marketing of life assurance policies that include guaranteed life expectancy annuity factors, and more.

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 and there is also natural uncertainty regarding their inception. 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.

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 wide range of products offered by the Company in most of the areas of insurance reduces this exposure.
The Company deals with this risk by monitoring the public's preferences and adjusting its products accordingly.

e) Legal risks - legal precedents, class and derivative actions, authorities of the Commissioner and interpretation

The Group companies are exposed to judicial decisions, including class and derivative action suits which are filed against the Group companies and against other entities in the industry, which can create for it a potential obligation to pay material amounts, and create a binding legal precedent with respect to the Group’s operations, mainly in all that concerns the payment of insurance claims and increasing the payment in respect thereto that was anticipated at the time it issued the policy, and accordingly to affect its operations and/or financial results and increase its insurance liabilities.

The Group’s exposure to class and derivative actions includes exposure with respect to cases that a legal proceeding has been initiated in their respect, cases that the potential exposure to the filing of a class or derivative action has come to the attention of Group companies by either them discovering it on their own and/or by various communications of customers, and cases that the Group companies are not aware of. In recent years there has been an increase in the number of motions to certify class actions that are filed and in the number of motions to certify class actions that are accepted by the courts. In the Company’s opinion this is affected by, inter alia, a general change in the courts’ approach to class actions in general and the unique characteristics of the insurance, pension and provident industries in particular. Regarding class actions, legal proceedings and other proceedings, including claims and proceedings that are related to regulatory risks or operational risks – see Note 39.1.f.9) to the financial statements.

Furthermore, the Group’s institutional bodies are subject to various decisions in circulars, rulings, positions and so forth, that are issued by the Commissioner as to the method of operation of those bodies, and they are subject to audits that are performed by the Commissioner from time to time.

NOTE 37:- RISK MANAGEMENT (Cont.)

b. Details of the risks: (Cont.)

5. General risks: (Cont.)

e) Legal risks - legal precedents, class and derivative actions, authorities of the Commissioner and interpretation (Cont.)

These proceedings may lead to the institutional bodies being charged significant sums and/or to an order to operate with respect to insurance/pension/provident plans that were sold in the past, in a manner different from that which was the basis for their original sale by the Group and which may increase the costs of these products, including the imposing of financial sanctions on it. For ways of coping by the Company see b(5)(b) above.

The complexity of the Group’s operation and its extent, and particularly the long term of insurance agreements, create a material exposure to legal risks that may derive from deficiencies in legal documents, including reinsurance policies and contracts, from operational deficiencies in the implementation of agreements and from changes that occur over time in interpretation, also with respect to products that were sold may years ago.

The management of legal risks involves providing ongoing legal consultation to the governing bodies of the Company on various matters involving the Company’s operations, continuously examining the 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.

f) 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, 2017					
	In unlinked NIS	In NIS linked to the CPI	In foreign currency *)	Non-monetary and others	Yield dependent	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,182,273	-	1,182,273
Deferred tax assets	-	-	-	5,639	-	5,639
Deferred acquisition costs	-	-	-	1,963,363	39	1,963,402
Fixed assets	-	-	-	644,399	-	644,399
Investments in affiliates	10,416	51	-	337,183	-	347,650
Investment property for yield dependent contracts	-	-	-	-	5,992,310	5,992,310
Other investment property	-	-	-	605,038	-	605,038
Reinsurance assets	168,285	839,873	18,416	-	9,116	1,035,690
Current tax assets	-	95,494	11,663	-	21,987	129,144
Debtors and receivables	218,932	1,538	53,838	24,024	360,300	658,632
Outstanding premiums	62,348	316,119	34,560	-	352,280	765,307
Financial investments for yield dependent contracts	-	-	-	-	85,292,178	85,292,178
Other financial investments:						
Quoted debt assets	3,628,859	5,939,127	1,371,916	-	-	10,939,902
Unquoted debt assets	560,754	22,646,532	341,279	-	-	23,548,565
Shares	-	-	-	1,102,334	-	1,102,334
Others	49,722	-	2,900	2,513,222	-	2,565,844
Total other financial investments	4,239,335	28,585,659	1,716,095	3,615,556	-	38,156,645
Cash and cash equivalents for yield dependent contracts	-	-	-	-	8,497,605	8,497,605
Other cash and cash equivalents	1,945,658	-	354,039	-	-	2,299,697
Total assets	6,644,974	29,838,734	2,188,611	8,377,475	100,525,815	147,575,609

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the Dollar and the Euro or from the linkage to them.

NOTE 37:- RISK MANAGEMENT (Cont.)

c. Details of assets and liabilities distributed into linkage basis: (Cont.)

	December 31, 2017					
	In unlinked NIS	In NIS linked to the CPI	In foreign currency *)	Non-monetary and others	Yield dependent	Total
	NIS in thousands					
Total equity	-	-	-	5,907,862	-	5,907,862
Liabilities						
Liabilities in respect of non-yield dependent insurance and investment contracts	759,549	34,134,524	50,127	-	-	34,944,200
Liabilities in respect of yield dependent insurance and investment contracts	-	-	-	-	99,893,451	99,893,451
Deferred tax liabilities	-	-	-	579,937 -		579,937
Liabilities for employee benefits, net	83,817	-	-	98,387	146,225	328,429
Liabilities in respect of current taxes	26,997	-	-	-	-	26,997
Creditors and payables	1,058,531	521,573	169,700	125,484	248,810	2,124,098
Financial liabilities	2,785,003	838,601	16,434	57,055	73,542	3,770,635
Total liabilities	4,713,897	35,494,698	236,261	860,863	100,362,028	141,667,747
Total equity and liabilities	4,713,897	35,494,698	236,261	6,768,725	100,362,028	147,575,609
Total balance sheet exposure	1,931,077	(5,655,964)	1,952,350	1,608,750	163,787	-
Exposure to base assets through derivative instruments in delta terms	4,483,751	-	(4,302,971)	(180,780)	-	-
Total exposure	6,414,828	(5,655,964)	(2,350,621)	1,427,970	163,787	-

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the Dollar and the Euro or from the linkage to them.

NOTE 37:- RISK MANAGEMENT (Cont.)

c. Details of assets and liabilities distributed into linkage basis: (Cont.)

	December 31, 2016					
	In unlinked NIS	In NIS linked to the CPI	In foreign currency *)	Non-monetary and others	Yield dependent	Total
	NIS in thousands					
Assets						
Intangible assets	-	-	-	1,224,390	-	1,224,390
Deferred tax assets	-	-	-	10,665	-	10,665
Deferred acquisition costs	-	-	-	1,894,327	49	1,894,376
Fixed assets	-	-	-	677,120	-	677,120
Investments in affiliates	18,831	102	-	296,521	-	315,454
Investment property for yield dependent contracts	-	-	-	-	5,686,004	5,686,004
Other investment property	-	-	-	600,576	-	600,576
Reinsurance assets	155,035	854,816	8,699	-	8,162	1,026,712
Current tax assets	-	272,703	23,527	-	16,011	312,241
Debtors and receivables	211,704	4,501	137,270	26,510	628,665	1,008,650
Outstanding premiums	254,371	231,533	53,136	-	180,060	719,100
Financial investments for yield dependent contracts	-	-	-	-	76,296,715	76,296,715
Other financial investments:						
Quoted debt assets	2,325,719	4,349,397	2,279,585	-	-	8,954,701
Unquoted debt assets	1,071,867	22,300,134	242,377	-	-	23,614,378
Shares	-	-	-	1,106,966	-	1,106,966
Others	3,090	-	35,656	2,438,167	-	2,476,913
Total other financial investments	3,400,676	26,649,531	2,557,618	3,545,133	-	36,152,958
Cash and cash equivalents for yield dependent contracts	-	-	-	-	7,267,318	7,267,318
Other cash and cash equivalents	1,681,795	-	264,047	-	-	1,945,842
Total assets	5,722,412	28,013,186	3,044,297	8,275,242	90,082,984	135,138,121

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the Dollar and the Euro or from linkage to them.

NOTE 37:- RISK MANAGEMENT (Cont.)

c. Details of assets and liabilities distributed into linkage basis: (Cont.)

	December 31, 2016					
	In unlinked NIS	In NIS linked to the CPI	In foreign currency *)	Non-monetary and others	Yield dependent	Total
	NIS in thousands					
Total equity	-	-	-	5,391,785	-	5,391,785
Liabilities	-	-	-	-	-	-
Liabilities in respect of non-yield dependent insurance and investment contracts	878,648	32,883,611	27,456	-	-	33,789,715
Liabilities in respect of yield dependent insurance and investment contracts	-	-	-	-	89,523,192	89,523,192
Deferred tax liabilities	-	-	-	466,704	-	466,704
Liabilities for employee benefits, net	72,987	-	-	99,575	142,572	315,134
Liabilities in respect of current taxes	-	2,748	-	-	-	2,748
Creditors and payables	914,697	468,824	230,620	52,849	99,479	1,766,469
Financial liabilities	2,787,155	835,454	48,325	42,493	168,947	3,882,374
Total liabilities	4,653,487	34,190,637	306,401	661,621	89,934,190	129,746,336
Total equity and liabilities	4,653,487	34,190,637	306,401	6,053,406	89,934,190	135,138,121
Total balance sheet exposure	1,068,925	(6,177,451)	2,737,896	2,221,836	148,794	-
Exposure to base assets through derivative instruments in delta terms	4,442,985	-	(4,558,419)	115,434	-	-
Total exposure	5,511,910	(6,177,451)	(1,820,523)	2,337,270	148,794	-

*) Exposure to the foreign currency exchange rates mainly arises from the exposure to the Dollar and the Euro or from linkage to them.

NOTE 37:- RISK MANAGEMENT (Cont.)

d. Information regarding financial investments for yield dependent contracts:

1. Composition of investments according to linkage basis:

	December 31, 2017				
	In unlinked NIS	In NIS linked to the CPI	In foreign currency	Non-monetary and others	Total
	NIS in thousands				
Cash and cash equivalents	**7,645,663**	**-**	**851,942**	**-**	**8,497,605**
Quoted assets	**10,739,400**	**17,088,334**	**2,698,393**	**33,724,946**	**64,251,073**
Unquoted assets	**6,733,811**	**8,210,942**	**2,009,240**	**10,823,144**	**27,777,137**
Total assets	**25,118,874**	**25,299,276**	**5,559,575**	**44,548,090**	**100,525,815**
Exposure to the base asset through derivative instruments in delta terms	**10,189,386**	**57,700**	**(19,861,015)**	**9,613,929**	**-**

	December 31, 2016				
	In unlinked NIS	In NIS linked to the CPI	In foreign currency	Non-monetary and others	Total
	NIS in thousands				
Cash and cash equivalents	4,489,872	-	2,777,446	-	7,267,318
Quoted assets	9,087,108	16,627,526	3,563,051	30,771,971	60,049,656
Unquoted assets	4,082,091	7,498,908	1,741,380	9,443,631	22,766,010
Total assets	17,659,071	24,126,434	8,081,877	40,215,602	90,082,984
Exposure to the base asset through derivative instruments in delta terms	13,132,836	-	(22,875,167)	9,742,331	-

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, 2017				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	**15,254,974**	**-**	**-**	**-**	**15,254,974**
Other debt assets - quoted	**10,122,507**	**2,492,811**	**33,821**	**-**	**12,649,139**
Other debt assets - unquoted	**9,320,735**	**3,296,517**	**-**	**2,145,833**	**14,763,085**
Total debt assets in Israel	**34,698,216**	**5,789,328**	**33,821**	**2,145,833**	**42,667,198**
Of which debt assets at internal rating	**1,525,032**	**1,033,637**	**-**	**-**	**2,558,669**
Includes debt assets at internal rating whose rating was reduced by the Company	**414,831**	**26,475**	**-**	**-**	**441,306**

	Local rating *)				
	December 31, 2016				
	AA and above	BBB to A	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Debt assets in Israel:					
Government bonds	14,280,712	-	-	-	14,280,712
Other debt assets - quoted	8,564,457	2,844,703	36,579	39,188	11,484,927
Other debt assets - unquoted	7,106,844	3,246,215	113,384	1,092,908	11,559,351
Total debt assets in Israel	29,952,013	6,090,918	149,963	1,132,096	37,324,990
Of which debt assets at internal rating	1,729,436	1,888,242	16,788	-	3,634,466
Includes debt assets at internal rating whose rating was reduced by the Company	-	589,928	-	-	589,928

*) The sources for the rating level in Israel are Maalot, Midroog and an internal rating. The rating of Midroog was converted into the 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, 2017				
	A and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	**49,459**	**2,031,403**	**893,624**	**973,273**	**3,947,759**
Of which debt assets with internal rating	**-**	**-**	**-**	**-**	**-**

	International rating *)				
	December 31, 2016				
	A and above	BBB	Lower than BBB	Not rated	Total **)
	NIS in thousands				
Total debt assets abroad	634,068	2,711,648	914,967	34,427	4,295,110
Of which debt assets with internal rating	576,723	-	-	-	576,723

*) The sources for the international rating level 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 ultimate shareholders of the Company are Mr. and Mrs. Shlomo and Haya Eliahu through Eliahu Issues (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).

   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.

   As of the financial statement date, the directive is only applicable to Union Bank.

   See details and data of transactions with Union Bank ("other related party") in paragraphs c-d and f below.

[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. Details and data of engagements with affiliates are presented in c, d and g 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 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: 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(a3)(1) 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).

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 22, 2017, the Company's Board decided to update the guidelines and rules for classifying transactions with an interested party and/or controlling shareholder as immaterial. According to this decision, such 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 one of the following conditions is met:

      a) Insurance transaction –
         1. The total amount of the premiums from the transaction, including separate transactions that are interdependent, does not exceed NIS 2 million (adjusted for the increase in the Consumer Price Index in relation to the known CPI for January 2017) and the premium ratio does not exceed 0.5%.
         2. The liabilities ratio in the relevant area does not exceed 0.5% (for the purpose of calculating the liability ratio, the liability that is the subject of the event will be the insurance amount).

      b) Life assurance and long-term savings, health insurance and finance transactions – the transactions are made at the same terms awarded to Group employees.

      c) Other engagements –

         1. The scope of the individual transaction does not exceed NIS 5 million (in an investment transaction the scope of the transaction with the controlling shareholder or interested party will be examined according to the commissions or management fees receivable/payable by the controlling shareholder/interested party, as relevant), adjusted to the rate of increase in the Consumer Price Index in relation to the known CPI for January 2017.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. The Company's policy on immaterial transactions (Cont.)

4. (Cont.)

2) (Cont.)

c) Other engagements – (Cont.)

And

2. The result of measuring the transaction against the relevant benchmark(s) as discussed below does not exceed 0.5%.

The relevant benchmarks for classifying a certain transaction 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 (including taking out credit) - liability ratio.

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.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. The Company's policy on immaterial transactions (Cont.)

4. (Cont.)

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. Separate transactions that are interdependent, so that they are actually a part of one engagement, will be examined as one transaction.

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 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 5 million, linked to the CPI as discussed above.

7. The examination of the qualitative considerations of a controlling shareholder or interested party 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 or interested party transaction the controlling shareholder or interested party, as relevant, is 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 and interested party 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 parties

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, 2017		
	Eliahu Group	Union Bank and other related parties *)	Affiliates
	NIS in thousands		
Debtors and receivables	**2,526**	**-**	**11,321**
Debt assets **)	**-**	**98,001**	**24,885**
Shares	**-**	**3,033**	**-**
Creditors and payables	**-**	**(648)**	**-**
Financial liabilities	**-**	**(5,956)**	**(2,687)**

*) The highest balance of debt assets of an interested party during the year amounted to NIS 126,694 thousand.

**) 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, 2016		
	Eliahu Group	Union Bank and other related parties *)	Affiliates
	NIS in thousands		
Debtors and receivables	4,668	826	1,605
Debt assets **)	-	139,040	46,324
Shares	-	150,090	-
Creditors and payables ***)	-	(752)	-
Financial liabilities ***)	-	(9,954)	(2,261)

*) The highest balance of debt assets of an interested party during the year amounted to NIS 196,414 thousand.

**) 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.

***) In September 2016, as part of an issuance of bonds (Series E) of Migdal Capital Raising, a subsidiary of Migdal Insurance, Union Bank acquired a par value of about NIS 10 million

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Transactions with interested and related parties

	Year ended December 31, 2017		
	Eliahu Group	Union Bank and other related parties	Affiliates
	NIS in thousands		
Premiums received	**408**	**975**	**-**
Commissions and profit participating in group insurances	**-**	**112**	**-**
Claims paid	**229**	**33**	**-**
Distribution and operating agreements	**-**	**1,053**	**-**
Agent commission and other commissions	**-**	**626**	**671**
Revenue from leasing fees/usage fees	**-**	**38**	**-**
Revenue from management fees	**-**	**-**	**917**
Transaction costs	**1,042**	**-**	**-**
Other	**(2)**	**(8,715)**	**429**

	Year ended December 31, 2016		
	Eliahu Group	Union Bank and other related parties	Affiliates
	NIS in thousands		
Premiums received	422	995	34
Commissions and profit participating in group insurances	-	146	-
Claims paid	120	166	25
Distribution and operating agreements	-	1,091	-
Agent commission and other commissions	-	765	5,341
Revenue from leasing fees/usage fees	-	56	-
Revenue from management fees	-	-	1,200
Transaction costs	910	-	-
Other	-	(743)	2,995

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Transactions with interested and related parties (Cont.)

	Year ended 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
Revenue from leasing fees/usage fees	-	-	189
Revenue from management fees	-	-	900
Transaction costs	2,206	-	-
Other	-	(425)	907

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	April 5, 2016 - 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 2017 approximated NIS 1,042 thousand (cost to employer and before salary tax effect) plus a provision for a bonus[2]. The terms of employment were approved for the first time in March 2013. By law, the current approval is in effect until January 1, 2019. See more details of the terms of Mr. Eliahu Eliahu's tenure in the Company’s immediate report of March 23, 2016, reference no.: 2016-01-013122, regarding the convening of the general meeting and immediate report of March 5, 2016 (reference no.: 2016-01-042220) regarding the results of the general meeting.
		December 30, 2016 - approval of the Company's general meeting	Bonuses for 2017 up to and including 2019 - approval of a normative annual bonus in the amount of NIS 200 thousand to Mr. Eliahu Eliahu for each calendar year from 2017 up to and including 2019. According to the updated remuneration policy, the annual bonus of Mr. Eliahu Eliahu will be based on performance. The amount of the bonus in each calendar year will be determined based on the normative bonus according to a performance scale of 70% to 140%. At a scale of 100%, the bonus will be equal to the normative bonus; at a scale below 70%, Mr. Eliahu Eliahu will not be entitled to any bonus; at a scale of 140% and above, Mr. Eliahu Eliahu 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 December 22, 2016 (complementary immediate report regarding the convening of the general meeting), reference no.: 2016-01-142339 and the immediate report of January 1, 2017 regarding the results of the general meeting (reference no: 2017-01-000333). For details on the approval of the normative bonus to Mr. Eliahu Eliahu for the years 2014 up to and including 2016, at terms similar to those of the bonus that was approved for the years 2017 up to and including 2019, see the 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.

2 Subject to approval of the governing bodies.

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[1]**	**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, 2016 amounts to about NIS 207 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 transferred to Migdal Insurance 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 also the amount of indirect expenses (see hereunder regarding approval of an amendment to the amount of indirect expenses).

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[1]**	**Nature and description of the transaction**
	Eliahu Insurance (Cont.)		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 profits of Migdal Insurance, 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. Accordingly, as at balance sheet date provisions in the amount of about NIS 2.5 million have been recorded, see Note 39.c. On April 21, 2016, after having been approved by the Court, the transaction was closed and the insurance portfolio was transferred to the responsibility of Migdal Insurance. 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), the report of February 3, 2016 regarding the results of the general meeting (reference no.: 2016-01-022456) and the immediate report of April 24, 2016 regarding the closing of the transaction (reference no.: 2016-01-054871). As regards motions filed to certify class actions, see Note 39b.1 claims 27 and 30.

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[1]**	**Nature and description of the transaction**
	Eliahu Insurance (Cont.)	August 4, 2016 – approval of the Company’s Board	Approval of an amendment to the agreement for acquisition of a run-off general insurance portfolio due to an error in the original version of the agreement with respect to calculation of the amount of indirect expenses – most of the amendment relates to the method of calculating the indirect expenses Eliahu Insurance was required to transfer to Migdal Insurance upon the closing of the agreement, such that according to the aforesaid amendment the amount of the indirect expenses will be calculated as 3% of the adjusted actuarial assessment, before reinsurance (instead of 3% of the “original” actuarial assessment (i.e. the actuarial assessment as at the determining date, June 30, 2015), before reinsurance). According to the adjusted actuarial assessment, (as at the closing date, according to the data as at March 31, 2016), the amount of indirect expenses according to the aforesaid amendment amounted to NIS 9.8 million. For further details see the report of June 28, 2016 regarding the convening of the general meeting (reference No.: 2016-01-068974) and the report of August 4, 2016 regarding the results of the general meeting (reference no.: 2016-01-097930).
3	Israel Eliahu	March 22, 2017 – 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 129 thousand and a fee of NIS 5 thousand 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 once a year based on the increase in the CPI. These terms, which were approved for the first time in November 2013, are 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 2017 amounted to about NIS 274 thousand (overall cost). See more details in immediate report of November 19, 2013 (reference no.: 2013-01-196653) and in immediate report of March 22, 2017 (reference no.: 2017-01-027750).
4	Ofer Eliahu	December 30, 2016 - 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 i(4)(c) below.

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[1]**	**Nature and description of the transaction**
5	The controlling shareholder and his relatives serving as officers in the Company	November 28, 2017 - approval of the Company's Board to the insurance of officers	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 i(4)(e) below. This insurance coverage for the controlling shareholder and/or his relatives was approved in accordance with Regulation 1b to the Reliefs Regulations.
		December 30, 2016 – approval of the general meeting to granting letters of indemnification and release letters	Indemnification of officers who are the controlling shareholder or his relatives – On December 30, 2016 the Company's general meeting approved granting letters of indemnification also to officers who are the controlling shareholders and his relatives. Grant of release letters – On December 30, 2016 the general meeting approved granting release letters to officers and directors, including directors who are the controlling shareholders or his relative, who did not have release letters on that date. For further details see the Company's immediate report of December 22, 2016 regarding the convening of a general meeting (complementary report) that its agenda includes, inter alai, approval to granting the letters of indemnification and release, reference no.: 2016-01-142339, and the Company's immediate report of January 1, 2017 regarding the results of the meeting, reference no.: 2017-01-000333. For details of letters of indemnification and release 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[1]**	**Nature and description of the transaction**
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 2015, 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).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

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:

Non-extraordinary transactions that are not insignificant with controlling shareholder		
Party to the transaction with the Company	**Date of approval/ approving entity[1]**	**Nature and description of the transaction**
Union Bank	February 21, 2018 - approval of the Company's Audit Committee for the Company, Migdal Insurance and Migdal Insurance's subsidiaries November 19, 2016 - approval of the Company's Audit Committee for Migdal Capital Markets and its subsidiaries	Current banking activity - engagements with Union Bank and its 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. The engagements were approved for the first time in January 2013 and will be reapproved every three years, if and to the extent required. The scope of payments made by the Group companies to Union Bank for brokerage and custodian services in 2017, 2016 and 2015 totaled about NIS 326 thousand, NIS 364 thousand and NIS 323 thousand, respectively.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Affiliates

1. Regarding investments in affiliates see Note 7 above on investment in investees.

2. During June 2009, Migdal Real Estate Holdings Ltd. ("Real Estate Holdings"), a subsidiary of Migdal Insurance, 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. During 2015 the outstanding balance of the capital notes was repaid.

3. a) In the second half of 2014, Ramat Aviv granted a loan to its shareholders according to their holding rate. 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.

   b) At the beginning of 2015 Ramat Aviv provided loans to its shareholders, according 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 2015.

   c) In September 2016 Real Estate Holdings granted a loan in the amount of NIS 23 million to Ramat Aviv. The loan was granted to Ramat Aviv by its shareholders according to their holding rate. The loan bears annual interest of 4% and is payable out of Ramat Aviv’s cash surpluses, as they may be from time to time. As at December 31, 2017 the balance of the loan is NIS 10 million and as at December 31, 2016 is NIS 19 million.

   d) In respect of the loans received from Ramat Aviv, finance expenses were recorded in 2015 totaling about NIS 30 thousand.

   e) In respect of the capital notes issued by Ramat Aviv and loans granted to Ramat Aviv, finance expenses were recorded in 2017, 2016 and 2015 totaling about NIS 588 thousand, NIS 211 thousand and NIS 240 thousand, respectively.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

g. Affiliates (Cont.)

4. Migdal Insurance paid, Reshef Insurance Agency (2004) Ltd., an affiliate of the Company up to its sale at the end of the third quarter of 2015, commissions for marketing insurance products and pension products in 2015 in the amount of about NIS 2,130 thousand.

5. Migdal Insurance paid Orlan Insurance Agencies (1994) Ltd., an affiliate until the acquisition of full control in it at the end of 2016, commissions for marketing insurance products and pension products in 2016 and 2015 in the amount of about NIS 4,620 thousand and NIS 4,052 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 until the acquisition of full control in it at the end of 2016, a loan of NIS 1 million, linked to the CPI and bearing annual interest of 3.5%. The loan was repaid in equal annual installments until January 2016. The balance of the loan as of December 31, 2015 is NIS 48 thousand. Finance income was recorded in respect of the loan in 2015 in the amount of about NIS 5 thousand.

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 2015 Migdal Insurance provided another two loans to the affiliate in the amount of about NIS 3,549 thousand. The investment in the affiliate was sold at the end of the second quarter of 2016. The balance of the loan as of December 31, 2015 was about NIS 9,802 thousand. Finance income was recorded in respect of these loans in 2016 and 2015 in the amount of about NIS 327 thousand and NIS 413 thousand.

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, 2017 is NIS 24,823 thousand and as of December 31, 2016 is NIS 27,391 thousand. Finance income was recorded in respect of these loans in 2017 and 2016 in the amount of about NIS 93 thousand and NIS 2,457 thousand, respectively. 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.)

h. 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.

i. Data of the remuneration and benefits to key management personnel

1. Benefits to key management personnel

	Year ended December 31,					
	2017		2016		2015	
	Number of persons	Amount	Number of persons	Amount	Number of persons	Amount
		NIS in thousands		NIS in thousands		NIS in thousands
Short-term benefits	7	13,465	9	11,802	10	15,176
Post-employment benefits	7	1,638	9	1,846	9	1,416
Other long-term benefits	6	(30)	8	3	8	-
Share-based payment (see Note 33)	-	-	4	(221)	4	74
		15,073		13,430		16,666

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. Data of the remuneration and benefits to key management personnel (Cont.)

2. Benefits to directors not employed by the Company

	Year ended December 31,					
	2017		2016		2015	
	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	**11**	**3,662**	10	5,211	10	4,451
		3,662		5,211		4,451

3. The remuneration policy for the Company's officers

a) Remuneration policy of institutional entities for 2017 through 2019

Current remuneration policy of institutional entities

On November 7, 2017 and November 22, 2017 the boards of the institutional entities approved changes in the remuneration policy ("the current institutional remuneration policy"), in view of the wish to update the remuneration policy according to issues that arose in the course of applying the institutional remuneration policy that was approved in November 2016.

The institutional remuneration policy is in keeping with the Commissioner of the Capital Market's circular of April 10, 2014, the Commissioner's circular of October 7, 2015 on the remuneration policy in institutional entities - amendment (the original Commissioner's circular and the revised remuneration policy circular are referred to together in this section as "the Commissioner's circular") and the Law for the Remuneration of Officers in Financial Corporations (Special Approval and Limitation of Expenses due to Irregular Remuneration), 2016 (“the remuneration law”). According to the Commissioner's circular, the governing bodies must examine the policy on an annual basis and such examination and update of the institutional remuneration policy were carried out as a part of that examination.

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,

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. Data of the remuneration and benefits to key management personnel (Cont.)

3. The remuneration policy for the Company's officers (Cont.)

a) Remuneration policy of institutional entities for 2017 through 2019) (Cont.)

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.

The current institutional remuneration policy replaced the institutional remuneration policy for 2017 through 2019 that was approved on November 21, 2016 and November 24, 2016 by the boards of the institutional entities. The policy that was approved in November 2016 replaced the remuneration policy that was approved for 2014 through 2016.

b) Remuneration policy of the Company for 2017 through 2019

On December 12, 2017 the Company's general meeting approved changes in the Company's remuneration policy ("the current remuneration policy"), in view of the Company's wish to update the remuneration policy according to issues that arose in the course of applying the remuneration policy that was approved in December 2016. For further details regarding the current remuneration policy and the changes compared to the previous remuneration policy, see the Company's immediate report of November 7, 2017 reference no. 2017-01-097540,

The current remuneration policy replaced the remuneration policy for 2017 through 2019 that was approved on December 30, 2016 by the Company's general meeting which, inter alia, was adjusted according to the updates in regulation that apply to the Company and the institutional entities it controls (including provisions of the remuneration law) and the issues that arose in the course of applying the previous remuneration policy. That remuneration policy replaced the remuneration policy for 2014 through 2016.

For further details regarding the remuneration policy that was approved in December 2016 and the changes in that remuneration policy compared to the remuneration policy for 2014 through 2016, see the Company's immediate report of December 22, 2016 regarding the convening of a general meeting (complementary report), reference no.: 2016-01-142339. For details regarding the Company's remuneration policy for 2014 through 2016, see the Company's immediate reports of September 22, 2014, October 27, 2014 and June 30, 2014 reference nos. 2014-01-161913, 2014-01-181653 and 2014-01-103386, respectively).

The remuneration policy applies to all officers in the Company, while 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.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. Data of the remuneration and benefits to key management personnel (Cont.)

3. The remuneration policy for the Company's officers (Cont.)

c) The main issues prescribed in the current institutional remuneration policy and current remuneration policy of the Company for 2017 to 2019 are as follows:

- A ceiling was set for the maximum forecasted annual cost of the Chairman of the Board, CEO and officers.
- Provisions regarding the fixed component – limitations on monthly salary, related benefits, linkage, guaranteed annual bonus, etc.
- Multiplication ratio for the chairman of the board of institutional entities
- Provisions regarding the variable component/annual bonus – the measurement period, spread of the variable component, components of the variable component (the Company's targets, personal targets and component of overall discretion and evaluation) and its method of calculation, threshold conditions for paying the annual bonus and its deferred components, possibility to grant a variable component also when not all the threshold conditions are met and the ratio between the fixed salary components and the variable salary components.
- Arrangements for returning the variable component under circumstances specified in the policy.
- Provisions regarding the termination of employment.

4. Interested party - Chairman of the Board/CEO of the Company and of Migdal Insurance

a) Mr. Shlomo Eliahu served as a director in the Company and in Migdal Insurance from October 29, 2012 and as a 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. On this matter see the Company’s immediate report of February 24, 2014, reference no.: 2014-01-046135.

b) Mr. Yohanan Danino was appointed as a director in the Company on November 24, 2015 and as Chairman of the Board on December 16, 2015. On November 23, 2017 Mr. Yohanan Danino notified Mr. Shlomo Eliahu of his intention to conclude his service with the Company and Migdal Insurance. The exact date will be decided later on with the Company and Migdal Insurance being granted a preparation period as much as required. As regards the appointment of Mr. Oded Sarig as the Chairman of the Board of Migdal Insurance, see Note 40a.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. 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 (Cont.)

b) (Cont.)

On December 30, 2016 the Company's general meeting approved a change in the terms of service of Mr. Yohanan Danino effective as from October 12, 2016. The terms of service of Mr. Yohanan Danino, as were in effect from November 24, 2015 until the date of the aforesaid change, were approved by the Company's general meeting on January 21, 2016. For details on the terms of service of Mr. Yohanan Danino until the date they were updated as aforesaid, see the Company's immediate report of December 29, 2015, reference no. 2015-01-192060 and of January 21, 2016, reference no. 2016-01-015373.

After the approval of the general meeting, effective as from October 12, 2016, the terms of services were as described hereunder: Mr. Yohanan Danino will provide the Company services at a full time position (100%). The overall remuneration of Mr. Yohanan Danino will amount to NIS 2.578 million (i.e., according to the new remuneration policy that was approved at the same time as the terms of service of Mr. Yohanan Danino, 90% of the cost of remuneration of the CEO of Migdal Insurance which is NIS 2.865 million). The monthly management fees, after Mr. Yohanan Danino converted his right to receive a car into a reimbursement of maintenance and use expenses, will amount to NIS 215 thousand. The Company will bear the current annual tax cost deriving from the "disallowed expense" according to the remuneration law in the amount of NIS 54 thousand.

Further to the update in the terms of service, a new service agreement was signed between Mr. Yohanan Danino and the Company and Migdal Insurance. According to the new service agreement, Mr. Yohanan Danino will provide the services to the Company and Migdal Insurance as a licensed dealer and not through a company fully controlled by him. This change has no effect on the terms of service of Mr. Yohanan Danino and/or their cost for the Company, as described above.

Similar to the previous service agreement that was signed with Mr. Yohanan Danino, the new service agreement is for an indefinite period of time. Each of the parties may terminate the agreement at any time and for any reason by providing an advance notice of 6 months. The agreement includes provisions regarding non-competition for a period of 6 months and provisions for terminating the agreement without an advance notice upon the occurrence of events and circumstances defined in the agreement as justifying termination without an advance notice. The overall remuneration paid to Mr. Yohanan Danino in 2017 amounted to NIS 2,048 thousand, after eliminating a provision for a perseverance bonus as described hereunder.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. 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 (Cont.)

b) (Cont.)

For further details regarding the updated terms of service of Mr. Yohanan Danino, see the immediate report that was issued by the Company on December 22, 2016, regarding the convening of a general meeting (complementary report) having on its agenda, inter alia, approval of the new terms of employment of Mr. Yohanan Danino reference no. 2016-01-142339, and the Company's immediate report of January 1, 2017 regarding the results of the meeting, reference no. 2017-01-000333.

Presented hereunder is a description of the terms of service of Mr. Yohanan Danino as they were until October 12, 2016: Mr. Yohanan Danino provided the Company services through a company he fully controls, at the capacity of a 90% position, according to an agreement from November 2, 2015. The monthly management fees of Mr. Yohanan Danino amounted to NIS 187 thousand, which were linked to the Consumer Price Index and adjusted each year. He was entitled to reimbursement of expenses and to a company car (group 7) (100% grossed up). As part of the terms of service and in exchange for his commitment to provide services for at least 24 months according to the agreement ("the perseverance period"), Mr. Yohanan Danino was approved a perseverance bonus that was contingent upon completing the perseverance period, in an amount equal to six times the management fees that were approved for him (a total amount of NIS 1,122 thousand ("the perseverance bonus")).

c) Mr. Ofer Eliahu serves as the CEO of Migdal Insurance as from February 11, 2014. On January 14, 2018 Mr. Ofer Eliahu notified the boards of directors' of the Company and Migdal Insurance of his wish to end his service as the CEO of Migdal Insurance on June 1, 2018. See Note 40b regarding the appointment of Mr. Doron Sapir as the CEO of Migdal Insurance.

Mr. Ofer Eliahu is the son of the Company's controlling shareholder Mr. Shlomo Eliahu. In the period from January 2014 to February 11, 2014 he also served as the acting CEO of Migdal Insurance. Mr. Ofer Eliahu served as Deputy CEO in Migdal Insurance from January 29, 2013, first as director of the general and reinsurance insurance business division and as from July 15, 2013 as director of the customer, distribution channel and service division of Migdal Insurance. Throughout his entire period of service in Migdal Insurance and up to December 31, 2013, Mr. Ofer Eliahu was not paid any salary by the Migdal group.

On December 30, 2016 the Company's general meeting approved a change in the terms of service of Mr. Ofer Eliahu effective as from October 12, 2016. The terms of service of Mr. Ofer Eliahu, as were in effect from January 1, 2014 until the date of the aforesaid change, were approved by the Company's general meeting on April 13, 2014.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. 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:

c) (Cont.)
For details on the terms of service of Mr. Ofer Eliahu until the date of the aforesaid change see the Company’s immediate reports of February 25, 2014, reference nos. 2014-01-046174 and 2014-01-046171, of March 31, 2014 reference no. 2014-01-032985 and of April 13, 2014 reference no. 2014-01-046119.

After being approved by the general meeting, effective as of October 12, 2016, the terms of service were as follows: The maximum annual cost of Mr. Ofer Eliahu’s remuneration shall not exceed NIS 2.865 million linked once a year to the Consumer Price Index (“the agreed ceiling”). Mr. Ofer Eliahu will be permitted to convert the benefits and other terms included in the previous agreement with him, other than benefits that were excluded from the conversion, into a payment component of the monthly salary. After Mr. Ofer Eliahu had elected to convert the benefits according to the existing agreement, as was his right as aforesaid, and his salary was adjusted to the agreed ceiling, the monthly salary of Mr. Ofer Eliahu amounts to NIS 205 thousand. Mr. Ofer Eliahu will be permitted to reduce the employer’s pension contributions up to the amount of the tax ceiling and to receive the difference in cash with this amount not being added to the monthly salary and not being entitled to social and other benefits (benefits excluded from the conversion). The Company’s cost of converting the benefits according to the existing agreement and of adjusting the salary to the existing ceiling was comprised of a non-recurring cost for a seniority debt in the amount of NIS 100 thousand and a current cost of provisions for severance pay and retirement benefits on the addition to salary from the converted benefits in the amount of NIS 65 thousand per year. The Company will bear the tax cost deriving from the “disallowed expense” according to the remuneration law. The tax cost for the Company in respect of the “disallowed expense” is NIS 260 thousand. This cost does not include the non-recurring tax cost in respect of the seniority debt, if any. Similar to the previous agreement that was signed with Ofer Eliahu the agreement is for an indefinite period. Nevertheless, if 3 years after the date of approval by the general meeting, approvals by the governing bodies of the Company will be required for continuing Mr. Ofer Eliahu’s employment, including approval of the general meeting in accordance with Section 275 of the Companies Law or some other similar approval, the effect of the agreement after those 3 years will be contingent upon receiving such approvals as required by law. The overall remuneration of Mr. Ofer Eliahu in 2017 amounted to NIS 2,819 thousand (the employer’s cost before the effect of payroll tax).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. 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:

c) (Cont.)
For further details regarding the new terms of service of Mr. Ofer Eliahu, see the immediate report that was issued by the Company on December 22, 2016, regarding the convening of a general meeting (complementary report) having on its agenda, inter alia, approval of the new terms of employment of Mr. Ofer Eliahu, reference no. 2016-01-142339, and the Company’s immediate report of January 1, 2017 regarding the results of the meeting, reference no. 2017-01-000333.

Presented hereunder is a description of Mr. Ofer Eliahu’s terms of service as they were until October 12, 2016: Until that date Mr. Ofer Eliahu was employed according to an employment agreement that was signed with him on April 30, 2014 that is for an indefinite period. According to the provisions of Section 275 of the Companies Law, after the passing of 3 years the agreement’s effect is subject to receiving approvals as prescribed in the law. Such approval was received in December 2016.

Each of the parties may terminate the employment agreement at any time and for any reason by providing an advance notice of 3 months.

The monthly salary of Mr. Ofer Eliahu was set at NIS 170,000, linked to the Consumer Price Index, to be adjusted once a year. In addition, his terms of service include social and related benefits, occupational disability insurance as part of a group insurance policy of Migdal Insurance's employees, vacation days (26 days), recreation days, reimbursement of telephone expenses, subsistence, a vehicle (group 7) (100% grossed-up), daily newspapers, medical check-ups, etc. According to his employment agreement, Mr. Ofer Eliahu is not entitled to an adjustment bonus.

The employment agreement of Mr. Ofer Eliahu includes a clause by which his employment with the Company is a new employment on a personal basis with no continuity of rights from his employment with a different employer, including a declaration that he does not and will not have any claims or allegations against the Company with respect to his employment with Eliahu Insurance.

d) Mr. Eran Czerninski, the Company’s CEO, has served as the Company's CFO and as Migdal Insurance's director of the finance and actuary division since April 1, 2009. Until March 24, 2015 he served as acting CEO and as from that dates he serves as the Company’s CEO in addition to his other responsibilities in the group.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. 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) (Cont.)

On December 30, 2016 the Company's general meeting approved a change in the terms of service of Mr. Eran Czerninski effective as from November 1, 2016. Mr. Eran Czerninski is employed by Migdal Insurance for an indefinite term based on an employment agreement signed on September 19, 2002 (as amended on several dates in the years 2013 through 2016). Each of the parties may terminate the employment agreement at any time for whatever reason by providing an advance notice of 60 days.

According to the decision of the general meeting, as from November 1, 2016 the monthly salary of Mr. Eran Czerninski will be NIS 125 thousand, linked to the Consumer Price Index (linkage adjustment once a year). Mr. Eran Czerninski was approved a normative bonus that depends on targets, according to the remuneration policy, in the amount of six monthly salaries per year. In addition, Mr. Eran Czerninski was approved a personal annual guaranteed bonus for 2017 in the amount of two salaries which, according to the provisions of the remuneration policy, will be deducted from the annual bonus, should there be one. A provision for an advanced study fund up to the amount exempt from tax was also included. It was provided that the maximum annual cost of Mr. Eran Czerninski's remuneration would not exceed NIS 2.5 million linked to the CPI of October 2016 (including severance pay and retirement benefits) ("agreed ceiling") and therefore, before the payment of any variable amount to Mr. Eran Czerninski, an examination will be made to check whether there may be a deviation from the agreed ceiling, and if yes any payment of a variable amount will be reduced in order to meet the agreed ceiling.

In addition, Mr. Czerninski's employment terms include social and related benefits, occupational disability insurance as part of a group insurance policy, vacation and recreation days, reimbursement of subsistence expenses, a vehicle (90% grossed-up), newspapers, medical insurance, etc.

In any event of termination of the agreement, Mr. Eran Czerninski will be entitled to an adjustment bonus in the amount of nine times his monthly salary according to the remuneration policy. Half of the adjustment bonus will be paid in three equal annual installments, and their payment is contingent upon various conditions one of which is that the last two installments (in a total amount of three salaries) are contingent upon not commencing work with a different employer.

The overall remuneration to Mr. Eran Czerninski in 2017 stood at NIS 2,530 thousand (employer's cost before payroll tax).

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. 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) (Cont.)

For further details regarding the new terms of service of Mr. Eran Czerninski, see the immediate report that was issued by the Company on December 22, 2016, regarding the convening of a general meeting (complementary report) having on its agenda, inter alia, approval of the new terms of employment of Mr. Eran Czerninski, reference no. 2016-01-142339, and the Company’s immediate report of January 1, 2017 regarding the results of the meeting, reference no. 2017-01-000333.

The previous terms of employment of Mr. Eran Czerninski as the Company's CEO were approved by the Company's general meeting on June 7, 2015. For details see immediate reports of the Company dated April 30, 2015, reference no.: 2015-01-009801, and June 7, 2015, reference no.: 2015-01-041994.

Under the 2010 remuneration plan, Mr. Czerninski was allocated 69,616 shares in accordance with the terms of the 2010 plan.
Mr. Eran Czerninski was approved a normative bonus in the amount of six monthly salaries that was contingent on targets.
A personal guarantee bonus in the amount of NIS 250 thousand was paid to Mr. Eran Czerninski in 2017 and as at December 31, 2017 no provision is included in the financial statements for any additional bonuses.

e) Officers' liability insurance policy, including for officers who are the controlling shareholder or his relatives – The Group's directors and officers, including the controlling shareholder and his relatives who serve as officers in the Group, the Company’s CEO and officers who serve in Migdal Insurance, in MIgdal Capital Markets and in companies controlled by Migdal Insurance or Migdal Capital Markets, are insured under the Group's D&O liability insurance policies for a period of twelve months starting from December 1, 2016 until November 30, 2018. The new policy's liability limit is US$ 120 million per event and for the period with an annual premium that does not exceed US$ 300 thousand. For details see the Company’s immediate report of November 28, 2017, reference no. 2017-01-105787.

NOTE 38:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

i. 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.)

According to the previous 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 the previous insurance policies in immediate reports of January 27, 2015 and February 24, 2015 (references no.: 2015-01-020140 and 2015-01-037816, respectively).

According to the new remuneration policy, the insurance limit of the D&O insurance for officers, directors and members of investment committees, including for the controlling shareholder and his relatives who will serve in the Company and/or in the Migdal Holdings Group, was raised to $ 200 million for an annual premium not to exceed $ 1.5 million. This amount was determined on the basis of an assessment regarding future need and the amount of the insurance will be determined according to market conditions, including the premium in relation to the insurance coverage and risk.

f) 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 39.2.d.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities

a. Legal and other proceedings – general

Paragraphs (b) to (f) (inclusive) below provide details regarding 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 other legal proceedings and paragraph (f) 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.

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.

Class actions can be filed on the grounds of various causes as specified in the law on this matter, and with respect to an insurer they include any matter between the Company and a customer whether or not they have entered into a transaction. The law prescribes a process and restrictions regarding compromise settlements in class actions that make it difficult to reach a compromise on class actions which include, inter alia, the right of the Attorney General and other parties to file an objection to the compromise settlement and the appointment of an examiner to the compromise settlement. The scope of a class action is decided when it is certified and depends on the causes of action that were certified and the relief that was approved for those causes.

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.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS

1. Contingent Liabilities (Cont.)

a. Legal and other proceedings – general (Cont.)

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.

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 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 sections b.33-b.35 and section f.4) 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 proceedings – pending 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 (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
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 District Court issued a decision dismissing the class action certification motion. On June 26, 2016 an appeal on the ruling was filed by the plaintiff with the Supreme Court. On August 2, 2016 Migdal Insurance filed a motion to strike the appeal following which, on June 15, 2017 the Court decided the part of the appeal directed against the limitation ruling (that was issued on November 10, 2011) and the plaintiff filed a revised appeal notice. The appeal is in the stage of summations after which a ruling will be issued. Furthermore, a date was set for completing arguments before a panel of the Supreme Court. On September 26, 2017 the Supreme court riled, after an exchange of argument briefs, that the arguments of Migdal Insurance regarding the striking of parts also from the revised appeal notice of the plaintiff would be heard in the hearing with the panel.	-
2.	1/2008 Tel-Aviv District Court	Life insurance policyholder v. Migdal Insurance and other insurance companies	Illegal collection of a premium component known as the "sub-annual" component with respect to certain components and/or coverage in the policy and in an amount that exceeds the permitted amount.	Anyone who was charged for a "sub-annual" component in non-permissible circumstances and amounts.	On July 29, 2016 the Court issued a ruling that certified the class action with respect to anyone who was charged a "sub-annual" component in respect of the savings component in endowment type policies or in respect of the policy factor component or in respect of policies that insure health, disability, dread diseases, loss of working capacity and long-term care.	About NIS 2,300 million, of which about NIS 827 million attributed to

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 amount estimated by the plaintiff. The amounts are approximations.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

   b. Class proceedings – pending 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[4]
2.	Cont.		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 defendants to change their method of operation.		On December 15, 2016 Migdal Insurance and the other defendant companies filed an application for leave to appeal the aforesaid ruling to the Supreme Court. On April 2, 2017 the Supreme Court accepted the motion to stay execution that had been filed by Migdal Insurance and the other insurance companies and ruled that the hearing before the District Court would be suspended until the issuance of a ruling on the application for leave to appeal. On February 8, 2017 a hearing was held at the Supreme Court. The parties are waiting for a ruling on the application for leave to appeal.	Migdal Insurance
3.	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 paid to men 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 women for death risk insurance is identical to that collected from men 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 men, or (b) reducing the risk amounts collected and 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.	On August 17, 2014, the Regional Labor Court issued a ruling that certified the claim as a class action. On December 2, 2014 Migdal Insurance and the other defendant companies filed with the National Labor Court an application for leave to appeal the ruling, which was accepted. On December 22, 2016 the Attorney General filed his position on the matter that supports the arguments of Migdal Insurance and the other defendants. The parties are waiting for a ruling of the Regional Labor Court on the application for leave to appeal.	"Hundreds of millions of NIS"

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
4.	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 elementary insurance policies) whose policy was discontinued, whether due to cancellation or upon the occurrence of an insured event.	On June 23, 2015 the Court issued a ruling that certified the claim as a class action, with respect to the remedy of reimbursement of premiums collected in respect of the period after the insurance coverage was discontinued in insurance policies (excluding elementary insurance policies) that include a provision stating that the cancellation will take effect immediately; and with respect to cases in which the insurance 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 following cancellation of their policy or to policyholders who received a premium refund at nominal value, respectively, during seven years prior to the filing of the motion (April 18, 2010) and up to March 14, 2012. On September 13, 2016 a settlement agreement was submitted to the Court that includes a clause by which Migdal Insurance and the other respondents are to donate 80% of the amount of the refund that is found by an examiner, and also refers to future conduct. The effect of the settlement agreement in subject to the Court's approval. On March 2, 2017 the Attorney General submitted his position regarding the settlement agreement in which he specified his reservations concerning the agreement, and Migdal Insurance submitted its reply to the position. On June 14, 2017 the Court decided that an examiner would be appointed to examine the settlement agreement.	About NIS 225 million (for a period of ten years)

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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 About Amount[4]
5.	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 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 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 February 26, 2016 the Attorney General submitted his position on the settlement agreement, by which the settlement agreement should not be approved in its present format. On November 21, 2016 the Court issued a ruling that rejects the settlement agreement and partly accepts the class action certification motion and decided that even though the Commissioner allowed the insurance companies to include in life insurance policies an arrangement that permits them to charge the policy factor, they did not include any such contractual arrangement in the insurance policies and therefore there is no legal basis for charging the policy factor, and charging amounts for the policy factor reduced the savings accumulated by the policyholders.	About NIS 2,325 million (for a period of seven years), of which about NIS 1,024 million attributed to Migdal Insurance

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
5.	Cont.				Even so, it was ruled that there is no place to certify the class action with respect to risk policies. On the other hand, as regards policies that combine a savings component it was decided that there is a foundation for hearing the claim as a class action since transferring the money to the policy factor reduced the savings accumulated by the policyholders. The Court also ruled that the settlement agreement is unfair and unreasonable since even though the refund for the past awards the class members a benefit of a considerable amount, it is unfair and unreasonable considering the calculations that were made by the supervisory bodies by which the examiner estimated that between the years 2004 and 2012 (inclusive) the defendants had collected a total of NIS 700 million as a policy factor. The future discount provided in the settlement agreement also does not meet deterrence requirements as its meaning is to validate retroactively and from this date on, collection of most of the policy factor on account of the savings component. Accordingly, the certification motion was accepted with respect to collection of a policy factor beginning from seven years before the date of filing the claim (as from April 21, 2004) from persons having life insurance policies combining a savings component that were issued in the years 1992-2003, and who accumulated lower savings because of being charged a policy factor. The requested remedies that were defined in the certification motion are to adjust the accumulated savings of the policyholders by the amount of the additional savings they would have had if they had not been charged a policy factor or to compensate the policyholders by the aforesaid amount, as well as to cease charging a policy factor from this date on.	

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
5.	Cont.				On May 16, 2017 Migdal Insurance and the other defendant insurance companies filed with the Supreme Court an application for leave to appeal the aforesaid ruling of the District Court that rejected the settlement agreement and partly accepted the certification motion. On June 11, 2017 the Supreme Court ordered a stay of proceedings on the hearing of the class action at the District Court. On July 19, 2017 several respondents, who objected to the settlement agreement before the District Court, submitted a motion to be added as respondents to the application for leave to appeal to the Court, which ordered Migdal Insurance and the other insurance companies to submit their reply to that motion. On August 14, 2017 a ruling was issued that consolidates the application for leave to appeal of Migdal Insurance with applications for leave to appeal that were submitted by other companies on the same ruling. On October 24, 2017 it was decided that the appeal on the matter would be transferred to a panel of 3 judges and that the Court would not hear first (as requested by the companies) the matter of rejecting the settlement agreement and only after that, if necessary, the applications for leave to appeal the certification motion, rather that both parts of the appeal would be heard together.	

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
6.	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 period.	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. On October 13, 2016 a settlement agreement was submitted to the Court that includes a mechanism for compensation in the amount specified in the settlement agreement, an arrangement for the future and a recommendation regarding the payment of an award and legal fees. The settlement agreement is subject to the Court's approval. On March 30, 2017 the Attorney General submitted his position regarding the settlement agreement in which he described his reservations with respect to various matters in the settlement agreement. On September 14, 2017 the Court appointed an examiner to the settlement agreement. The examiner submitted his conclusions on December 31, 2017, the main one being that making individual returns to the class members would involve an unreasonable cost. On February 25, 2018 the Attorney General notified that he is leaving the decision on the examiner's recommendations to the Court's discretion.	About NIS 350 million
7.	5/2013 Tel-Aviv District Court	Health insurance policyholders v. Migdal Insurance and other insurance companies[5]	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 differences that were not paid as required by law.	Anyone who received in the three 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 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.	About NIS 503 million, of which about NIS 120 million attributed to Migdal Insurance.

5 The described cause of action, class and amount of the class's claim are according to a ruling from August 7, 2015 that certified the claim as a class action. Those particulars were different when the motion for certification of a class action was filed.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
7.	Cont.				On August 3, 2016 a hearing was held on the application for leave to appeal, following which it was struck out, at the recommendation of the Supreme Court and at the parties' consent, while reserving the right of Migdal Insurance and the other respondents to again raise the arguments included in the application for leave to appeal in the framework of the appeal that will be filed, if any, on the ruling made on the class action. The proceeding is currently at the stage of the court hearing the class action for its merits.	
8.	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. At the request of the Court, several questions have been sent to the attention of the Insurance Commissioner regarding the issues in dispute in the action. On September 4, 2017 the Insurance Commissioner's position on the matter was submitted that supports the position of the pension funds by which management fees upon retirement are essentially different from management fees on current savings.	At least NIS 48 million, without quantifying the other remedies at this stage, as well as compensation for the future from all the defendants.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
9.	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 them to payment of their 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. On June 25, 2017 the Court ordered replacement of the lead plaintiff following his passing. At the recommendation of the Court, the parties are in the process of a mediation.	NIS 600 million
10.	9/2015 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.	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.	The proceeding is in the stage of clarification of the class action certification motion.	Tens and even hundreds of millions of shekels

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
11.	9/2015 Tel Aviv District Court	Pension fund member v. Migdal Insurance and pension fund management companies	Claim that the respondents pay commissions to insurance agents that are derived from the management fees, such that a conflict of interests is created for the insurance agents and the fund members pay inappropriately high management fees. The reliefs sued for are declaratory relief stating that the respondents 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.	The proceeding is in the stage of clarification of the class action certification motion. In January 2017 the Knesset approved Amendment 20 to the Control of Financial Services (Provident Funds) Law – 2017, by which there will be no connection between the calculation of distribution fees of provident funds and the management fees the management company charges the member.	NIS 2 billion probably from all the defendants
12.	9/2015 Central District Court	Members of Migdal Insurance and Migdal Makefet 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 share hiking and market manipulation of securities. Regarding the criminal proceedings in this matter, see section f.2) 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.	No reply has as yet been submitted to the class action certification motion. A motion to dismiss in limine that was filed by Migdal was denied. The proceeding is in the stage of clarification of the class action certification motion, after the failure of a mediation proceeding on the matter. See also Section f.2) on this matter.	Tens of millions of shekels if not more

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
13.	1/2016 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) ("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.	On November 24, 2016, following the request of the defendants, the Court ordered that the matter be transferred to the labor court. The Court ordered to accept the position of the Insurance Commissioner regarding the matters in dispute in the class action certification motion, which was filed on May 23, 2017. The Company interprets the Insurance Commissioner's position as supporting its arguments in the case. The proceeding is in the stage of summations with respect to the class action certification motion.	Was not estimated by the plaintiff

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
14.	1/2016 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.	The proceeding is in the stage of clarification of the class action certification motion. The matter of transferring the matter to the labor court is pending. See also claims 8 and 16 in this section.	Was not estimated by the plaintiff

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
15.	1/2016 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) ("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 that was held by them with the defendant or with another insurance company ("earlier annuity policy"), The plaintiff is seeking to base his claim on, among other things, the Central District Court's decision to certify a class action in Class Action Case No. 48006-03-10 Granit v. Clal Insurance ("the Granit case"). The reliefs sued for include 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 deposit 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, with the earlier annuity policy; 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;	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.	The proceeding is in the stage of clarification of the class action certification motion. On May 4, 2017 the Court ruled that the proceeding should be transferred to the Labor Court. On August 22, 2017 the application for leave to appeal the aforesaid ruling that was filed by the plaintiff with the Supreme Court was denied. In a ruling from February 7, 2018 the Labor Court denied the motion to certify a class action based on the Granit case and decided that the conduct of Migdal Insurance with its policyholders should be examined separately. At the Court's request, the aforesaid ruling was brought to the attention of the Insurance Commissioner by means of the state attorney office, which requested the judicial documents of the case in order to examine the position of the capital market authority on the proceedings.	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 (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
15.	Cont.		and 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 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.			
16.	1/2016 Central District Court	Registered association acting on behalf of weak populations and special-needs people v. 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 the 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 respondents to reduce the management fees that are collected to an appropriate rate; to order the respondents to refund	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.	The proceeding is in the stage of clarification of the class action certification motion. On January 29, 2018 the Court ordered the transfer of this proceeding to the Labor Court. See also claims 8 and 14 in this section.	Was not estimated by the plaintiff

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
16.	Cont.		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.			
17.	5/2016 Central District Court	Policyholders v. Migdal Insurance	Allegations that Migdal Insurance distributes the premiums its receives arbitrarily and contrary to the instructions it receives, and contrary to agreements and the provisions of the law; that Migdal Insurance transfers part of the excess amounts collected to a different insurance plan that the policyholder did not request; that Migdal Insurance collects a premium from policyholders for risks that do not exist and retroactively amends reports it issues while misleading the policyholders and that Migdal Insurance refrains from implementing checking mechanisms that can provide an alert on possible errors and prevent unlawful charges. The main reliefs requested are: (a) to compensate the class members for financial and non-financial damages they incurred; (b) to order Migdal Insurance to adjust the premiums it charges to the amount that should have been charged and to order Migdal Insurance to correct the reports; (c) to order Migdal Insurance to return the premiums it unlawfully received that are in excess of that agreed, and to return the profits it earned and the management fees on the excess amounts collected; (d) to declare that Migdal Insurance had unlawfully collected amounts and that it should act to change the current situation;	(a) All the policyholders and/or insured persons and/or beneficiaries of a life insurance policy that paid a premium higher than that promised to them in the policy, whether the premium is according to the insured salary or according to a fixed amount. (b) All the insured persons having life insurance that the money transferred was distributed not according to the agreement and distribution decided by the employer, including between	The proceeding is in the stage of clarification of the class action certification motion.	Was not estimated by the plaintiff

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
17.	Cont.		(e) to issue a mandatory injunction on changing work processes and systems and regarding the phrasing of policies.	the different internal funds. (c) All the insured persons who in their annual reports the opening balance was changed (including by way of an “updated opening balance”) without being provided full and detailed disclosure on the change and its reasons. (d) Any insured person whose deposited money was transferred to new insurance that was opened without their consent. (e) Any insured person for whom all or part of the premium they were charged does not improve the insured person’s situation and/or provide any additional compensation upon occurrence of the insurance event.		

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
18.	6/2016 Tel Aviv District Court	Registered association acting on behalf of the elderly population v. Migdal Insurance, other insurance companies and the Ministry of Finance	Allegation that the Insurance Commissioner gave the insurance companies its approval to sell and that the insurance companies sold, group long-term care insurance policies that are a "flawed product" because of the condition in the policy that permits the insurance companies to unilaterally terminate the policy or not renew it after a limited period of time, without warning the policyholders in advance and in a proper manner, while causing them direct and indirect damages. The claim's causes are deception, fraud, breach of a statutory duty and negligence, and financial relief as well as declaratory relief and mandatory injunctions are requested in it with respect to insurance coverage and ensuring the rights of the class members.	Any customer who had a group long-term care insurance policy that was cancelled and/or its terms were extremely changed and was misled and/or was not warned and/or did not know that this policy does not accumulate for them any amount, and that it would not be at their disposal at old age, for a period of at least 7 years preceding the date of filing the claim and/or the date the customer made the first deposit.	The proceeding is in the stage of clarification of the class action certification motion. On October 18, 2017 a partial ruling was issued regarding the State of Israel, which dismisses the class action certification motion and personal claim of the petitioners against it.	NIS 7 billion for all the defendant companies.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
19.	10/2016 Jerusalem Regional Labor Court	Study fund member v. Migdal Makefet	Allegation that investment management expenses were charged without a contractual provision in the bylaws on the matter. The requested relief is to return all the investment management expenses/fees that the class members were charged in the seven years preceding the date of filing the claim, with the addition of shekel interest as required by law and also to order Migdal Makefet to refrain from deducting from the accounts of the class members any amounts for investment management expenses/fees.	Any member of the "Migdal Hishtalmut" fund (under this name or its previous names, including all the funds that were merged into it) presently and in the seven years preceding the date of filing the motion.	The proceeding is in the stage of clarification of the class action certification motion. See also claims 21 and 23 in this section.	About NIS 94 million.
20.	10/2016 Central District Court	Member of annuity paying provident fund v. Migdal Insurance, Migdal Makefet and Mivtach Simon	Allegation of incorrect classification of amounts deposited in annuity paying provident funds, which will supposedly lead to excess tax on the annuity that will be received from the provident funds at the time of eligibility for payment. The primary relief requested is a mandatory injunction ordering Migdal Insurance and Migdal Makefet to act to correct the records so as to correspond to the law. The alternative relief requested is compensation in an amount that was not estimated in the class action certification motion. In addition, the class action certification motion included a request for a mandatory injunction to change the future conduct of the respondents, such that they will have to have proper classification instructions.	Two sub-classes: (1) customers of any of the defendants whose money that was deposited by them or for them was split at the time of the deposit into two annuity paying provident funds managed by Makefet and/or Migdal, and due to this split these monies were classified as being insufficient for a "recognized annuity", as this	The proceeding is in the stage of clarification of the class action certification motion. On December 27, 2017 the Court instructed which issues should be directed to the tax authority. In this respect it is noted that on February 1, 2018 the Commissioner issued a circular regarding the components of an account in a provident fund and which refers to the cases included in the claim.	Cannot be estimated but is under the court's jurisdiction (non-binding estimate of about NIS 9.5 million).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
20.	Cont.			term is defined in Section 9A(a) of the Income Tax Ordinance. (2) customers of any of the defendants, who are salaried members of annuity paying provident funds managed by Migdal Makefet or Migdal Insurance, who deposited money with the fund in respect of the employee's annuity component, and as a result such money was classified as insufficient for a 'recognized annuity".		

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class actions – pending 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[4]
21.	12/2016 Central District Court	Persons insured under executive insurance policies v. Migdal Insurance	Allegation of charging investment management expenses without this being permitted in a contractual provision in the policies. The requested relief is to return all the investment management expenses that were collected from the class members in the seven years before the date of filing the claim, with the addition of shekel interest as required by law, as well as to order Migdal Insurance to refrain from deducting any amounts from the accounts of the class members in respect of investment management expenses.	All the persons insured under executive insurance policies that were issued by Migdal Insurance (profit participating, "Yoter", "Migdalor" and so forth), who were charged investment management expenses contrary to the law and/or without the policy including a specific provision permitting Migdal Insurance to collect these expenses.	The proceeding is in the stage of clarification of the class action certification motion. On June 15, 2017 the Court decided to transfer the case to the Labor Court. In its ruling from February 19, 2018, the Court directed several questions on the matter to the Capital Market Commissioner and requested its position. See also claims 19 and 23 in this section.	NIS 567 million.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
22.	1/2017 Central District Court	Two motor act insurance policyholders v. Migdal Insurance	Allegation by which Migdal Insurance refrains from disclosing to its policyholders that according to its customary practice (which exists also at the other insurance companies), they are entitled to a reduction in the premium paid by them when they reach an age group and/or driving experience as customary in the company. The requested reliefs is to order Migdal Insurance to return to the class members the excess insurance premiums that were charged contrary to the law as a result of the aforesaid conduct, as well as a mandatory injunction ordering Migdal Insurance to change its aforesaid conduct.	Persons insured by Migdal Insurance under a motor act, third party and comprehensive policy in the period beginning seven years before the filing of the claim, who during the period of the insurance reached the age group and/or driving experience that according to law and the customary practice of Migdal Insurance qualify for a reduction in the insurance premiums, and who Migdal Insurance did not treat according to law and according to its customary practice and as a result did not receive the reduction in the premium	The proceeding is in the stage of clarification of the class action certification motion. See also the claim in paragraph c2 hereunder.	About NIS 62 million.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
23.	2/2017 Central District Court	Registered association acting on behalf of the elderly population v. Migdal Makefet	Allegation by which Migdal Makefet charged its pension fund and provident fund members amounts for "direct expenses of executing transactions in assets of the provident funds" (direct expenses), contrary to the bylaws and contrary to the contractual and pre-contractual representations to its members. In doing so Migdal Makefet allegedly breaches the contract between it and its members and also violates the law. The requested reliefs are: (a) to issue an order by which the conduct of Migdal Makefet is unlawful in that it breaches the contract – bylaws between it and its members; (b) to order Migdal Makefet to return to each one of the class members the amount that was collected and/or deducted from their account with respect to any kind of expense relating to direct expenses of executing transaction in assets of the provident funds; (c) alternatively to order Migdal Makefet to return to the assets of the pension fund and to the assets of the provident funds all the direct expenses that were unlawfully collected and to distribute these amounts justly and fairly; (d) to order Migdal Makefet to state clearly and explicitly from that day on, in all the registration forms and in all the bylaws, that in addition to the management fees an additional amount will be charged and/or deducted with respect to direct expenses and to indicate the maximum rate that will be charged.	Anyone who has a right of any kind or type in amounts held in the pension fund managed by Migdal Makefet as from July 2013, and anyone who had such a right in the past. Also anyone who has a right of any kind or type in amounts held in the provident fund managed by Migdal Makefet in the seven years preceding the date of filing the certification motion, and anyone who had such a right in the past.	The proceeding is in the stage of clarification of the class action certification motion. On February 7 the Court ordered the petitioner to submit its position regarding transfer of the case to the Labor Court. See also claims 19 and 20 in this section.	About NIS 287 million

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
24.	2/2017 Tel Aviv District Court	Person insured under a life insurance policy of Migdal Insurance v. Migdal Insurance	Allegation by which Migdal Insurance collected handling fees or any other payment from its customers on loans granted contrary to the draft position of the Insurance Commissioner regarding the charging of handling fees on loans and contrary to the provisions of the Control of Financial Services Law (Provident Funds) and the Control of Financial Services Law (Insurance). The reliefs requested in the class action certification motion are: (a) to fully return the amounts Migdal Insurance had collected from its customers contrary to the law; and (b) declaratory orders stating that Migdal Insurance had acted unlawfully and that any person who was charged the unlawful amounts is entitled to a refund of all the excess amounts they paid.	All the customers of Migdal Insurance who took a loan and were charged handling fees or any other payment for opening the loan or as handling fees in the last 7 years.	The proceeding is in the stage of clarification of the class action certification motion. On December 23, 2017 the Commissioner issued a decision that includes instructions to return the handling fees that were charged on loans in the 7-year period preceding June 30, 2017. This decision stated that it does not apply to cases that the charged handling fees are returned to the members' portfolio as was done in Migdal Insurance. At the recommendation of the Court the parties entered into a mediation proceeding.	About NIS 2 million
25.	5/2017 Tel Aviv District Court	Employees of employers for whom the defendants manage their arrangement 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), and the Control of Financial Services Law (Provident Funds) in the framework of the Economic Plan Law (Legislation Amendments for Implementation of the Economic Policy for the 2015 and 2016 Budget Years), 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	Whoever was a customer of any of the defendants at the time they provided to the employer pension arrangement management services throughout a period beginning 7 years prior to the filing of the claim until the employer began paying the operating costs according to Amendment No. 6 to the Advice Law.	The class action certification motion includes allegations that are similar to those included in a different class action certification motion that was filed at an earlier date and was struck by the Court on November 28, 2016 following the Court's recommendation to strike the proceeding. On August 2, 2017 the respondents filed a motion to dismiss in limine the class action certification motion, and alternatively to transfer it to the Labor Court and decide on a guarantee for expenses. Migdal Insurance filed its reply to the class action certification motion on December 3, 2017.	NIS 357 million, of which about NIS 131 million from Mivtach Simon Insurance Agencies

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
25.	Cont.		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/return of the excess management fees collected from the class members according to the plaintiffs and any other relief as the court deems right and equitable in the circumstances of the case.			
26.	5/2017 Central District Court	Persons insured under a motor vehicle insurance policy for civil servants v. Migdal Insurance and other insurance companies	Allegation by which the defendants charged persons insured under a motor vehicle insurance policy for civil servants, an insurance premium that reflects a higher risk that is not relevant to the plaintiffs and the class members, this in violation of the provisions of Sections 55 and 58 of the Control Law (Prohibition on Misleading Description and Prohibition on Impairment), violation of a statutory duty, violation of provisions of the Contracts Law including violation of the duty of good faith at the stage of negotiations and the stage of the contract as well as unjust enrichment. The principal reliefs requested: To issue an order instructing the defendants to answer questionnaires and/or disclose to the plaintiffs all the information they have regarding the size of the class and the extent of the damage caused to it; to permit the plaintiffs to amend the claim statement by adjusting the relevant numerical data and the amounts as will be disclosed by the defendants; to award to the class members the amount of the claim that is an estimate of the amount of damage that was caused to the class members; and to issue an order requiring the defendants to change their conduct.	Every customer of the defendants in the last seven years who purchased from any of the defendants a motor vehicle insurance policy for civil servants and was entitled to a discount on the insurance premium due to no claims in the previous three years, but paid a higher premium because of their insurance history being ignored and/or a premium for those lacking insurance history.	The proceeding is in the stage of clarification of the class action certification motion.	About NIS 155 million from all the defendants together.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
27.	6/2017 Central District Court	A company with employees v. Eliahu Insurance Ltd.	Return of the injury benefits, within their meaning in Section 94 of the National Insurance Law, that were paid by employers to the National Insurance Institute during the period beginning from the 84th month prior to the date of filing the class action certification motion and ending on the date of ruling on the class action or alternatively the date of certifying the claim as a class action (hereinafter: "the relevant period") in respect of the first entitlement period (the first 12 days the employee is entitled to injury benefits within their meaning in Section 94 of the National Insurance Law following a road accident of the employee that was recognized as a work accident by the National Insurance Institute). The principal reliefs requested in the claim are compensation/return of the injury benefits that were paid by the class members during the relevant period in respect of the "first entitlement period" following road accidents of employees of the class members that were recognized also as work accidents. The claim is included in the run off general insurance portfolio that Migdal Insurance acquired from Eliahu Insurance, the Company's controlling shareholder, on April 21, 2016. The agreement to acquire the run off portfolio includes arrangements regarding reinsurance coverage for claims included in the acquired run off portfolio and indemnity arrangements for certain cases. It is noted that a notice on the aforesaid was provided by Migdal Insurance to Eliahu Insurance. See Note 38e.2 regarding the general insurance run off transaction in Eliahu.	The "ordinary" public of employers other than the State and groups that were excluded from the motion, who in the relevant period paid/returned to the National Insurance Institute injury benefits for the first entitlement period of their injured employees following road accidents of their employees that were recognized as work accidents by the National Insurance Institute and for which the defendant issued mandatory insurance policies that cover the events of the relevant accidents.	The proceeding is in the stage of clarification of the class action certification motion.	About NIS 14.5 million (the share of Eliahu Insurance)

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
28.	7/2017 Tel Aviv Regional Labor Court	Person insured under an executive insurance policy v. Migdal Insurance	Allegation that Migdal Insurance does not calculate the amount of the annuity paid to the policyholder, all or part, according to the conversion factor specified in the rider attached to a capital executive insurance policy and/or that corresponds to it. It is alleged that Migdal Insurance converts the capital insurance amount according to the annuity factor in the aforesaid rider only with respect to the employer's contributions for retirement benefits, whereas with respect to all the other amounts in the policy the capital insurance amount is converted according to an inferior annuity factor. The reliefs requested are: (a) To order Migdal Insurance to pay each class member who received an annuity that was fully or partly calculated according to factors higher than those specified in the rider and/or those derived from those specified in the rider, compensation in the amount of the difference between the annuity they were actually paid and the annuity they would have been paid if it had been fully calculated according to the factors specified in the rider and/or corresponding factors (according to the age of the policyholder at the time of the conversion), all with the addition of interest and linkage differences according to law. (b) To order Migdal Insurance to calculate and pay the class members, from this day on, the fully annuity based on the specified factors and/or factors corresponding to the factors indicated in the rider.	Anyone who entered into an annuity agreement in a rider to a capital executive insurance policy (whatever it is called) who received and/or will receive from Migdal Insurance an annuity that part and/or all of it is calculated according to a factor that is higher than that specified in the rider (including derivatives of the factor specified in the rider).	The proceeding is in the stage of clarification of the class action certification motion.	Was not estimated by the plaintiff.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
29.	8/2017 Tel Aviv Regional Labor Court	Policyholder v. Migdal Insurance	The refusal of Migdal Insurance to file a debt claim with the National Insurance Institute in respect of differences in contributions for pension savings in the case of an employer in liquidation proceedings while disregarding the material law, according to the plaintiff, on all that concerns the right to a pension according to the compulsory pension expansion order, where according to the plaintiff only the provident fund has the right to file a claim. The principal reliefs being requested: (a) Declaratory relief by which in the case of liquidation of the employer Migdal Insurance is obliged to file a debt claim on the basis of the material law applicable to the employee and that in every case that a debt claim is not filed until the company's liquidation (after which a debt claim can no longer be filed), it will compensate the employee at the amount of the payments according to the debt claim, (b) A mandatory injunction ordering Migdal Insurance to change its procedures and file debt claims in respect of unpaid pension benefits, insofar as the companies have not yet been liquidated, and to issue a procedure that establishes the obligation to file a debt claim according to the material law in the situation of an employer under liquidation, (c) A mandatory injunction ordering Migdal Insurance to contact its policyholders when a company enters into liquidation proceedings according to information of the Official Receiver so that it will be possible to examine the contributions and whether they are full and (d) Monetary relief – compensation for all the class members whose employers were liquidated at the amount of the pension contributions that were not claimed by means of proof of debt.	All the employees insured by Migdal Insurance whose employers entered into liquidation proceedings and there is a material difference between the law applicable to them and the terms of the policy they signed, in the 7 years prior to the filing of the motion and for whom Migdal Insurance did not file a debt claim.	The proceeding is in the stage of clarification of the class action certification motion. The parties are holding talks on withdrawal.	Was not estimated by the plaintiff.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
30.	9/2017 Jerusalem District Court	Policyholder v. Migdal Insurance and Eliahu Insurance	According to the plaintiffs the defendants do not apply Section 5(b) of the Interest and Linkage Law as required and do not pay, as a matter of policy, interest (including interest for delay) and linkage as required by that law. The principal reliefs are: (a) A declaration that the defendants have violated the provisions of the Interest and Linkage Law in that they did not add to the amounts they paid linkage differences and/or interest and/or linked interest when they paid amounts later than the payment date; (b) To order the defendants to pay compensation for the damages caused as a result of that violation; (c) To order the defendants to amend their policy from that date on such that they are required to comply with the provisions of the law regarding the payment of interest and linkage on the payment of a judgment debt. As regards the part of the claim against Eliahu Insurance Company Ltd., according to the agreement by which on April 21, 2016 Migdal Insurance acquired the run off general insurance portfolio from Eliahu Insurance, the Company's controlling shareholder, insofar as the claim against Eliahu Insurance Company is included in the run off portfolio it is the responsibility of Migdal Insurance. Aspects of the claim that are not included in the run off portfolio, insofar as there are any, will not be transferred to the responsibility of Migdal. The agreement to acquire the run off portfolio includes arrangements regarding reinsurance coverage for claims included in the acquired run off portfolio and indemnity arrangements for certain cases.	Anyone who was paid by the defendants amounts awarded to them by a judicial authority on a date later than the payment date (as this term is defined in the Interest and Linkage Law) without linkage differences and/or interest and/or linked interest being added to the awarded amount.	No reply has as yet been filed to the class action certification motion.	Tens of millions of NIS if not more, and in any case more than NIS 2.5 million so that the Court may have jurisdiction on this matter.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
30.	Cont.		It is noted that a notice on the aforesaid was provided by Migdal Insurance to Eliahu Insurance. See Note 38e.2 regarding the general insurance run off transaction in Eliahu.			
31.	10/2017 Central District Court	Policyholder v. Migdal Insurance	The plaintiff alleges that Migdal Insurance ignores the provisions of the law that regulates the process of marketing and selling service contracts, in that Migdal Insurance sells to the policyholders motor vehicle property insurance plans that include the service contracts as an inherent and inseparable part of the plan, without presenting to the customers the price of the service contract during the sale process and also after then, and without the policyholder being able to decline the service contract and instead receive a lower price that reflects the cost of the removed service contract; while in fact creating a stipulation between acquisition of the service contract and the insurance plan; while refraining to disclose reliable and complete information to the policyholders during the marketing and selling process; and failing to adjust the insurance according to the needs of the insurance candidate. The principal reliefs: (a) Compensation and/or return of the excess amounts paid in respect of the service contracts sold as part of a comprehensive and/or third party insurance plan if Migdal Insurance had complied with its obligations according to law during the marketing and sale process: the cost of the service contracts that would not have even been purchased by the policyholders; the difference between the cost of the service contracts that was paid to Migdal Insurance by the policyholders in the framework of the	Anyone who purchased from Migdal Insurance service contracts as part of the motor vehicle property, third party or comprehensive, insurance policy, and Migdal Insurance violated the provisions of the law regarding the marketing and selling process of the service contracts; this during a period beginning 7 years before the filing of the class action certification motion until the date of a final judgment on the claim.	No reply has as yet been filed to the class action certification motion.	Was not estimated by the plaintiff

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
31.	Cont.		comprehensive or third party insurance policy and the cost they would have paid if they had been purchased from third parties and/or Migdal Insurance at a lower price and/or at preferable terms and after conducting a market survey, (b) An order nisi instructing Migdal Insurance to present to its policyholders during the process of marketing motor vehicle insurance plans (and all other insurance plans) the price of the service contract separately from the insurance policy; to not stipulate the purchase of an insurance plan on the purchase of a service contract; to order Migdal Insurance to permit its policyholders to not purchase the service contracts and/or part of them in the framework of the insurance plan while deducting their cost from the cost of the insurance plan so that the cost of the insurance plan will be accordingly lower.			
32.	11/2017 Central District Court	WIZO, the Women's International Zionist Organization v. Migdal Insurance and other insurance companies	Collection of an insurance premium that includes a "risk increment" deriving from the nature of the policyholders' work even though the policyholders are not even working at the time of purchasing the insurance coverage and even when the policyholders stopped working in a job that justified charging a higher premium. The principal reliefs requested in the claim include as follows: To order the defendants (a) to provide details regarding whoever paid premiums for insurance coverages that included a professional risk increment in the 7 years preceding the date of filing the claim; (b) to return the excess amounts collected from the class members with the addition of linkage differences and interest; (c) to refrain from collecting a "professional risk increment" or any other	Anyone who in the 7 years preceding the date of filing the claim until the date of its certification as a class action, paid premiums for insurance coverages (including, but not limited to, loss of working capacity and life and/or risk insurance) in respect of a period in which the policyholder did not actually work	No reply has as yet been filed to the class action certification motion.	Cannot be estimated

increment

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
32.	Cont.		to the premium that relates to the risk involved in the policyholder's work when the policyholder is not working and to integrate directives and instructions that will ensure that amounts of this kind are not charged in the future.	and was charged a premium that includes a "professional risk increment" or any other increment that derives from the risk involved in their work.		
33.	12/2017 Jerusalem District Court	Policyholder v. Migdal Insurance and other insurance companies	Refusal to provide long term care insurance to the applicants and other persons on the autism spectrum; setting for them impossible and unreasonable conditions without providing an explanation or justification for doing so; failure to provide a detailed and respectful reply to the insurance candidate with respect to the refusal and detailed reasons for the refusal, and the refusal not being based on relevant actuarial or medical statistical data, all contrary, as alleged, to that required in the Equal Rights for Persons with Disabilities Law (hereinafter: "the Equal Rights Law"), and in Equal Rights for Persons with Disabilities Regulations (Notice of Insurer regarding Different Treatment to a Person or regarding Refusal to Insure a Person" ("Equal Rights Regulations"). The principal reliefs requested in the claim are: to provide a declaratory order that the defendants have violated the Equal Rights Law and Regulations; to provide an order nisi instructing the respondents to stop discriminating the class members, to establish clear work procedures regarding the individual treatment without discrimination of persons with disabilities that are based on the provisions of the Equal Rights Law; to provide an order nisi to the	Persons with autism disabilities who requested to be insured under a long term care insurance policy of any of the respondents and unlawfully received different and discriminatory treatment in the seven years preceding the date of filing the motion.	No reply has as yet been filed to the class action certification motion.	According to the applicants the personal damage caused to them amounts to tens of thousands of NIS for each applicant. The amount of the damage for all the class members cannot be accurately estimated at this time. The amount is in the jurisdiction of the District Court.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
33.	Cont.		respondents instructing them to fulfill the provisions of the law and an in-principle decision of the Insurance Commissioner that establish a proper process concerning refusal to provide insurance; to provide an order nisi that instructs the respondents to retroactively insure the class members who are found to be eligible for long term care insurance after performing an equal underwriting process according to the aforesaid procedures; to pay compensation to the class members according to that mentioned in Section 19.51 of the Equal Rights Law without proof of damage and if necessary to also grant non-pecuniary damages; to compensate the class members for pecuniary damages.			
34.	1/2018 Central District Court	Community interest company v. Migdal Insurance and other insurance companies	Failure to pay insurance benefits and/or indemnity for the VAT component applicable to the cost of damages in cases that the damages were not actually repaired. The principal reliefs requested in the claim are: (a) A declaration that the defendants refraining from paying insurance benefits and/or indemnity for the VAT component applicable to the repair when the damage was not actually repaired is unlawful; (b) To issue an order instructing the defendants, from that date on, to include in the insurance benefits they pay also the VAT applicable to the cost of the repair, even if the damage was not repaired; when as a result, even in the case of a policyholder or third party receiving insurance benefits at "indemnity value" and not at "reinstatement value", the defendants are required to pay the policyholder insurance benefits for the full amount of the damage, including the VAT. As regards the sub-class	Any policyholder and/or beneficiary and/or third party, in any kind of insurance, who on the date of filing the insurance claim did not repair the damage specified in the claim, and who received from the insurance company insurance benefits and/or indemnity for the damage without the insurance benefits including the VAT component	This claim and the class action certification motion attached to it were filed on the basis of the same cause in a previous claim and class action certification motion against the defendants (in class action 55177-05-15) ("the previous claim") that was struck, see paragraph c11 below. No reply has as yet been filed to the class action certification motion.	The plaintiff estimates the compensation of Migdal Insurance to the class members to amount to NIS 12,996,194 for each year and of all the companies to amount to NIS 82,228,952 for each year. The requested compensation period is from June 4, 2001

members, to include in the insurance

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
34.	Cont.		benefits also the VAT that is not offset by the members of the sub-class; (c) To require the defendants to pay compensation to the class members; (d) In addition and/or alternatively to that requested in subsection (c) above, should the class members be awarded compensation that is impracticable in the circumstances of the matter, the plaintiff is requesting to order compensation of the public as seen fit by the Court in the circumstances of the matter.	on the cost of the repair. Furthermore, the plaintiff is requesting to define a sub-class as follows: all the class members who are entitled to a partial input tax deduction. The plaintiff is requesting to exclude from the class those who are entitled to a full input tax deduction because of their motor vehicle being used for business purposes (such as: owners of taxies, buses or trucks).		which is when the ruling was issued on Civil Appeal 1772/99 Zlochin v. Diur Leoleh Ltd., Ruling 45 (4) 203, or alternatively a period since the filing of the previous claim against the defendants on the same grounds in Class Action 55177-15-15 or alternatively to the alternative for a period of 7 years from the date of filing the aforesaid claim.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

b. Class proceedings – pending 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[4]
35.	2/2018 Tel Aviv-Jaffa District Court	Members of institutional bodies including Migdal Makefet v. the institutional bodies	Allegation that the institutional bodies charge members who took from them loans from the management companies a handling fee/collection fee/operating fee/commission/early payment fee in connection with provision of the loans and/or preparation of the loan documents and/or collection of loan repayments and/or management of the loans. The relief requested is to return all the fees that were collected by the institutional bodies in the seven years preceding the filing of the claim and to issue an order nisi or declaratory judgment stating that the defendants may not take for themselves the fees specified in the claim.	All the members of the defendants who took loans and were charged some payment in connection with the loan as described in the claim.	No reply has as yet been filed to the class action certification motion. See also claim 24 above.	NIS 10 million

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.	4/2015 Tel Aviv District Court	Ward (through his guardian) who was insured under a group life insurance policy v. Bank Leumi Le-Israel B.M. and Migdal Insurance	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.	NIS 360 million	On January 18, 2017 the Court approved the applicant's withdrawal from the motion and dismissal of the personal claim, without approving the award offered to the applicant and his representative.
2.	5/2014 Tel-Aviv District Court	Holder of a motor vehicle 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 a schedule, contrary to the duty of disclosure imposed on insurers.	About NIS 28 million, of which an amount of NIS 8 million is the share of Migdal Insurance	On January 31, 2017 the Court approved the motion to withdraw that was filed at the mutual consent of the parties.
3.	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.	-	On February 9, 2017 the Court approved a compromise agreement on the matter that sets forth the steps the Company is required to take to locate holders of rights by means of an external body.
4.	12/2012 Central District Court	Motor vehicle insurance policyholder v. Eliahu Insurance and other insurance companies	Collection of a premium not according to the recent classification of the motor vehicle with respect to motor vehicles that their classification was changed in 2007 in the transportation regulations from a commercial motor vehicle to a private motor vehicle. The claim is included in the run off portfolio that Migdal Insurance acquired from Eliahu Insurance, the Company's controlling shareholder, on April 21, 2016. The agreement to acquire the run off portfolio includes arrangements regarding reinsurance coverage for claims included in the acquired run off portfolio and indemnity arrangements.	Was not estimated by the plaintiff	On April 23, 2017 the Court denied the class action certification motion.

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 (Cont.)

No.	Date	Parties	Substance of the Claim	Amount	Details
5.	2/2016 Central District Court	Policyholder v. the Company	The Company failed to notify and update persons with whom contact has been lost and to send them current reports including notices of an increase in management fees.	About NIS 123 million (compensation for damages), and about NIS 245 million (violation of the autonomy of will)	On June 9, 2017, after the plaintiff did not file a motion to amend the claim so as to cure its defects, the Court decided to strike the claim, due to the fact that the claim was filed against the Company that there is no denying that it is a holding company, is not an insurer and did not manage the money of the applicant.
6.	08/2016 Central District Court	Motor act insurance policyholder v. Migdal Insurance and other insurance companies	Allegation that insurance premiums that were charged for comprehensive motor vehicle insurance were too high because the insurance premium was not changed following the change in the age of the insured person during the period of the insurance.	NIS 100 million	On July 12, 2017, at the request of the plaintiff, the Court ordered to strike Migdal Insurance from the class action certification motion and the claim itself.
7.	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.	About NIS 7 million	On August 1, 2017 the Court approved the withdrawal motion that was filed at the mutual consent of the parties.
8.	1/2015 Tel-Aviv District Court	Holders of units of mutual funds v. Migdal Mutual Funds Ltd., 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.	NIS 220 million, of which NIS 22 million was asttributed to Migdal Mutual Funds	On August 2, 2017 the Court approved the withdrawal motion that was filed at the mutual consent of the parties.
9.	9/2015 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 of the fact that the premium is not refunded.	Tens of millions of NIS	On August 22, 2017 the Court approved withdrawal of the motion, in which it was agreed that clarifications regarding the policies and disclosure with respect to that stated in the policies regarding army service would be provided in the policy and on the website of Migdal Insurance.

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 (Cont.)

No.	Date	Parties	Substance of the Claim	Amount	Details
10.	6/2014 Jerusalem District Court	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.	About NIS 1,182 million, of which NIS 523 was attributed to Migdal Insurance.	On September 13, 2017 the Court approved withdrawal of the plaintiffs and also an arrangement for disclosure to policyholders in the period until a regulatory arrangement is provided on the matter.
11.	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.	About NIS 91 million	On February 20, 2017 the Court denied the motion to replace the lead plaintiffs with Public Trust, a community interest company ("Public Trust") and accepted the motion for dismissal in limine of the class action certification motion. Accordingly, the Court ordered to strike the certification motion and the claim. On January 3, 2018 the plaintiffs accepted the recommendation of the Supreme Court to which an appeal was filed, and withdrew their appeal while reserving their right to file a new class action in the name of Public Trust. The appeal was struck accordingly without an award of costs. See section b34 above regarding a class action that was later filed by Public Trust.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

d. 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.

No.	Date and Court	Parties	Substance of the Claim	Amount	Details
1.	5/2/2014 8/4/2014 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.	With respect to the Clalit health fund 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 October 23, 2017 the Supreme Court ruled that a member of a health fund may not file a counterclaim in the name of a health fund, which brought the claim to its conclusion.
2.	1/2018 Central District Court	Israel Aerospace Industries Ltd. v. Peltours Insurance Agencies Ltd. (a sub-subsidiary of the Company, "Peltours") and other defendants	Claim to pay the balance of the insurance benefits with respect to the total loss of the satellite "Amos 6" (hereinafter: "the satellite") plus maximum interest according to Section 28A to the Insurance Contract Law ("the interest"). The claim alleges that the insurers in the satellite pre-launch policy (who are also named as defendants in the claim) owe Israel Aerospace Industries the full balance of the unpaid insurance benefits plus the interest. The claim also alleges that Peltours and Marsh Ltd. (hereinafter "Marsh"), which according to the claim acted as an insurance agent and broker, respectively, with respect to the pre-launch policy, breached their duties toward Israel Aerospace Industries and they too owe it the full balance of the insurance benefits, in addition to and/or alternatively to the insurers. The principal causes in the claim against Peltours are: breach of contract, breach of the duty of good faith, breach of an insurance agent's duties and negligence.	The amount of the claim (including the interest) was set at NIS 303 million. Nevertheless, according to that stated in the claim, the insurers will be paying Israel Aerospace Industries an additional amount of $ 21 million in the future. At this time it is not known whether the amount was actually paid, but insofar as the amount is actually paid it will be deducted from the claim which will then amount to NIS 231 million.	No defense statement has as yet been filed.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

   d. 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. (Cont.)

No.	Date and Court	Parties	Substance of the Claim	Amount	Details
2.	Cont.		The reliefs requested against the insurers are: payment of the full balance of the insurance benefits, compensation for damages allegedly caused to Israel Aerospace Industries as a result of the delay in paying the insurance benefits and payment of the interest. The reliefs requested against Peltours and Marsh are: (a) to rule that each of Peltours and Marsh is obligated to pay the balance of the insurance benefits to Israel Aerospace Industries, in addition to and/or alternatively to the obligation of the insurers; (b) to rule that each of Peltours and Marsh is responsible for any damage allegedly caused to Israel Aerospace Industries in respect of its alleged acts of omission, and that each one of them should compensate Israel Aerospace Industries in respect thereto.		

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

e. 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, 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)	6	2,546,552
Stated amount attributed to the Group	3	1,971,061
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	1	-
Pending motions to certify claims as class actions (3)	29	10,979,405
Stated amount attributed to the Group (4)	10	1,766,390
The claim relates to a number of companies and no specific amount was attributed to the Group	4	9,203,015
The claim amount was not stated	15	-
Other material claims	1	302,900
Stated amount attributed to the Group	1	302,900

(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 which does not state an exact claim amount (line 3 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.

(3) 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.

(4) Including a claim which does not state an exact claim amount and for which a non-binding estimate of NIS 9.5 million was made (line 20 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 1) above, is about NIS 81 million (as of December 31, 2016 – about NIS 68 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 166 million (as of December 31, 2016 – about NIS 126 million).

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

f. 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) 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 while 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.

2) 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.12 above.

3) In January 2017 the owner of a securities deposit account filed a claim with the Tel Aviv District Court against Migdal Stock Exchange Services (N.E.) Ltd. ("Migdal Stock Exchange Services") and Israel Brokerage and Investments IBI Ltd. (hereinafter: "IBI") together with a motion to certify the claim as a class action (hereinafter together: "the claim") in respect of the collection of commissions by the respondents on online transactions in securities that were executed by means of the defendants online trading

system, in respect of charges, expenses and fees for suppliers and third parties for which full disclosure was not provided.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

f. 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.)

3) (Cont.)
As regards the commissions of the respondents themselves, the plaintiff notes that these are not included in the motion to certify a class action and the plaintiff requests to reserve the right to file a separate personal claim against them. The plaintiff requests that the Court order the respondents to return to the class members all the amounts they charged the customers in respect of the commissions for which full disclosure was not provided. The class the plaintiff wishes to represent is every person who performed online transactions in securities, including buying and/or selling securities and/or options and./or any other instrument involving securities by means of the respondents' online trading system without being provided full disclosure before executing the transaction regarding the commissions they will be charged and/or their amount and/or were charged higher commissions than those presented to them before executing the transaction.
The plaintiff alleges to have been caused damage of more than NIS 2.5 million.

In the framework of the merger transaction from October 28, 2015 between Migdal Stock Exchange Services and IBI, Migdal Capital Markets, a subsidiary wholly owned and fully controlled by the Company, had granted to IBI indemnity with respect to legal proceedings against Migdal Stock Exchange Services (which until the date of the merger was a subsidiary of Migdal Capital Markets), with respect to all that concerns a past obligation in respect of acts of commission and/or omission and/or events that their cause is from before the date of the merger and for which no provision was included in the financial statements of Migdal Stock Exchange Services prior to the merger. In the course of the merger with IBI, Migdal Stock Exchange Services was dissolved and removed from the Registrar of Companies and all the rights and liabilities toward it were transferred to IBI as a result of the merger. See Note 39.2.e.3 to the financial statements as at December 31, 2017.
According to the merger agreement the Company's subsidiary, Migdal Capital Markets, received a notice from IBI regarding the filing of the claim. Migdal Capital Markets has filed its reply to the motion for certification.
The proceeding is in the stage of clarification of the class action certification motion.

4) In July 2017 Migdal Insurance received a notice from a management company not owned by the company (hereinafter: "the defendant"), regarding a claim that was filed in October 2016 against the defendant with the Tel Aviv District Court, class action 35371-10-16 by the sons of a deceased who are beneficiaries of the deceased in a provident fund managed by the defendant (hereinafter: "the plaintiffs"). A motion to certify the claim as a class action according to the Class Actions Law was filed against the defendant together with the claim. In the aforesaid notice the defendant noted that the claim involves group life insurance that the defendant (and it predecessors) had purchased for its members. The defendant also stated in the aforesaid notice that in the motion to certify a class action the plaintiffs are alleging, inter alia, that the defendant (and its predecessors) had breach its duties by law, and had refrained from sending notices to the beneficiaries or heirs of a deceased member regarding the existence of a life insurance policy and their right to receive benefits according to that policy, so that eventually the period of limitation of the insurance claim passes. In addition, the defendant states that the plaintiffs are alleging in the certification motion that the defendant should have taken active action to receive the life insurance benefits, to alert the beneficiaries or heirs that there is a short period of limitation by law for filing an insurance claim, and even to file a claim so as to receive the insurance benefits for those beneficiaries/heirs, which will be held in the member's account.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

f. 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) (Cont.)
In addition, the defendant stated in the aforesaid notice that it has no profit from the existence of a group life insurance policy for its members, and that the premiums paid by the members are fully transferred to the insurance company; and therefore the only party that became enriched, in its opinion, from not paying the life insurance policy to the beneficiaries or heirs of the member (insofar as there were any such cases) is the insuring company (including Migdal Insurance). The defendant also stated in its notice that it is reserving its allegations and rights toward Migdal Insurance insofar as the claim is accepted.

5) Regarding tax assessments for the 2007, 2009 and 2010 tax years totaling about NIS 72 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.
As regards this matter, in the opinion of management of the Company no tax provision is required in respect of the aforesaid assessments and their effect on other tax years other than that recorded in the financial statements.

Regarding tax assessments for 2011 and 2012 regarding the capital gains tax on a dividend from investee companies that was concatenated to the Company and the appeals 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.
The tax liability arising from the 2011-2012 assessments (including linkage differences and interest at the date of issuing the financial statements) amounts to NIS 1.5 million.
As regards this matter, in the opinion of management of the Company no tax provision is required in respect of the aforesaid assessments and their effect on other tax years other than that recorded in the financial statements.

6) Long-term saving products are characterized by a long life and high complexity, particularly in view of the various legislative arrangements concerning both the area of management of the products and the area of taxation, attribution of the deposits, management of the investments, the occupational status of the policyholder, payment of the policyholder's deposits and more. In the framework of changes in regulation and in law trends, in December 2011 institutional entities circular no. 2011-9-10 was issued "Data Cleansing of Rights of Members in Institutional Entities". This circular was replaced with circular no. 2012-9-16. The circular sets forth the actions an institutional entity has to take regarding the rights of the members – data that are specified in the holdings interface in the framework of the circular "Standard Structure for Transferring Data and Information in the Pension Savings Market" (institutional entities circular 2014-9-13), and requires the institutional entity to cleanse the data conferring rights to members in order to ensure that the members' rights are recorded in the information systems in a reliable manner, are complete, available and can be retrieved as much as possible. As regards members that joined before 1997 the data should be cleansed at least from 1997, while for all the provident funds that are not insurance funds or annuity paying provident funds, the data regarding deposits, transfers and withdrawals will be cleansed at least from January 1, 2005. The circular includes gradual instructions for its implementation in the period from December 31, 2012 to June 30, 2016.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

f. 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.)

6) (Cont.)
As at the date of approval of the financial statements, the actions that were taken according to the approved work plan that was prepared with respect to the aforesaid circular have been completed. It is noted that the Group's institutional entities regularly cleanse the rights of policyholders, in all that concerns management of the products at institutional entities, according to gaps that are discovered from time to time.

7) In December 2017 the Finance Ministry issued a draft amendment to Control over Financial Services Regulations (Provident Funds) (Direct Expenses against Execution of Transactions) – 2017 ("the Regulations"). The Regulations arrange the types of direct expenses the institutional entity will be permitted to charge the members' accounts, in addition to the management fees they are charged, and under what restrictions. The draft amendment includes the main following amendments: (a) The temporary order provided in the Regulations, which expired at the end of 2017, was changed into a permanent order (hereinafter: "the temporary order"). The temporary order that will become a permanent order with retroactive effect as from January 1, 2018 provided that the accounts of the members may be charged expenses of up to 0.25% of the total revalued worth of the relevant fund's assets, particularly with respect to external management commissions (commissions that are paid to external managers such as managers of investment funds and mutual funds); (b) In addition, the amendment eliminated the possibility of charging the members management fees at the rate of 0.1% in respect of an investment in some ETFs on indices in Israel; and (c) The possibility of charging the members expenses on mortgages that are paid to a related party was eliminated. As at the date of issuing the financial statements, the Regulations have not yet been issued and they are in the process of legislation. Failure to approve the aforesaid Regulations or them being approved in a format that is different from the proposed format may have a material effect as from the financial statements for 2018, in all that concerns the expired temporary order.

8) The Company and/or its consolidated subsidiaries are exposed to additional claims or allegations for various causes, which do not involve coverage under insurance policies issued by Migdal Insurance, on the part of customers, former customers and various third parties. The total amount of the exposure is estimated to be hundreds of millions of NIS, of which an aggregate amount of NIS 89 million is in respect of claims that were filed (as of December 31, 2016 – NIS 80 million) in addition to the general exposures described in this note including in paragraph f.9) and f.10) of this note.

9) From time to time, the Commissioner issues position papers, principles for drafting insurance plans, papers on proper and improper practices and other documents or draft documents that are relevant to the Group’s areas of operation and which may have an effect on the rights of the policyholder/s and/or member/s and may create an exposure for the Group in certain cases with respect to both its period of operation prior to those documents coming into effect and the future.

It is impossible to predict in advance whether and to what extent the insurers are exposed to allegations connected to and/or resulting from directives that may arise in part through the procedural mechanism set forth in the Class Action Law. Also circulars issued by the Commissioner that usually affect the future may have such an effect.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

f. 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) (Cont.)
From time to time complaints are filed against the Group, including complaints to the Commissioner with respect to rights of policyholders and/or members according to insurance plans and/or funds and/or the law. These complaints are handled regularly by the Group's public complaints department. At times, the Commissioner's decisions (or draft decisions) on these complaints are rendered across the board for 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 sends to them 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.

10) 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 connection with pension savings and long-term insurance products, including health insurance, in which the Group operates, due to them being 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, including on issues concerning setting tariffs, the deposits made by employers and insured persons, separation and attribution of the deposits to the various policy components, investment management, the policyholder's employment status, his deposit payments, etc. These products 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.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

1. Contingent Liabilities (Cont.)

f. 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.)

10) (Cont.)
Furthermore, the insurance area in which the Group companies operate is high in detail and circumstances, and has an inherent risk that cannot be quantified as to the occurrence of an error or series of mechanical or human errors, in both structured work processes and when handling a specific customer, and which may cause expansive consequences as to both the effect on a large number of customers or cases and the relevant monetary effect concerning an individual customer. The Group's institutional entities regularly cleanse the rights of policyholders, in all that concerns management of the products at institutional entities, according to gaps that are discovered from time to time.

The Company and the subsidiaries are exposed to claims and allegations on the level of contract laws and fulfillment of the insurance commitments in the policy, deficient consultation, breach of duty of loyalty, conflict of interests, duty of care, negligence as part of the professional liability of the professional bodies in the Group including the Group’s agencies and so forth allegations relating to the services provided by the Group companies, and from time to time there are circumstances and events that raise concerns regarding allegations of that type. The Group purchases professional liability insurance policies, including as required by the legislative arrangement, and when necessary it reports to this policy or policies in order to cover an obligation deriving from professional liability that can be protected by purchasing insurance. The amounts of the possible exposure are higher than the amounts covered and there is no certainty that the insurance coverage will actually be received upon the occurrence of an insurance event.

See Note 37a regarding other general exposures.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments

a. For details regarding the acquisition of a run-off business, 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, 2017 amounts to about NIS 4,860 million, of which about NIS 3,970 million in respect of yield-dependent contracts (in 2016 – about NIS 3,273 million, of which about NIS 2,781 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, 2017 amounts to about NIS 25 million, of which about NIS 24 million in respect of yield dependent contracts (in 2016 – about NIS 112 million, of which about NIS 104 million in respect of yield-dependent contracts).

3) The balance of Migdal Insurance's commitments to provide credit upon demand as of December 31, 2017 amounts to about NIS 1,003 million, of which about NIS 854 million in respect of yield-dependent contracts (in 2016 – about NIS 684 million, of which about NIS 586 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, 2017 amounts to about NIS 166 million, of which about NIS 124 million in respect of yield-dependent contracts (in 2016 – about NIS 121 million, of which about NIS 106 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 and of subsidiaries of Migdal, whereby the Company waived, under the circumstances and subject to the qualifications detailed in the letters 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 the Company, 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:

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.

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.

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.)

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.

5) Letters of indemnity and letters of release granted in 2016

In December 2016, an extraordinary general meeting of the Company approved the grant of letters of indemnity also to officers who are the controlling shareholder and his relative and the grant of letters of release to officers and directors, including officers who are the controlling shareholders or his relative. For further details see the Company’s immediate report dated December 22, 2016 regarding the convening of a general meeting (complementary report) having on its agenda, inter alia, approval of the grant of indemnity and release letters, reference no. 2016-01-142339, and the Company’s immediate report dated January 1, 2017 regarding the results of the meeting, reference no. 2017-01-000333).

6) Officers’ insurance

On November 28, 2017, after having been approved by the Company’s Audit Committee on November 21, 2017, the Board of Directors of the Company approved the renewal of the Group's directors and officers liability insurance policy, for the Group’s officers, including in respect of the controlling shareholder and his relatives who serve as officers of the Group, the Company’s CEO and officers serving in Migdal Capital Markets (1965) Ltd. and in companies controlled by Migdal Capital Markets (1965) Ltd., a subsidiary wholly owned and fully controlled by the Company. The insurance will be renewed for a period of twelve (12) months from December 1, 2017, with a liability limit of $ 120 million per event and for the entire insurance period, in consideration for an annual premium that is not to exceed $ 300,000. See details in the Company’s immediate report dated November 28, 2017, reference no. 2017-01-105787.

e. Other commitments

1) 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").

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

1) (Cont.)

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").

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:

a) 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.

b) 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.

c) A tag-along right given to Migdal Capital Markets to join in the sale of shares of the merging company by IBI Holdings.

d) A right given to IBI Holdings to obligate Migdal Capital Markets to join in the sale of the shares of the merging company.

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.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

1) (Cont.)

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.

As regards the aforesaid restructuring (which includes the leveraged transaction and the merger transaction) an agreed by tax ruling was provided by which the restructuring, including all its stages, shall not be subject to tax, subject to meeting the conditions and restrictions provided in the law and in the tax ruling. The tax ruling also prescribed rules for calculating the tax when the shares of the merged company and/or Migdal Mutual Funds Ltd. are sold.

On April 6, 2017 Securities Law (Amendment No. 63) – 2017 was issued, which includes, inter alia, provisions regarding a change in the stock exchange's incorporation structure.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

1) (Cont.)

On September 13, 2017, after all the necessary proceedings were completed according to Securities Law (Amendment No. 63) – 2017, and the Court gave its approval according to Section 350 of the Companies Law, shares were allocated to the stock exchange members, and in this framework IBI was allocated 8,550,416 shares, of which 4,480,416 shares derive from the share of Migdal Stock Exchange Services, constituting 4.77% of the stock exchange's share capital (4.48% on a fully diluted basis).

The merger agreement provided that for as long as the stock exchange shares deriving from the share of Migdal Stock Exchange Services are not transferred to Migdal Capital Markets (and if from a practical or legal point of view they cannot be transferred – for as long as no other alternative compensation is granted for them at an amount agreed between the parties or as decided by an economic adjudicator in the absence of agreement), the shares will be considered to be held by IBI in trust for Migdal Capital Markets.

According to the merger agreement, Migdal Capital Markets will bear the tax liability and any expense deriving from receiving the aforesaid shares and transferring them to Migdal Capital Markets or holding them in trust for it. The stock exchange and the Securities Authority approved the transfer of the aforesaid shares from IBI to Migdal Capital Markets. According to the approval of the Securities Authority the transfer of the shares and their holding by Migdal Capital Markets does not require a holding permit.

Accordingly, and further to a tax ruling of the tax authority from June 16, 2016, the parties applied to the assessing officer, requesting that the transfer of the aforesaid shares be considered a transfer from trustee to beneficiary, which is not considered a tax event. In addition, the parties requested from the stock exchange the approvals required for transferring the aforesaid shares from IBI to Migdal Capital Markets.

According to the law on the restructuring of the stock exchange, when shares are sold for a consideration that is higher than the holding rate multiplied by the equity of the stock exchange at December 31, 2015, which is NIS 508 million, the difference will be transferred to the stock exchange by the seller. Furthermore, a capital gain accrued for Migdal Capital Markets as a result of the said allocation will not be subject to tax until the date of sale.

Migdal Capital Markets treated the change in rights by way of derecognizing the previous right and revaluing the new asset in the statement of profit and loss, based on a valuation that was received from an external valuer. As a result of the aforesaid, a gain in the amount of NIS 13 million for the year ended December 31, 2017 was recorded in respect of revaluation of the shares of the stock exchange. As at December 31, 2017 the balance of the investment is NIS 18 million.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

2) 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 for services in the health line of business. The agreement regarding services in nonlife insurance ended on March 31, 2017. The agreement for service letters for collectives in the health line of business will be in effect up to the date of termination or renewal of each collective.

The scope of purchases from Femi in 2017 totaled about NIS 27 million (compared with NIS 29 million in 2016 and about NIS 42 million in 2015).

On December 1, 2012 Migdal Insurance entered into an agreement with Infomed Medical Sites ("Infomed"), which was a consolidated subsidiary of Migdal Health and Quality of Life Ltd. ("Migdal Health"), a subsidiary of the Company, and was sold by Migdal Health on October 1, 2017, for the provision of services in connection with service letters of Infomed.

In December 2014 an agreement was signed between Migdal Insurance and Infomed, to which also B-Well Quality of Life Solutions Ltd., a wholly owned subsidiary of Infomed ("B-Well"), was added. This agreement constituted a framework agreement between Migdal and Infomed and B-Well, covering existing and future service letters, subject to the terms of the agreement (“2014 framework agreement”). Upon the sale of Infomed on October 1, 2017 Migdal Health acquired all the shares of B-Well.

In respect of the service letters that were transferred to B-Well from Femi, the rates agreed upon between Migdal Insurance and B-Well Quality of Life Solutions Ltd., a consolidated subsidiary of Infomed ("B-Well"), are lower than the rates Migdal Insurance paid to 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 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").

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 thousand.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

e. Other commitments (Cont.)

2) (Cont.)

In 2017, 2016 and 2015 B-Well paid Femi, for the purchased services, a total of NIS 5,441 thousand, NIS 3,626 thousand and NIS 1,922 thousand, respectively

According to the terms of the service agreement and in consideration for providing the purchased services by means of the B-Well call center, Femi paid B-Well a lump-sum payment of NIS 1.6 million plus VAT in 2015.

In December 2015 a new framework agreement was signed between Migdal Insurance, Infomed and B-Well which replaced the old framework agreement ("2015 framework agreement"). The 2015 framework agreement relates to all the service letters included in the old framework agreement and an additional service letter was added to it.
In July 2016 a new framework agreement was signed ("2016 framework agreement") between Migdal Insurance, Infomed and B-Well which superseded and cancelled the previous agreements between the parties. Additional service letters (relating to both individuals and groups) that were transferred from Femi were added to the scope of the 2016 framework agreement. The 2016 framework agreement separated between the various service letters into several types, according to the date on which the services began being provided and/or their type, and for each such type a separate engagement period was set.

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. The agreement is for an indefinite period, with each one of the parties having the right to terminate it by providing advance notice to the other party.

In 2017, 2016 and 2015 Migdal Insurance paid B-Well or Infomed, as the case may be, a total of NIS 40,695 thousand, NIS 39,069 thousand and NIS 30,796 thousand, respectively.

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

f. Holdings in trust

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, 2017 (December 31, 2016 – NIS 31 billion).

g. 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:

	2017	**2016**
	NIS in thousands	
First year	**22,343**	**21,986**
Second year up to five years	**19,404**	**18,407**
	41,747	**40,393**

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	
	2017	**2016**
	NIS in thousands	
First year	**304,403**	369,785
Second year up to five years	**713,678**	1,009,785
More than five years	**715,701**	884,353
	1,733,782	2,263,923
Of which the minimum future lease fees receivable that relate to assets in which the Group is a financial lessee	**1,101,698**	1,354,319

NOTE 39:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. Commitments (Cont.)

g. Leases (Cont.)

2) Operating leases in which the Group is the lessor: (Cont.)

During the year ended December 31, 2017, the Group recognized the sum of NIS 2,021 thousand as income in the statement of income in respect of contingent leasing fees (in 2016 and 2015 – NIS 3,289 thousand and NIS 2,454 thousand, 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 November 23, 2017 Mr. Yohanan Danino notified Mr. Shlomo Eliahu of his intention to conclude his service with the Company and Migdal Insurance. On February 27, 2018 the Boards of Directors of the Company and Migdal Insurance approved the appointment of Prof. Oded Sarig as a director and chairman of Migdal Insurance.
On March 25, 2018 the Commissioner announced that she has no objection to approving the appointment of Prof. Oded Sarig as Chairman of the Board of Migdal Insurance. On that date Mr. Yohanan Danino announced his retirement from all his duties in the Migdal Group and accordingly will conclude his service as Chairman of the Board of Migdal Insurance and Chairman of the Board of the Company as from April 1, 2018. For additional details see Note 38.j.4.b).

b. On January 14, 2018 Mr. Ofer Eliahu notified the Boards of Directors of the Company and Migdal Insurance of his wish to end his service as the CEO of Migdal Insurance on June 1, 2018.
On March 13, 2018 the Boards of Directors of the Company and Migdal Insurance approved the appointment of Mr. Doron Sapir as the CEO of Migdal Insurance.
On March 25, 2018 the Commissioner announced that she has no objection to approving the appointment of Mr. Doron Sapir as the CEO of Migdal Insurance. It has not yet been decided when he will begin serving in this position. For additional details see Note 38.i.4.c).

c. On March 26, 2018 the Company's Board of Directors approved appointing Mr. Shlomo Eliahu as the Company's Chairman of the Board, subject to approval by the Company's general meeting. Until the appointment is approved by the general meeting, Dr. Gavriel Picker will serve as the Company's temporary Chairman of the Board.

d. See Note 24.e.1 regarding an issuance of bonds (series F) by Migdal Insurance Capital Raising Ltd., a subsidiary of Migdal Insurance.

e. Subsequent to the date of the financial statements there was a decline in the interest curve, which is expected to lead to an additional increase in liabilities for insurance contracts. See Note 37.b.1.a) for details on sensitivity tests relating to market risks.

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

	December 31,			
	Carrying amount		Amortized cost	
	2017	2016	2017	2016
	NIS in thousands			
Government bonds – available- for-sale	**7,045,799**	4,190,207	**6,972,522**	4,220,113
Other debt assets				
Non-convertible – available-for-sale	**3,887,756**	4,762,984	**3,726,908**	4,723,509
Convertible and designated on initial recognition at fair value through profit or loss	**-**	-	**-**	-
Total quoted debt assets	**10,933,555**	8,953,191	**10,699,304**	8,943,622
Impairment recognized in profit or loss (on a cumulative basis)	**1,866**	382		

b. Shares

	December 31,			
	Carrying amount		Cost *)	
	2017	2016	2017	2016
	NIS in thousands			
Quoted				
Designated on initial recognition at fair value through profit or loss	**-**	10,440	**-**	15,949
Held-for-trade	**-**	-	**-**	-
Available-for-sale	**983,224**	993,305	**786,496**	882,568
Total quoted shares	**983,224**	1,003,745	**786,496**	898,517
Unquoted				
Designated on initial recognition at fair value through profit or loss	**-**	-	**-**	-
Available-for-sale	**63,896**	54,031	**36,368**	36,843
Total unquoted shares	**63,896**	54,031	**36,368**	36,843
Total shares	**1,047,120**	1,057,776	**822,864**	935,360
Impairment recognized in profit or loss (on a cumulative basis)	**126,193**	88,388		

*) 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 *)	
	2017	2016	2017	2016
	NIS in thousands			
Quoted				
Presented at fair value through profit or loss	-	-	-	-
Available-for-sale	**1,758,473**	1,831,306	**1,583,038**	1,738,902
Derivative instruments	**2,642**	6,240	**3,434**	2,677
Total quoted financial investments	**1,761,115**	1,837,546	**1,586,472**	1,741,579
Unquoted				
Presented at fair value through profit or loss	**68,609**	-	**-**	-
Available-for-sale	**599,084**	522,907	**492,270**	399,537
Derivative instruments	**56,436**	38,608	**-**	-
Total unquoted financial investments	**724,129**	561,515	**492,270**	399,537
Total other financial investments	**2,485,244**	2,399,061	**2,078,742**	2,141,116
Impairment recognized in profit or loss (on a cumulative basis)	**334,817**	298,601		

*) Net of provisions for impairment.